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2023 Full Year Report and 2024 Outlook

Navigating the Election Year: Mapping the Path Ahead

January 29, 2024

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Executive Summary

Executive Summary

- In 2023, Nigeria's economy confronted a myriad of challenges marked by the implementation of fiscal and monetary policies, as well as uncertainties in the political climate. These factors engendered a sense of cautious optimism, with political campaigns emphasizing promises of policy reform and economic revitalization. The eventual arrival of the new government, along with its swift implementation of fuel subsidy removal and exchange rate unification, intensified pressures in the real sector.

- Inflation reached an 18-year high of 28.92% as at December 2023, primarily driven by increased food prices and foreign exchange fluctuations due to CBN's unification exercise. In response, the CBN adopted a hawkish monetary policy, raising the Monetary Policy Rate (MPR) four times by a total of 225 basis points, to close the year at 18.75%. from 16.5% as at December 2022. Nigeria's GDP saw marginal growth at 2.54% as at Q3 2023, largely driven by the non-oil sector. However, external reserves depleted by 11% to $32.91 billion from $37.08 billion due to a decline in oil revenue. Furthermore, the Naira depreciated by over 50%, closing 2023 at ₦907.11 in NAFEM and ₦1,198.44 at the parallel market, ranking it among the top 10 weakest currencies. The unemployment rate dropped to 4.20% as at the last available data in Q2 2023, attributed to a change in the calculation method by the National Bureau of Statistics (NBS).

- The Nigerian equities market exhibited a robust performance, driven by bullish investor sentiments and increased local demand, which led to a 45.90% yearly gain in the All-Share Index—a significant rise from the previous year's 19.98%. This growth was broadly supported by investor-friendly policies implemented during the year such as subsidy removal, foreign exchange unification and impressive earnings of many listed companies in the banking and energy sector. The Nigerian fixed-income market, on the other hand, encountered challenges driven by inflation-induced high yields and demand volatility. FGN bond and treasury bill markets exhibited bearish trends with higher average yields than 2022, while Eurobonds ended the year on a bullish note with lower average yields compared to the previous year.

- Looking ahead, as Nigeria aims to sustain economic recovery amidst current economic challenges, CBN's actions to combat inflation and boost domestic and international investments will be pivotal, as their commitment and that of other authorities to fiscal and monetary policies are crucial for the economic trajectory in the year 2024.

Review of the Global Economy

Global GDP Growth in 2023

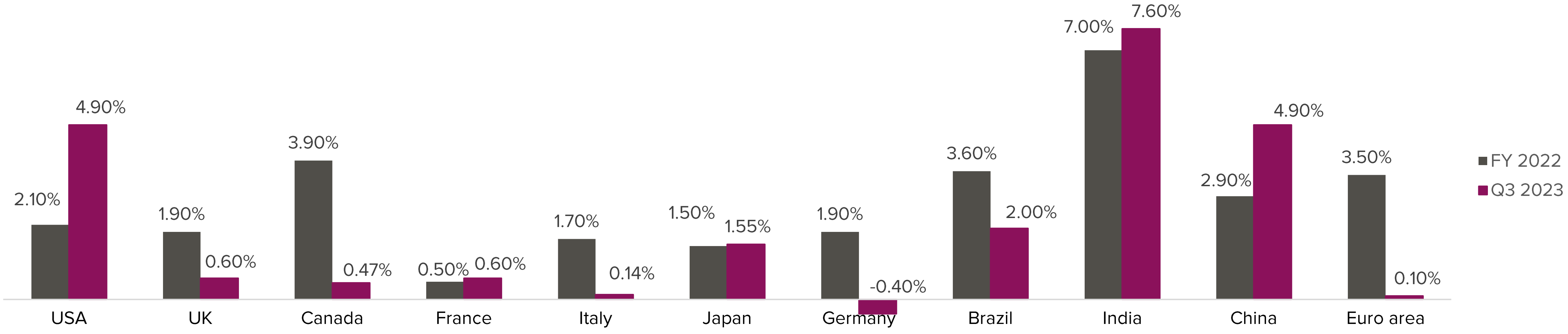

Figure 1: GDP Growth across nations of the world

- GDP performance in 2023 among the nations largely fell short of the growth seen in the previous year. The International Monetary Fund estimated the world economy's growth in 2024 to be 2.9% as monetary policy actions and frameworks are key to keeping inflation expectations at modest levels.
- The year was marked by cautious optimism in global GDP growth, with a gradual recovery path tempered by ongoing uncertainties resulting into regional disparities.
- On a positive note, as reported by the U.S Bureau of Economic Analysis, economic growth in the U.S. increased at a higher pace as consumer spending and an acceleration in export contributed to a 4.9% growth in real GDP as at Q3 2023.
- China's economic growth has been slower than economists' original forecasts, its 4.7% forecasted GDP growth should continue to support regional strength on a cyclical basis. In the medium term, trends such as digitalization continue to support India's economy, which grew by 7.6% as at Q3 2023.

**GDP data for 2023 are as of Q3 2023.*

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Source: Trading Economics, IMF, Statista, World Bank, AVA Research

Steady Decrease in Global Inflation Rates

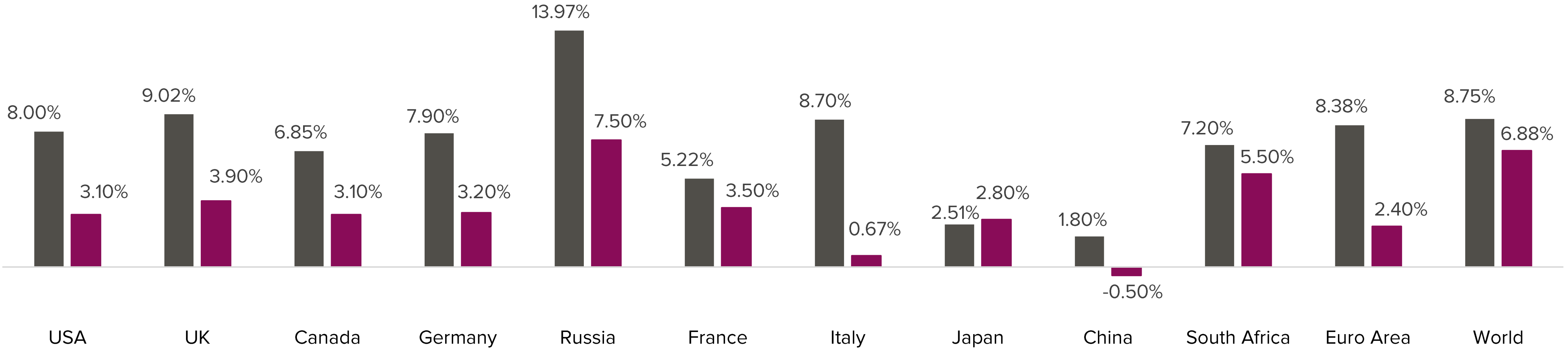

Figure 2: Inflation rate depressed across major Countries in 2023

- Major economies across the world - particularly the G20 - saw their headline inflation drop as of November 2023 including the USA at 3.10% (2022: 8.00%), the UK at 3.90% (2022: 9.02%), Germany at 3.20% (2022: 7.90%) and Euro Area 2.40% (2022: 8.38%).
- Decline in global inflation can be attributed to the resilience in economies, supply chain restoration, and adoption of tighter monetary policies with a clear intention to combat the record-high inflation noted in 2022.
- Also, the decline energy prices and commodity prices contributed largely to the decline in the inflation rate. Crude oil prices decline in 2023 on the back of lower global demand and supply cuts by OPEC+.
- Lingering geopolitical tensions between Russia and Ukraine as well as heightened Middle East tensions due to the Israel-Hamas crisis in Q4 2023, continue to exert price pressure on key commodities, indicating emerging threats to international trade.

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Source: Trading Economics, Statista, IMF, AVA Research

A Tighter Global Monetary Policy Stance

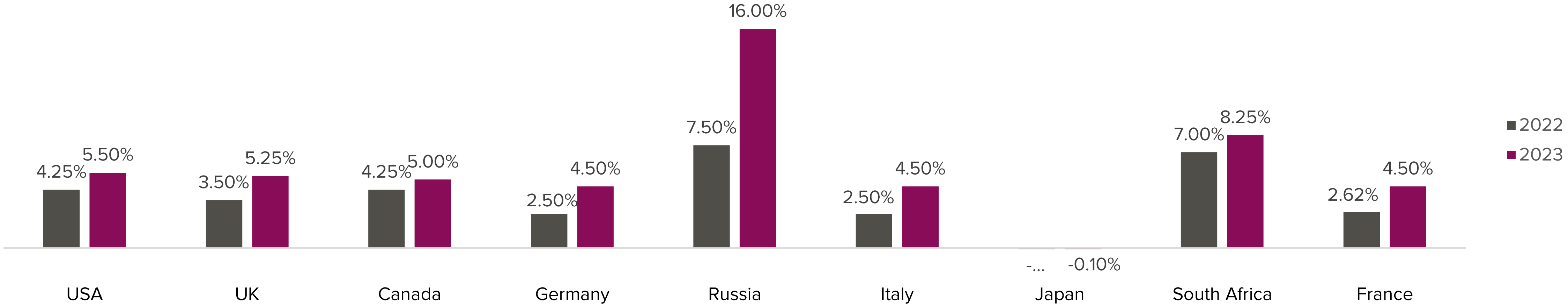

Figure 3: Central Banks around the world further hike interest rates to combat inflation, excluding Japan

- In response to the rapidly increasing inflationary pressures, most central banks took a hawkish stance in efforts to control the soaring inflation. As a result of this, advanced economies witnessed credit and investment demand contract in the first half of the year in response to higher interest rates.
- Amongst the advanced economies, the United States saw its Federal Reserves through its Federal Open Market Committee (FOMC) revise the monetary policy rate multiple times in a bid to curb inflation. Similar actions have been noted to have been taken by other countries of the world, excluding Japan whose interest rate is still in the negative region.
- The rate hikes were part of a broader effort to stabilize economies post-pandemic, while also balancing the risks of economic slowdown. However, This shift towards higher interest rates affected various sectors and economies differently, with emerging markets particularly feeling the impact through currency depreciation and capital outflows.
- Central banks, including the Federal Reserve and the European Central Bank, raised interest rates significantly, the highest in decades, while major banks like the Bank of Japan substantially reduced their balance sheets.

Source: Trading Economics, IMF, AVA Research

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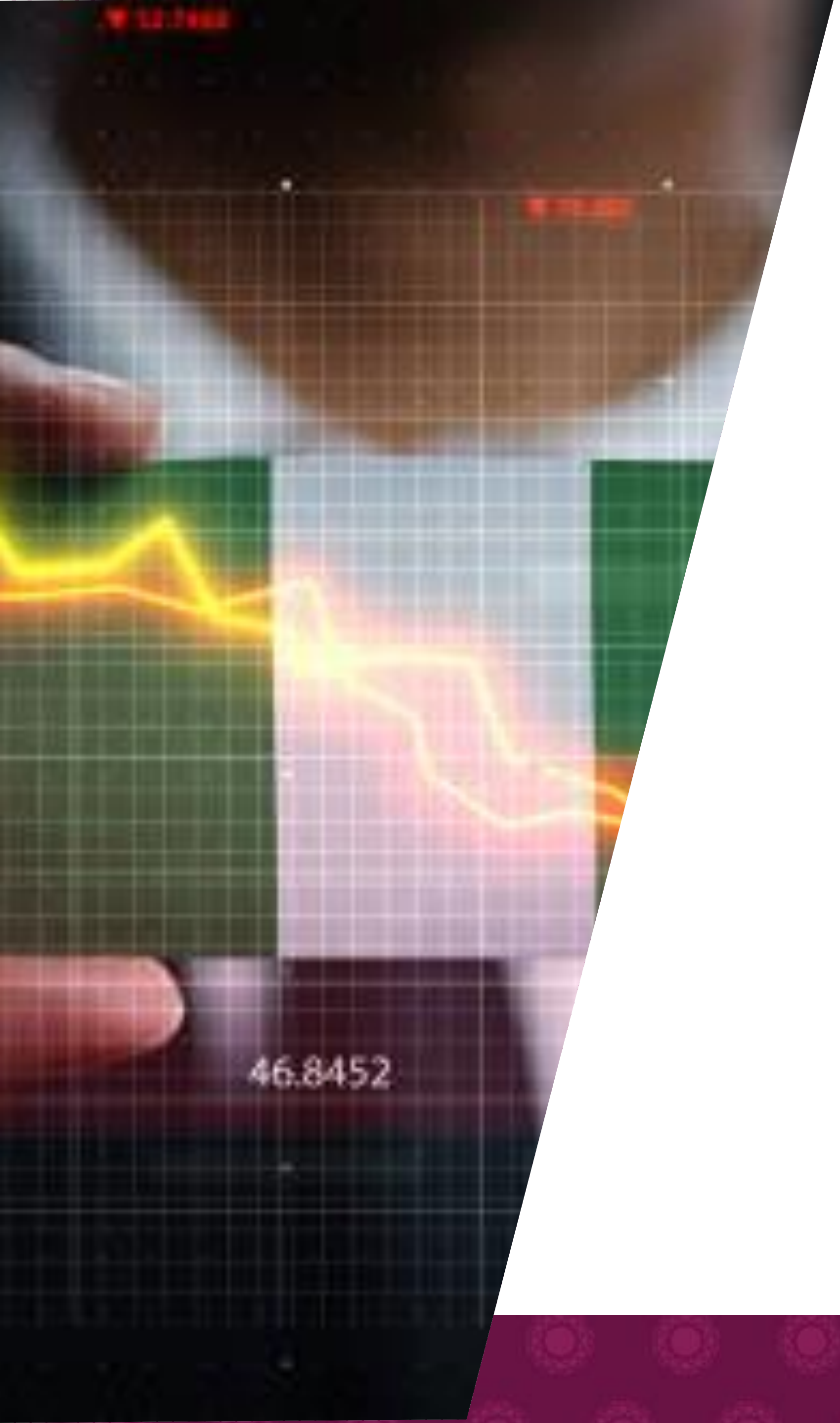

Review of Nigeria's Economy

Tepid but Resilient GDP Growth in 2023

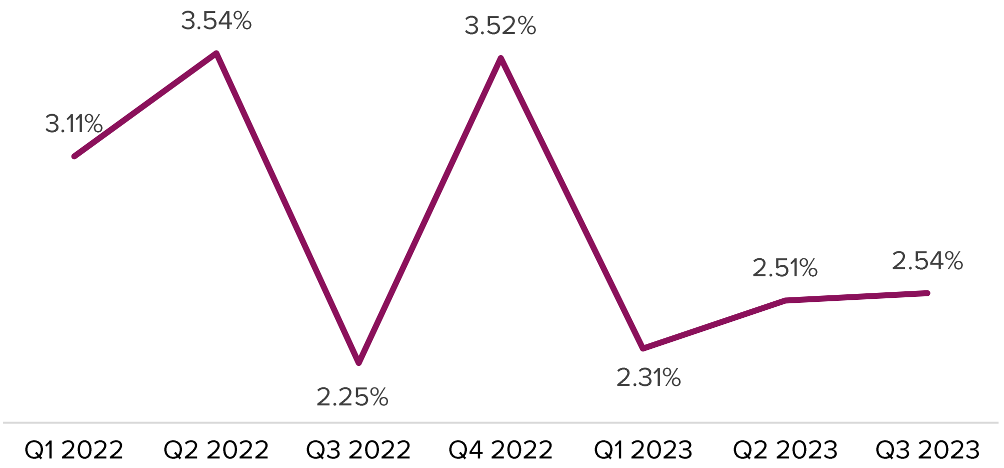

Figure 4: Nigeria's GDP growth for 2023 followed an upward trajectory

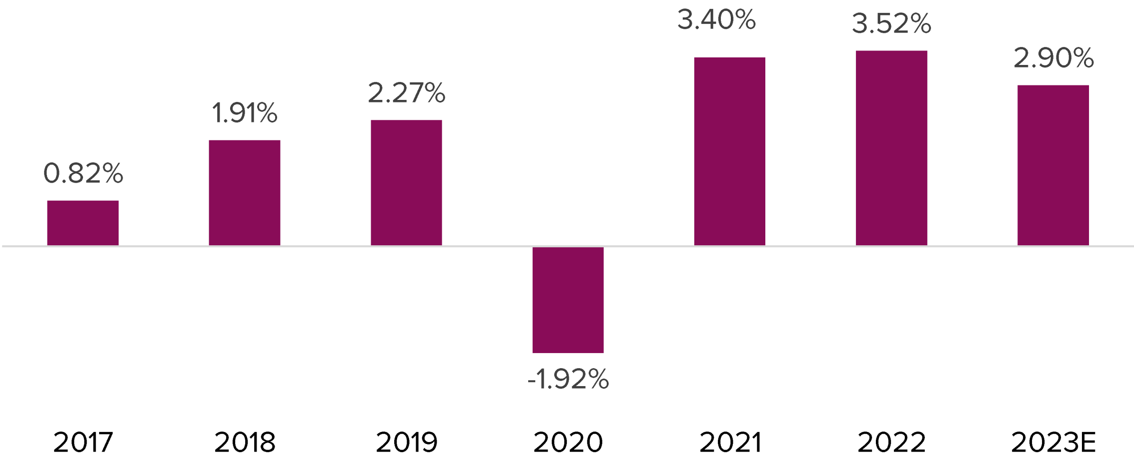

Figure 5: The country's economy fared well, but not as well as the previous year

- Nigeria's economy grew at a slower pace in the first three quarters of 2023 at 2.31%, 2.51%, and 2.54% respectively.
- According to the National Bureau of Statistics (NBS) growth recorded in Q3 can be attributed to a 52.70% contribution from the service sector to the aggregate GDP. The service sector has been a major driver of GDP growth in the recent past, and the sector grew by 3.99% in Q3 2023 compared to Q3 2022.

- Various economic policies were introduced in 2023. Policies such as the naira redesign policy in Q1; the removal of fuel subsidy and the unification of all Foreign Exchange windows into the Investors & Exporters (I&E) Window in Q2.
- Other policies such as the removal of the ban on 41 items in access foreign currency at the official window continue to have a significant impact on the growth of the economy.

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Source: NBS, AVA Research

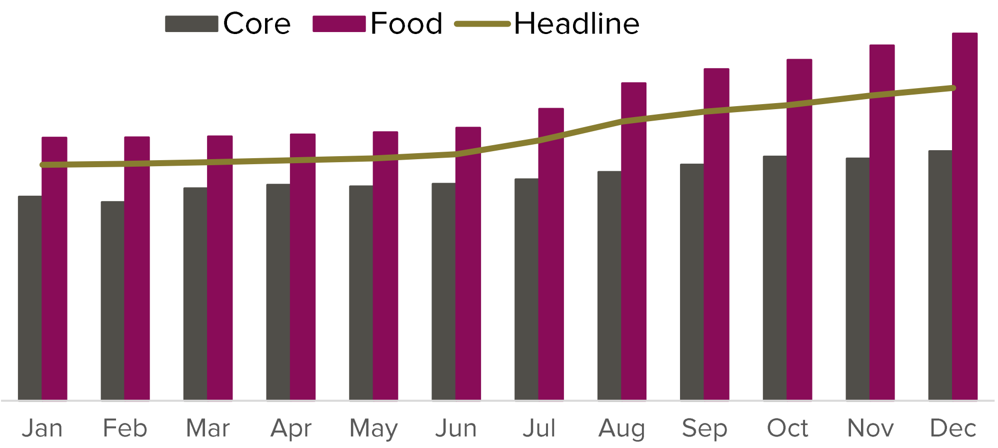

Figure 6: Nigeria inflation continues on the upside despite contractionary policy

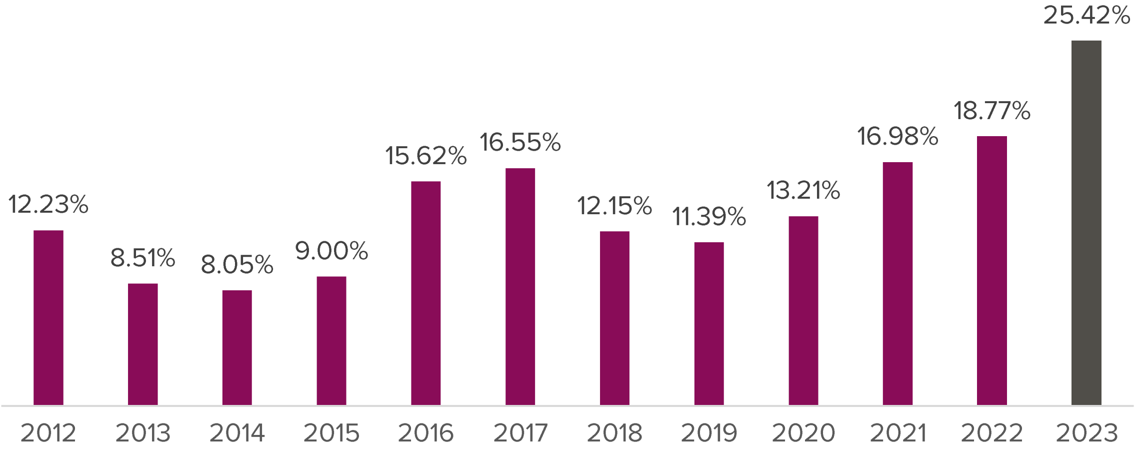

Figure 7: Average inflation rate in 2023 reached a multi-decade year high

- During the year, Food inflation and Core inflation (All items less farm produce and energy) moved. The food inflation rate as at December 2023 clocked at 33.93% compared to 23.75% in 2022 on a year-on-year basis, which was caused by a sustained increase in the prices of bread and cereals, oil and fat, potatoes, yam and other tubers, fish, fruit etc.
- Similarly, the core inflation stood at 23.06% in December 2023 on a year-on-year basis; up by 4.57% relative to 18.49% recorded in December 2022. The increase was recorded in the prices of passenger transport by road, medical services, passenger transport by air, pharmaceutical products etc.
- Nigeria's headline inflation began 2023 on the high side at 21.82% primarily due to the global shocks of the Covid-19 pandemic and the supply chain disruptions from the geo-political war between Russia and Ukraine.
- However, the country's inflation deteriorated following the removal of the crude oil subsidy and the liberalisation of the Foreign Exchange market in the month of June. Elevated energy and food prices and FX illiquidity contributed significantly to inflationary pressures in 2023.

Source: CBN, AVA Research

Tight Monetary Policies in 2023

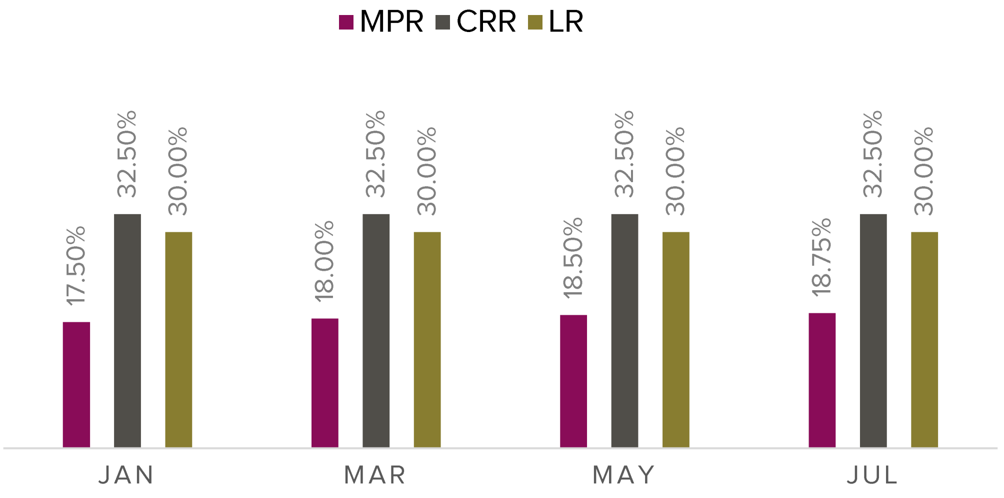

Figure 8: The MPC continued hawkish, albeit cautiously.

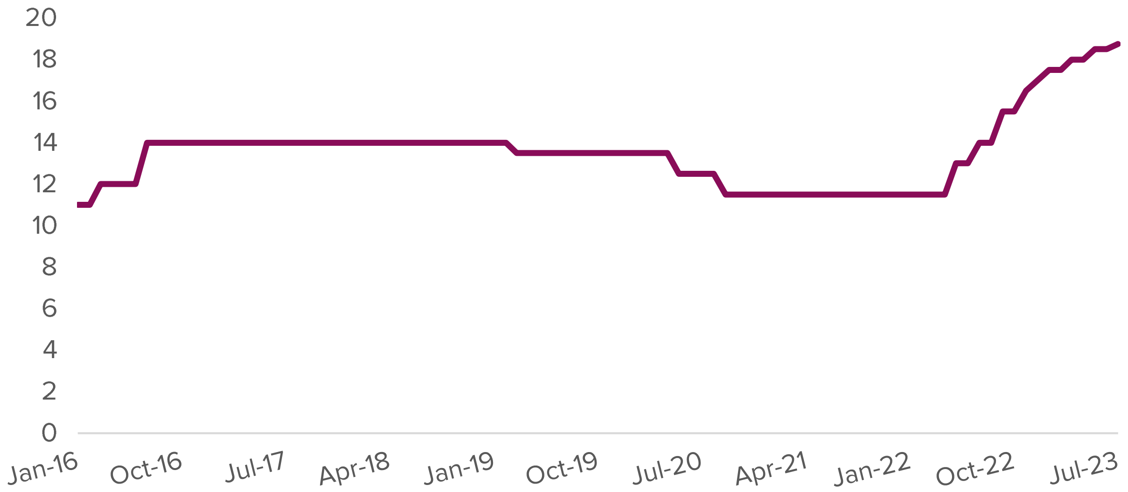

Figure 9: The MPR reached 18.75%, a new record high

- The Central Bank of Nigeria (CBN) through its Monetary Policy Committee (MPC) at its first meeting for the year 2023 unanimously voted to tighten the Monetary Policy Rate (MPR), thus, raising the MPR rate by 100 basis points to 17.5%. The Committee sustained a hawkish stance in efforts to confront the adverse effects of high inflation and to signal confidence in the effectiveness of its monetary policy direction in combating inflation.

- in its March meeting, the committee raised the MPR by 50 basis points, a reflection of its intention to adjust the policy rate upwards but less slowly as sustained headwinds to inflation compelled a tightening approach.

- in its meeting in May unanimously voted to raise the MPR by an additional 50 basis points. In the MPC's view, the continuous rate hikes have helped moderate the rise in inflation, although slowly, as such the option of a hold policy could disrupt the minute gains in its efforts to tame inflation.

- Another 25 basis points were implemented in the July MPC meeting while the asymmetric corridor was adjusted from +100/-700 to +100/-300 basis points around the MPR for the first time in the year. The Cash Reserve Ratio and Liquidity Ratio were retained at 32.50% and 30% respectively throughout the year.

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Source: CBN, AVA Research

Decline in External Reserves

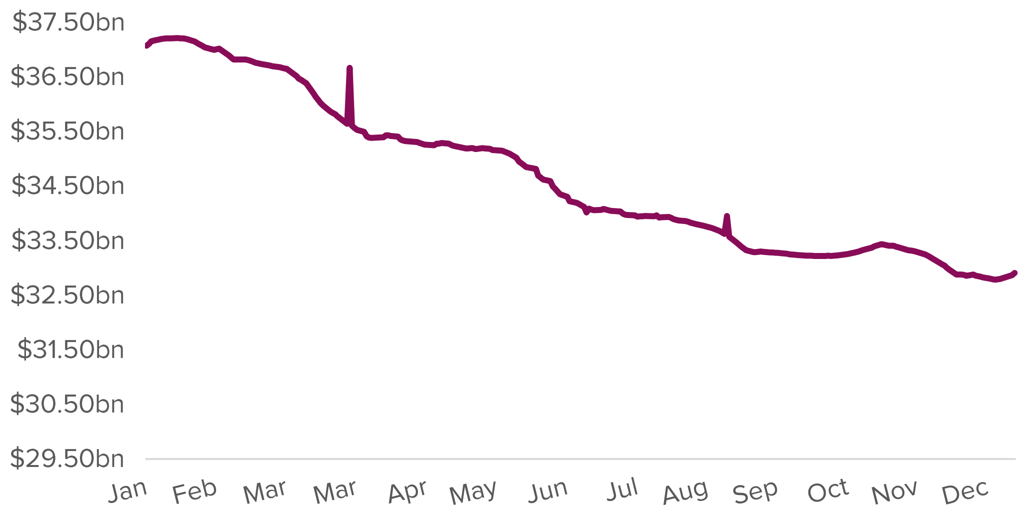

Figure 10: Nigeria's external reserves performed poorly in 2023

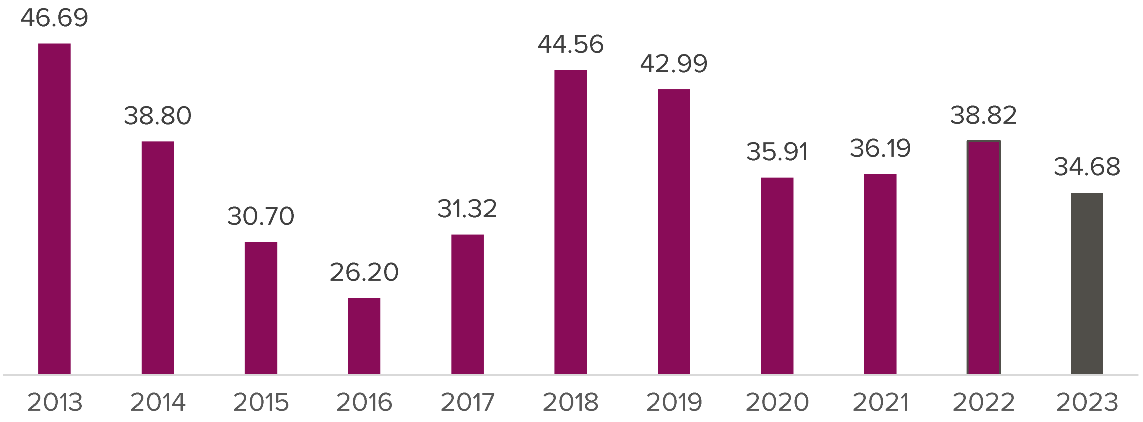

Figure 11: And the average external reserves ($' bn) reached a 5-year low

- Nigeria's foreign reserves opened the year 2023 with a balance of $37.069 billion after closing at $37.082 billion in 2022. As the year progressed, the balance of the foreign reserves steadily declined attributable to the intervention of the CBN in the official market.
- In comparison with the last three years, the external reserves (which closed the year 2023 at $32.912 billion) showed a significant decline from the $38.82 billion, $36.19 billion and $35.391 billion reserve balance recorded in 2022, 2021 and 2020 respectively.
- The external reserve position is funded largely by the federal government's share of crude oil export income, receipts of foreign loans or grants, and capital importation. Incidence of oil theft in 2023 plagued Nigeria's oil sector as the Federal Government estimated a loss in the region of ₦4.3 trillion worth of crude oil revenue in 2023.
- Meanwhile, local demand for the US dollar soared daily as individuals and corporations scrambled for the limited quantities of the greenback at the official rate from commercial banks. In Q4, the CBN cleared some FX forward backlogs with banks, the CBN however reported a drop in foreign reserves by $4.07 billion between January and November 2023, representing an 11% decline to $33.004 billion as at November 2023.

Source: CBN, AVA Research

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Sharp Depreciation of Naira

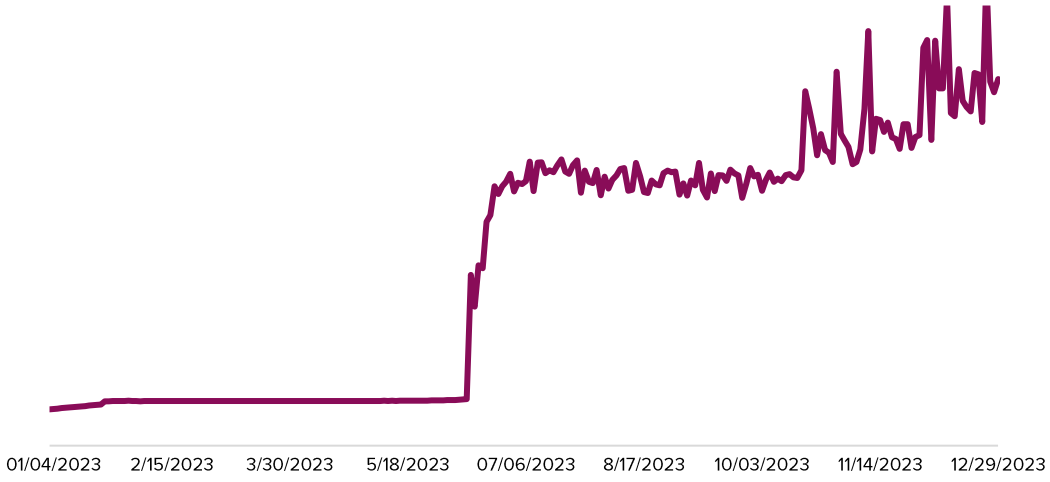

Figure 12: The ₦/$ exchange rate climbed as the naira lost more value

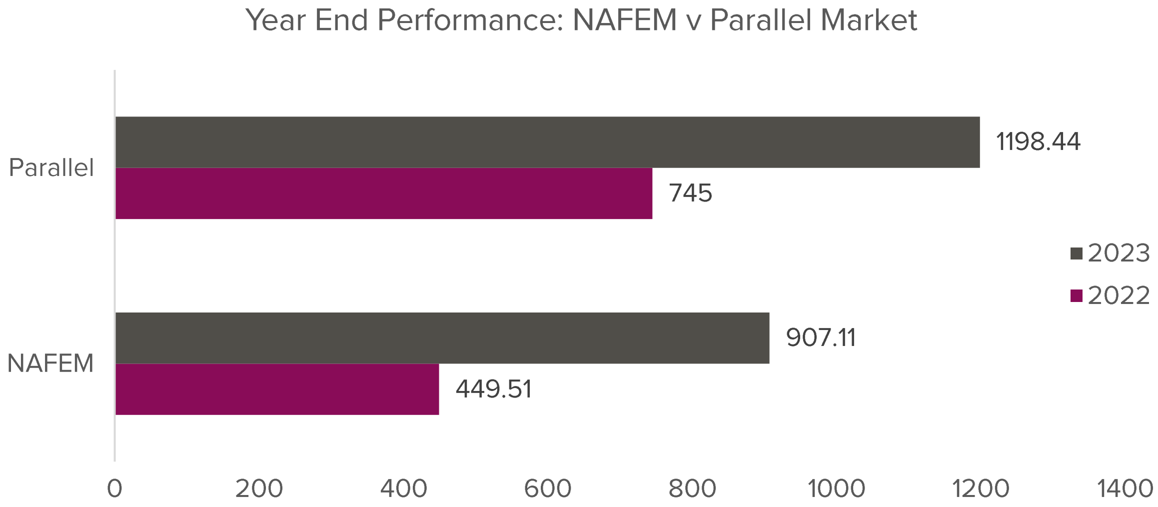

Figure 13: In 2023, the naira was worth much less than ever before

- In 2023, the NGN/USD exchange rate experienced significant fluctuations. It opened at N449.51/$ on the official Investor and Exporter Window, a notable increase from the closing rate of ₦413.67/$1 in 2022. Throughout the year, the naira faced severe depreciation, to close at ₦907.11/$1 in December.
- Despite numerous interventions by the Central Bank of Nigeria (CBN), the naira ended 2023 at a record low of N907.11/$1, depreciating by 50.45%. A key factor in this depreciation was the strong performance of the US dollar globally, driven by the US Federal Reserve's interest rate hikes for three consecutive quarters in 2023.

- The Central Bank of Nigeria (CBN) attempted to stabilize the currency and reduce arbitrage opportunities by unifying multiple exchange rates into the single Nigerian Autonomous Foreign Exchange Market (NAFEM), where rates would be market-driven.
- Defying the policy intervention of the Central Bank of Nigeria, the parallel market premium persisted throughout the year, moving from around 65% in 2022 to 32% in 2023. It is important to note that this narrowing of the gap is attributed primarily to a significant depreciation of the naira in the official window. Market participants attribute the persistent premium largely to limited dollar availability through NAFEM, further exacerbated by persistently weak oil revenues and other financial inflows

Source: CBN, AVA Research

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Marginal Uptick in Unemployment Rate

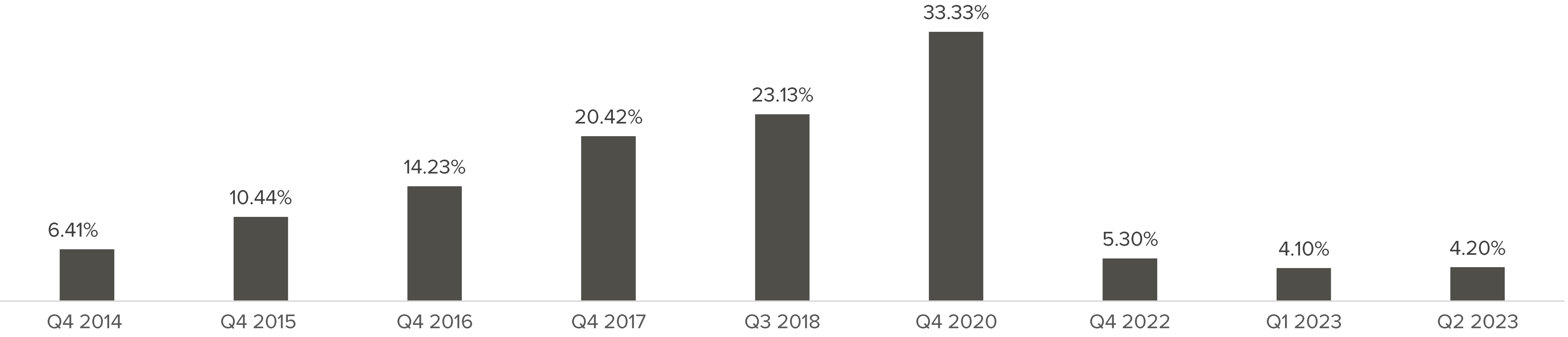

Figure 14: The new methodology reveals starkly contrasting statistics regarding Nigeria's unemployment rate

- Data from the **National Bureau of Statistics (NBS)** on Nigeria's unemployment rates in the third quarter of 2023 depicts a nuanced picture of the country's labour market. The report signifies a significant step in aligning data collection methodologies with global standards, enhancing the credibility and reliability of the statistics.
- The marginal increase in the overall unemployment rate from 4.1% in the first quarter to 4.2% in the second quarter of 2023 highlights a persistent but slight upward trend. This trend suggests ongoing challenges in generating sufficient employment opportunities for the country's workforce.
- Furthermore, the detailed breakdown of data by gender and location reveals significant disparities. The elevated unemployment rate for women at 5.9%, in contrast to men at 3.5%, highlights potential gender-specific challenges in employment or access to job opportunities.The divergence between urban and rural areas, with urban unemployment at 5.9% and rural unemployment at 2.5%, emphasizes the existing economic gap and the concentration of employment opportunities in urban centres.
- Overall, while the increase in the unemployment rate is marginal, the disparities across gender and geographic locations signal the need for targeted policies and interventions to address these variations and ensure more inclusive and equitable employment opportunities across Nigeria.

Source: World Bank, NBS, AVA Research

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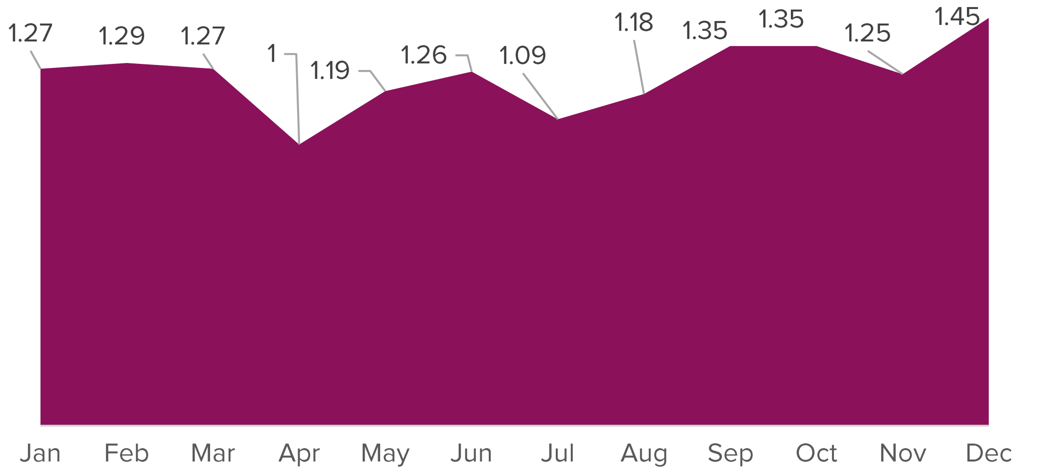
Recovery in Nigeria's Crude Oil Production



**Latest figures as at November 2023*

Figure 15: Crude oil production in Nigeria (mbpd)

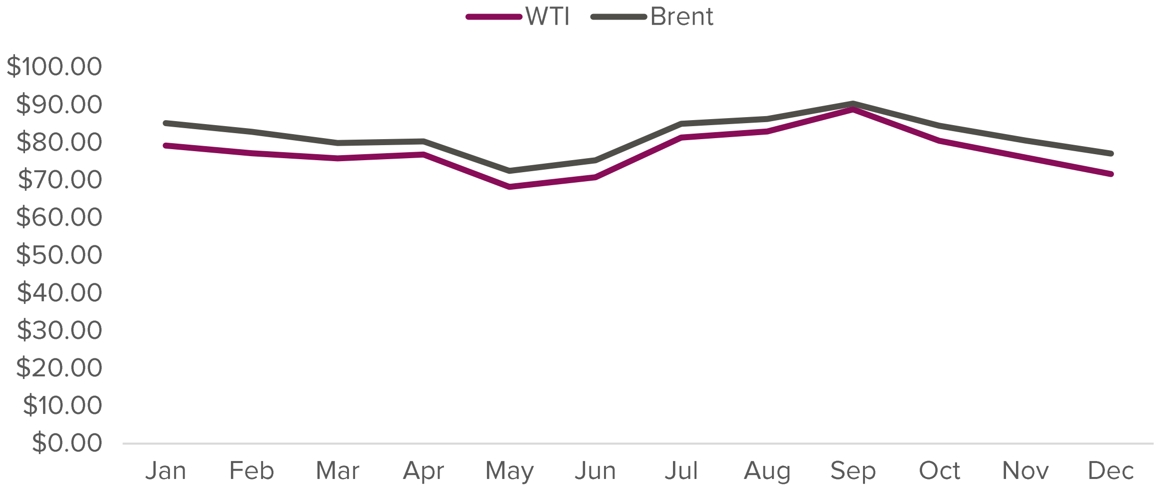


Figure 16: 2023 Crude oil price fluctuations

- In December 2023, crude oil production in Nigeria increased to 1.45 mbpd, falling short of the OPEC+ quota of 1.8 mbpd and the 2023 budget benchmark of 1.69 mbpd. The year's average production was 1.23 mbpd, surpassing 2022 levels, largely due to improved output at major terminals like Bonny, Forcados, Qua Iboe, Escravos, and Odudu.
- In 2023, Nigeria's earnings were hindered by lower-than-expected crude oil output, even as the average global price for its Bonny Light crude reached $85.27 per barrel, surpassing the projected budget figure of $75. The country found it challenging to fulfil its OPEC+ production quota, largely due to rampant oil theft, the proliferation of unauthorized refineries, and inadequate security measures.

- At the end of 2023, Brent and WTI crude oil prices closed at $77.04 and $71.65, respectively, marking a decrease from the initial figures of $85.17 and $79.17 at the beginning of the year.
- The decline in crude oil prices has been attributed to reduced global demand, the Russia-Ukraine conflict, and Middle East tensions, undermining OPEC+'s voluntary production cuts aimed at bolstering prices.

Source: NUPRC, Reuters, Trading Economics, AVA Research

Review of the Markets: Equities and Fixed Income

Strong Performance in Nigerian Equity Market

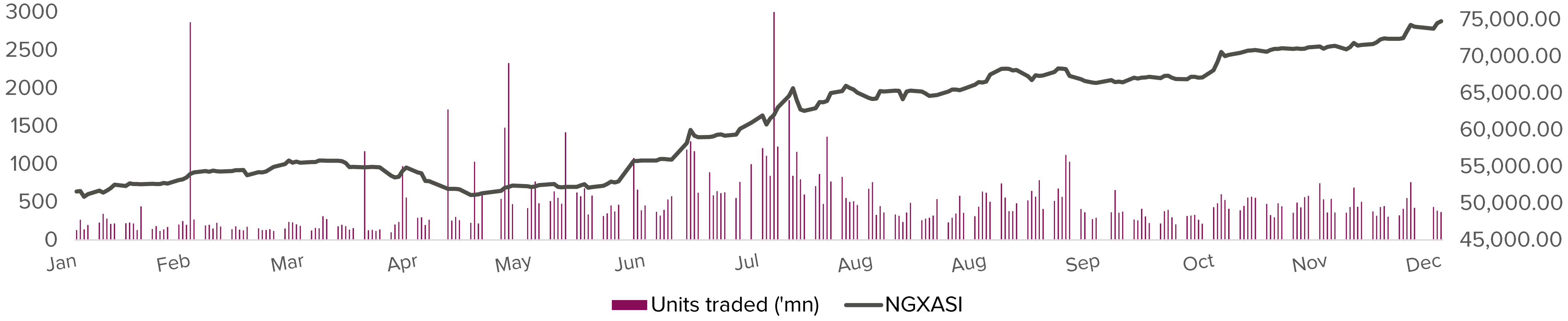


Figure 17: Nigeria's equity market posted a gain of 45.90% in 2023 versus 19.98% in 2022

- In 2023, the market performance marked a notable success, driven by renewed investor confidence in publicly traded companies. This positive trend was largely influenced by the execution of economic policies introduced by President Bola Ahmed Tinubu. Key measures included the elimination of fuel subsidies, consolidation of exchange rates, and the transition to a floating naira.

- These reforms aligned with investors' strategic positioning to leverage significant earnings reported by listed companies during the year. Other factors contributing to growth at the bourse are increased investor participation, and new listings on the stock exchange in 2023.

- At the close of the trading period, the NGX All Share Index (NGXASI) reached a record peak, appreciating 45.90% to 74,773.77 basis points, up from 51,251.06 at the end of 2022. The total market capitalization also saw significant growth, reaching ₦40.92 trillion from an opening value of ₦28.10 trillion, a notable increase of ₦12.81 trillion.

- This substantial rise in market capitalization was primarily driven by the exceptional performance of the Oil and Gas sector, with a surge of 125%, and the banking sector, which recorded a growth rate of 114.89%

Source: NGX, AVA Research

Strong Performance Across Market Breadth

Table 1: Top 20 Gainers

TICKER	30-DEC-2022 (₦)	29-DEC-2023 (₦)	CHANGE
TRANSCOHOT	6.25	70.18	1023%
CWG	0.8	8.3	938%
MRS	11.7	105	797%
TRANSCORP	1.04	8.66	733%
CHAMS	0.25	1.97	688%
NNFM	6.15	45.5	640%
THOMASWY	0.38	2.7	611%
IKEJAHOTEL	0.94	6	538%
JAPAULGOLD	0.28	1.7	507%
NASCON	9.5	53.75	466%
SKYAVN	5	25.35	407%
FTNCOCOA	0.31	1.48	377%
DAARCOMM	0.2	0.9	350%
INFINITY	1.34	6	348%
MULTIVERSE	4.24	18.57	338%
NAHCO	5.92	25.4	329%
GOLDBREW	0.81	3.15	289%
OMATEK	0.2	0.76	280%
UBA	6.8	25.65	277%
INTENEGINS	0.38	1.39	266%

Table 2: Top 10 Losers

TICKER	31-DEC-2022 (₦)	29-DEC-2023 (₦)	CHANGE
JULI	0.79	0.59	-25%
ROYALEX	0.83	0.63	-24%
GUINNESS	82.9	66	-20%
ELLAHLAKES	3.6	2.9	-19%
GSPECPLC	2.75	2.48	-10%
NB	39.9	36	-10%
UNIONDICON	8.95	8.1	-9%
NESTLE	1215	1100	-9%
SMURFIT	0.22	0.2	-9%

Source: NGX, AVA Research

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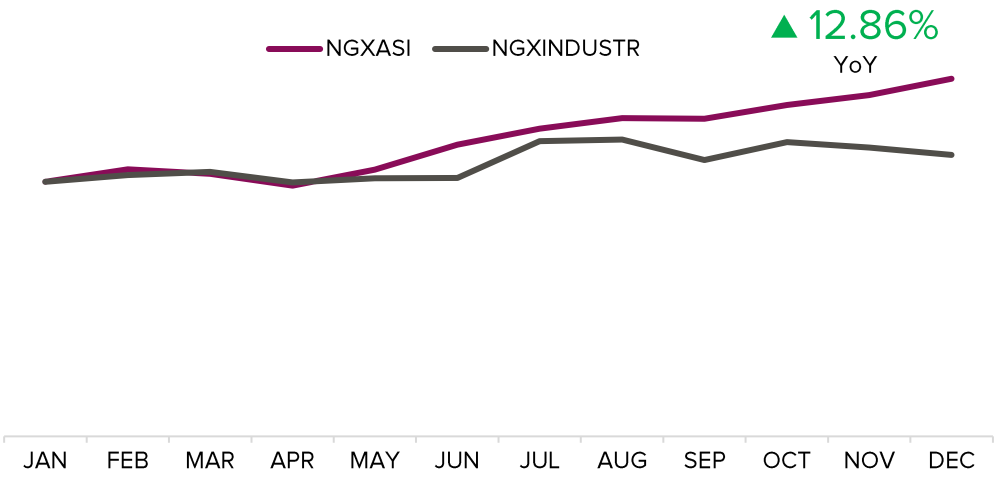

Figure 18: Performance of the Industrial Sector vs the Broad Market

- NGX Industrial experienced a modest return, posting a growth of 12.86% amidst tough operating environment. It closed the year at 2,712.27 points, up from 2,403.24 points in the preceding year. Additionally, the Industrial sector was ranked lowest among the sub-sector indexes.

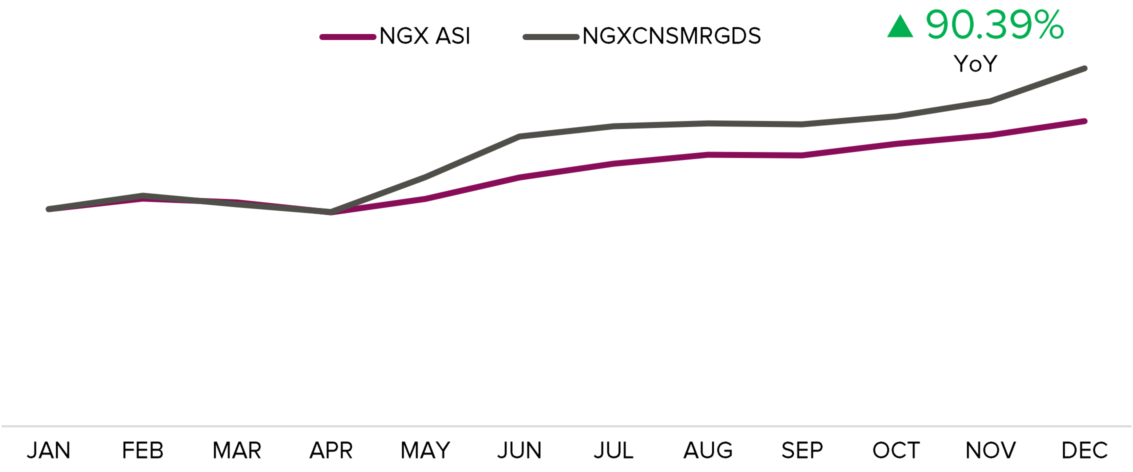

Figure 19: Performance of the Consumer Goods Sector vs the Broad Market

- In an impressive display of resilience, the NGX Consumer Goods Index recorded a substantial growth of 90.39% over the course of 2023. This remarkable growth came amidst a backdrop of economic challenges, notably the inflationary pressures and escalating cost of living, which typically constrict consumer discretionary spending. Despite these hurdles, the consumer goods sector demonstrated robust performance, suggesting strong fundamentals and an ability to navigate and adapt in a challenging environment.

- Among the consumer goods stocks, NASCON Allied Industries stood out as the star performer in 2023. The company witnessed an extraordinary year-on-year gain of 466%, a testament to its robust business strategy and market appeal. The sub-index closed the year at 1,121.29, marking a substantial increase from its previous year's closing value of 588.93 points.

Source: NGX, AVA Research

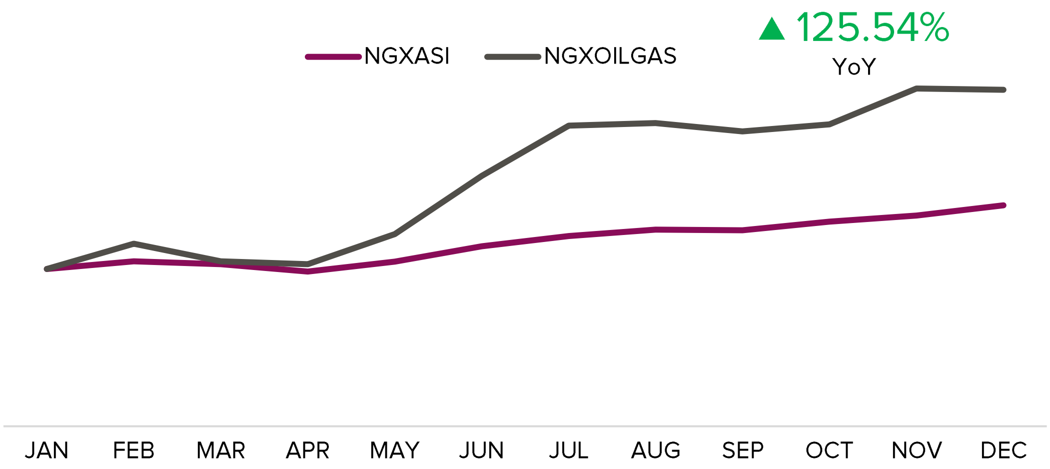

Figure 20: Performance of the Oil & Gas Sector vs the Broad Market

- The Oil and Gas sector emerged as the NGX's top performer in 2023, recording an impressive year-on-year surge of 125%. This remarkable growth propelled the sector's index to close at 1,043.06 points, soaring from an opening index of 462.48 at the beginning of the year.
- A significant driver of this exceptional growth was the stellar performance of MRS Oil. The company's stock price appreciated remarkably, contributing approximately 797% to the sector's overall annual gain. This notable increase underscores the pivotal role of key players within the sector in driving substantial market growth

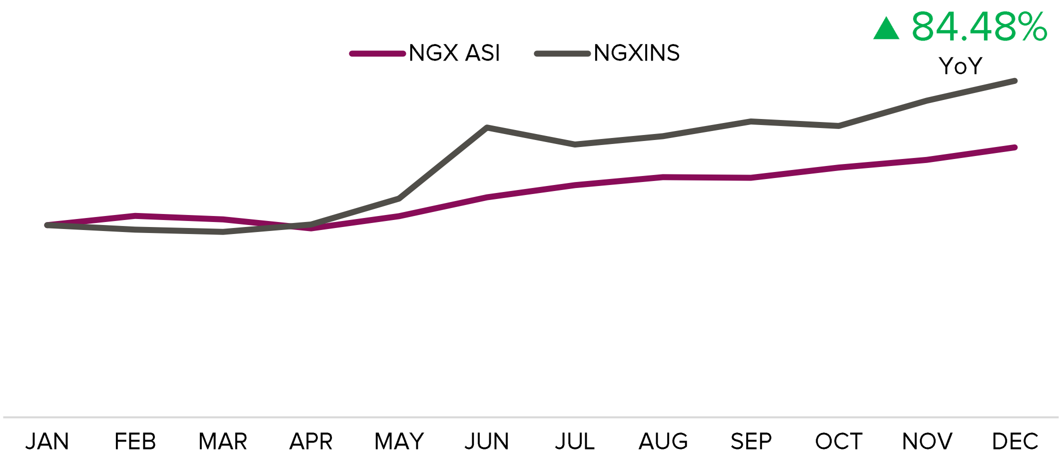

Figure 21: Performance of the Insurance Sector vs the Broad Market

- The NGX Insurance concluded the year on a high note, registering a notable growth of 84.48%. This impressive ascent saw the sector's index climb from an initial figure of 174.36 at the start of the year to close at 321.66 index points.

Source: NGX, AVA Research

Sectoral Overview (3/3)

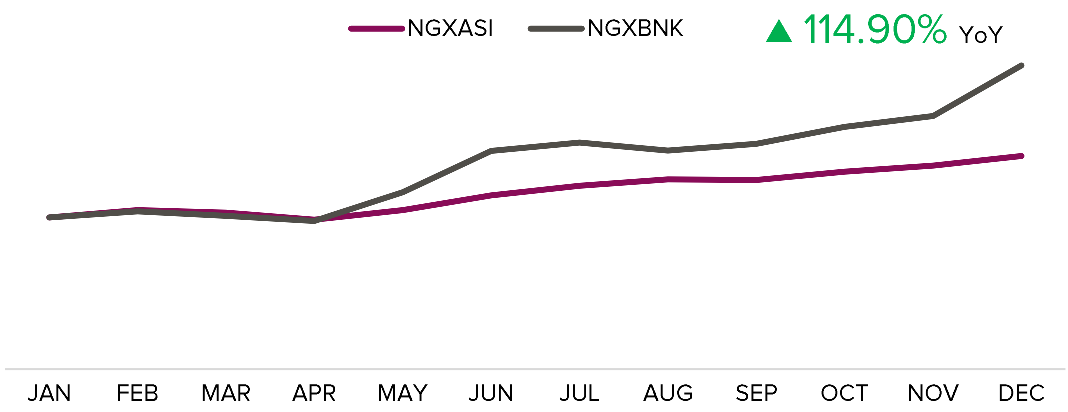

Figure 22: Performance of the Banking Sector vs the Broad Market

- UBA led the chart as the best-performing stock in the Banking sector for 2023, posting a year-on-year return of 277%. The banking sector which achieved significant growth of 114.90%, to concluded the trading year at 897.20 index points. The performance has been linked to the CBN's Exchange Rate unification and the Net-positive open position of many banks prior to the policy introduction.

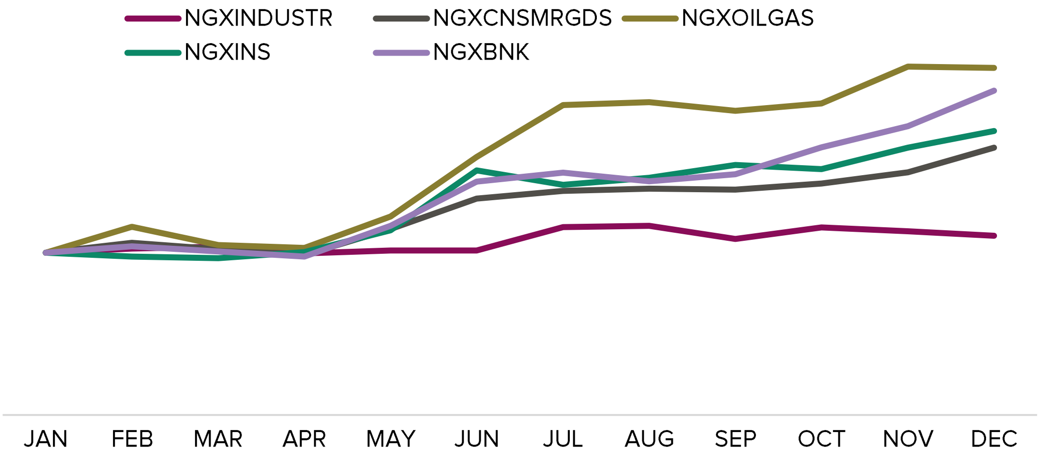

Figure 23: Comparison of the sub-sectoral performance

- In conclusion, the oil and gas index emerged as the top performing sector on the Nigerian Stock Exchange, boasting a remarkable gain of 125%. Followed closely behind is the banking sector, which recorded a substantial increase of 114.90%.

- The consumer goods sector and insurance sector also demonstrated strong performances, with gains of 90.39% and 84.48% respectively. Conversely, the industrial sector exhibited the least growth among the sub-sector indexes, with a modest return of 12.86%.

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Source: NGX, AVA Research

Higher FGN Bond Yields

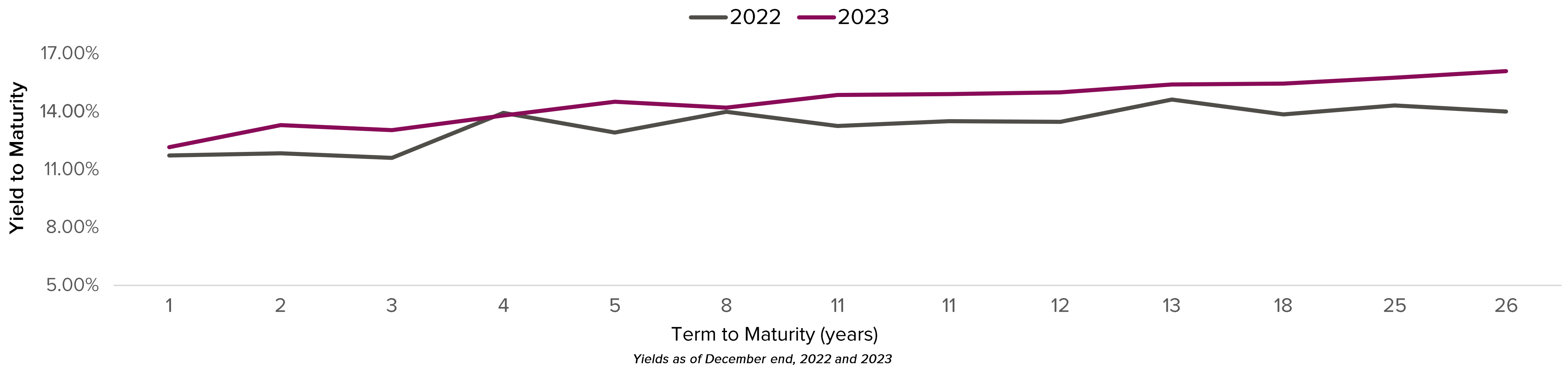

Figure 24: The FGN bond yield curve* concluded the year with minimal slope, signaling investors' apathy towards long maturities in light of the prevalent high inflation

- In 2023, the Nigerian FGN bond market witnessed heightened yields and fluctuating demand, reacting promptly to evolving events. Initially, the bond yield curve displayed an upward slope, characteristic of lower yields for shorter-term bonds compared to longer-term ones.
- However, the Monetary Policy Committee's decisive rate hike, targeting inflation control, resulted in a general rise in interest rates. This shift impacted the fixed-income market, notably affecting the FGN bond yield curve, which showed a tendency towards flattening as the year concluded.
- From January to December, the Debt Management Office held auctions for FGN bonds valued at ₦4.32 trillion across four maturities, drawing substantial investor interest with an oversubscription rate of 170.83%. This strong demand enabled the successful raising of ₦5.34 trillion.
- In 2023, the average yield on FGN bonds was 14.50%, a rise of 119 basis points from 2022's average of 13.31%. This increase was attributed to the year's bond price decline and bearish market sentiment, influenced by varying demand levels.

Source: FMDQ, DMO, AVA Research

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Bullish FGN Eurobond Yields

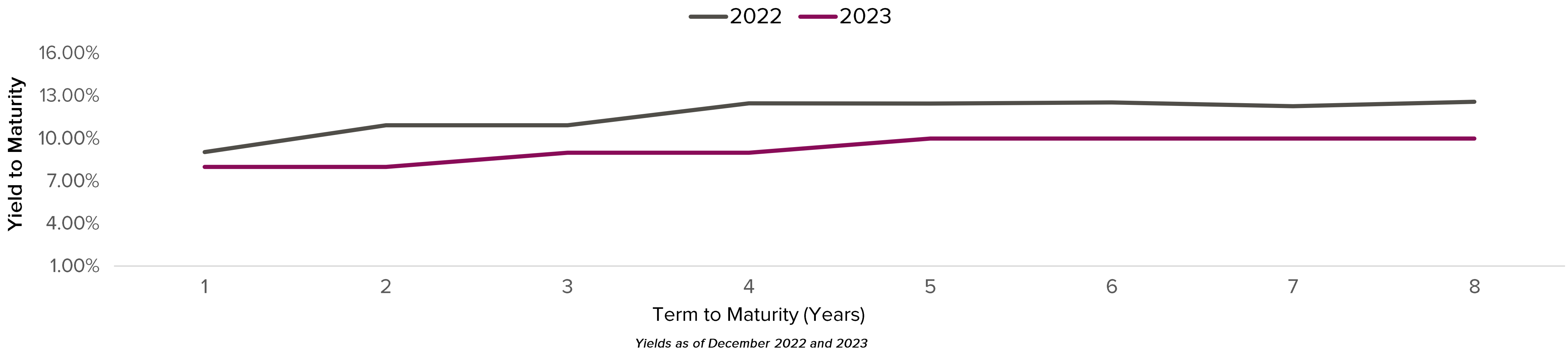

Figure 25: The FGN Eurobond yield also exhibited a similar near-flat yield curve shape

- The Eurobonds issued by the federal government of Nigeria traded in a better landscape during the year which had a positive sentiment on the market. These bonds experienced a rising trend in their prices and demand within the financial markets.
- Axing the petrol subsidy saw petrol prices more than triple and pushed the already double-digit inflation rate further in July. Soon after devaluing the naira currency, both of which were long demanded by investors, driving a rally in Nigeria's overseas bonds.
- Nevertheless, market anxiety slightly eased later in the year as most investors still preferred to hold the dollar-denominated bond instrument to gain exposure to the surging value of the USD. In comparison to 2022, however, Eurobond yields closed in 2023 with a lower yield.
- Figure 25 depicts that the Eurobond yield curve assumed a nearly flat position at the close of the year due to the execution of similar trading strategies on both the short and long ends of the curve. The average Eurobond yield for 2023 printed at 9.55% lower than the 11.66% average yield observed in 2022.

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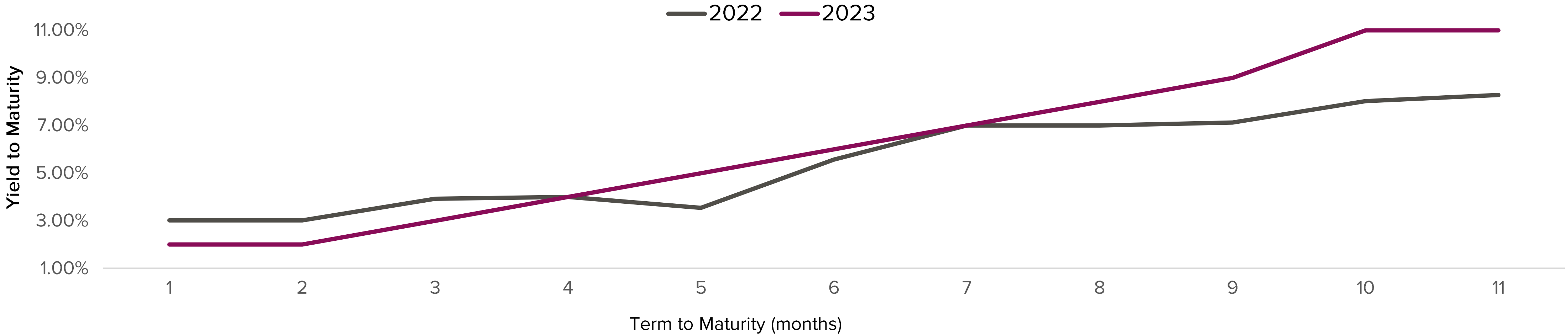
Source: FMDQ, DMO, AVA Research

The Nigerian Treasury Bill market



Yields as of December end, 2022 and 2023

Figure 26: Treasury bill yields recovered towards the end of the year, evident in the normalization of the yield curve shape

- The Nigerian treasury bills exhibited a varied pattern in line with overall market trends. Changes in investor expectations, evolving portfolio requirements, increasing interest rates, and inflation concerns influenced the demand for treasury bills among investors and fund managers. Towards the close of the year, the treasury bill yield curve started to normalize, aligning with more typical upward slope.

- The CBN conducted 27 treasury bill auctions between January and December to raise 91-day, 182-day and 364-day treasury bills with each auction noting an oversubscription across all durations with the stop rates fluctuating throughout the year, indicating the dynamic conditions in the short-term market.

- In the last quarter, the stop rates for the one-year bill were seen at 13.00%, 16.75% and 12.24% in October, November and December respectively. These rates were notably higher than those recorded in the first quarter, which stood at 4.78%, and 9.90% in January and February, except for March, which closed higher at 14.74%. The level of demand in the T-bill market also underwent fluctuations during the year, influenced by varying perceptions of the instrument amongst investors and fund managers.

- The average T-bill yield for 2023 printed at 6.01% higher than the 5.29% recorded in 2022 driven by a downtick in prices, which outweighed the number and value of price gains.

Source: FMDQ, DMO, AVA Research

Outlook for 2024

The Global Economy in 2024

Global GDP growth expected to slow down a bit

- The challenges faced in 2023 have created numerous hurdles for 2024, resulting in a lowering of global GDP growth projections and an increased likelihood of recessions worldwide.
- The International Monetary Fund estimates growth for the Advanced economies at 2.9% in 2024, down from 3.0% seen in 2023. Advanced economies are expected to slow from 1.5% in 2023 to 1.4% in 2024 as policy tightening starts to take effect. In summary, GDP growth across the world may be revived and may outperform expectations although the optimism may be hampered by tensions in the Middle East.

Global inflation rates should return lower in 2024

- Inflation rates is expected to moderate closer to the different central banks' target in 2024 as they maintain a hawkish stance, albeit, slowly towards the inflationary environment.
- Factors such as geopolitical tensions, energy prices, and labour market dynamics would continue to exert upward pressure on inflation in certain regions.
- Analysts have opined that inflation expectations will also play a critical role in shaping the dynamics of the global inflation rate in 2024. As such, monetary policy makers will likely influence inflation expectations in achieving their objectives.

Crude Oil Demand Set to Surge with Robust Global GDP Growth

- The anticipated crude oil demand in 2024 indicates a careful rebound, influenced by factors such as the ongoing global economic recovery, policies related to energy transition, and geopolitical developments.
- Demand may gradually increase as economies rebound from the pandemic, but the growth could be tempered by the growing emphasis on renewable energy and efficiency measures across various nations.
- Ongoing geopolitical tensions and supply chain challenges continue to impact oil demand dynamics. Overall, the demand for crude oil in 2024 is expected to show modest growth with a degree of uncertainty.

Dovish Monetary policy is expected to prevail in 2024

- Central banks around the world would likely adopt more measures by holding and/or tightening their monetary policies in order to mitigate the rapid growth of inflation for as long as necessary until their respective inflation rate falls to the targeted levels.
- The magnitude of rate changes is likely to be more moderate compared to 2023 aggressive adjustments. The focus will likely be on balancing economic growth with inflation control, leading to a cautious approach in monetary policy decisions. Overall, interest rate movements in 2024 are expected to be closely aligned with evolving economic scenarios.

Nigeria’s Economy in 2024 (1/2)

Nigeria’s Gross Domestic Product

- The economy is expected to benefit from domestic reforms and global recovery trends. However, issues like inflation and currency stability could impact growth dynamics. Overall, According to the International Monetary Fund’s (IMF) economic projection, Nigeria's GDP in 2024 is expected to grow by a downwardly revised 3.1%, with cautious optimism for growth, contingent on both internal and external economic factors.
- Based on the historical GDP performance, we expect the services sector to continue to drive growth in the country, underpinned by high demand for ICT services and higher trade activities.

Nigeria’s inflationary pressure set for two halves in 2024

- Headline inflation rate closed 2023 at 28.20% after successive increases during the year; we expect higher inflation in 2024 given the persistence of the underlying drivers, including high energy and fuel prices, weak farm outputs, higher cost of borrowings that have fed into consumer prices, among others cost-push factors.
- Going into the second half of 2024, we expect the inflation rate to moderate following stringent measures undertaken by the Monetary Policy Committee and efforts to address structural economic bottlenecks.

Unemployment rate may see an upswing in 2024

- Given the disruption resulting from the removal of fuel subsidies in 2023, small and medium enterprises may be forced to reduce costs by cutting payrolls and retrenching their workforce, skilled and unskilled alike.
- The unemployment rate is expected to tick higher within the range of 4.5%-5%. Challenges such as a large youth population, skill mismatches, and the need for more robust economic policies could still pose hurdles.

A hawkish monetary policy stance may persist during the year, albeit, at a slow pace

- With the inflation rate setting a multi-decade high to finish 2023, the MPC is expected to maintain a contractionary monetary policy stance throughout most of 2024. However, we maintain that the MPC’s hawkish stance may not have a major influence on Nigeria's cost-push inflation.
- Nonetheless, a tight monetary policy environment is expected in 2024 as the MPC may raise the MPR by up to 200bps during the course of the year.
- Interest rates in Nigeria for 2024 are expected to be reflective of the broader economic strategy to balance growth, inflation, and currency stability.

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Nigeria's Economy in 2024 (2/2)

Nigeria's external reserve position is expected to recover

- Closing 2023 with $32.89bn, Nigeria's external reserves may improve in 2024 if the new government tackles persistent oil theft. With slight crude oil revenue improvements, the recent recovery in production is expected to continue, ensuring an adequate supply for both exports and local refining..
- Similarly, the improvement in foreign trade by more than 50% in Q3 2023 should set the tone for higher revenue performance in relation to budget execution for 2024; we also expect to see stability in the foreign exchange market given the implementation of several monetary policies by the CBN in 2023.

Naira faces a mixed outlook in 2024 amid FX supply challenges

- The barrage of FX demand that trailed the year 2023 is expected to continue in H1 2024, due to unmet demands from individual and corporate entities. This will sustain the current pressure on value of the Naira.
- Given the supply gaps which have widened the gulf between NAFEM and the parallel market, policymakers aim to enhance near-term supply to strengthen the Naira. Plans include a $1.50 billion World Bank support, a $3.0 billion NNPC-AFREXIM crude payment loan, and a $7.0 billion securitization of Nigeria's NLNG dividends. We expect a moderate strengthening of the Naira in H2 2024 attributable to gain from reduced subsidy payments and foreign exchange savings when the Dangote and Port Harcourt refineries become fully operational.

Nigeria's crude oil production may continue its recovery path

- Nigeria's crude oil production is expected to improve in 2024 due to initiatives by the government aimed at addressing challenges affecting oil production, such as crude oil theft and inadequate security measures. We are optimistic that collaborative endeavours to refurbish existing refineries, coupled with the output from the Dangote refinery, will boost the country's refining capacity and meet both local and regional demands.
- The Nigerian oil sector contributes significantly to the economic growth and development of Nigeria. As such, we believe the federal government will take bold steps in addressing the issues in 2024.

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Nigerian Fixed Income Market in 2024

Possibly high yield environment

Envisaging the Central Bank of Nigeria's anticipated contractionary approach to interest rates, we predict that yields on Nigerian fixed-income instruments will follow a pattern similar to the previous year, starting Q1 on the higher side. This trend is expected to continue until investors adjust to the elevated interest rates later in the year.

Increase in bond supply

We expect an influx of bonds into the market due to the ₦9.18 trillion 2024 budget deficit, with ₦7.8 trillion allocated for debt funding. This could present an opportunity for investors and fund managers to meet their portfolio needs, contingent on favourable bond yields.

2024 budget to drive higher activity

We project that the 2024 budget approved by the Nigerian Senate which was increased by ₦1.2 trillion to ₦28.7 trillion from ₦27.5 trillion proposed by the President will result in more activities within the fixed income market. The budget is expected to cause a significant movement in activity away from the equity market to the bond market.

Impact of debt burden

Nigeria's total public debt may surpass ₦77 trillion if the FG's Ways and Means obligation is securitized. This may affect the country's already fragile local and foreign currency ratings and may hinder its capacity to issue new Eurobonds. Consequently, we expect that a bulk of the new borrowings may be sourced locally.

Moderate Prices in the FGN Eurobond Market

We expect the Nigerian Eurobonds market to find stability, bolstered by the policy reforms initiated by the new government. Additionally, the absence of any Eurobonds due for maturity in 2024 is anticipated to foster a positive investor sentiment throughout the first half of the year, potentially energizing the market

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Nigerian Equities Market in 2024

Anticipated in 2024 is a highly optimistic and dynamic primary market. However, occasional adjustments in price dynamics across sectors might occur as investors seize opportunities to capitalize on profits, engaging in periodic profit-taking and portfolio rebalancing activities.

Due to the recapitalization initiatives undertaken by the CBN, we anticipate a significant shift in focus towards the primary market for equities in 2024. Several manufacturers, whose balance sheets were impacted by market reforms are likely to turn to the capital market for funds. Also, we expect to see more public companies get listed on the stock exchange to raise new capital.

The price/yield relationship between fixed income and equity markets has been inverse, meaning that when bond yields rise, some investors tend to shift towards the fixed income market, potentially affecting the stock market negatively. Nevertheless, the Nigerian stock market might face disturbances as anticipated increases in the MPR (Monetary Policy Rate) could divert investor attention towards fixed income, unless they adhere to a value investment strategy.

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