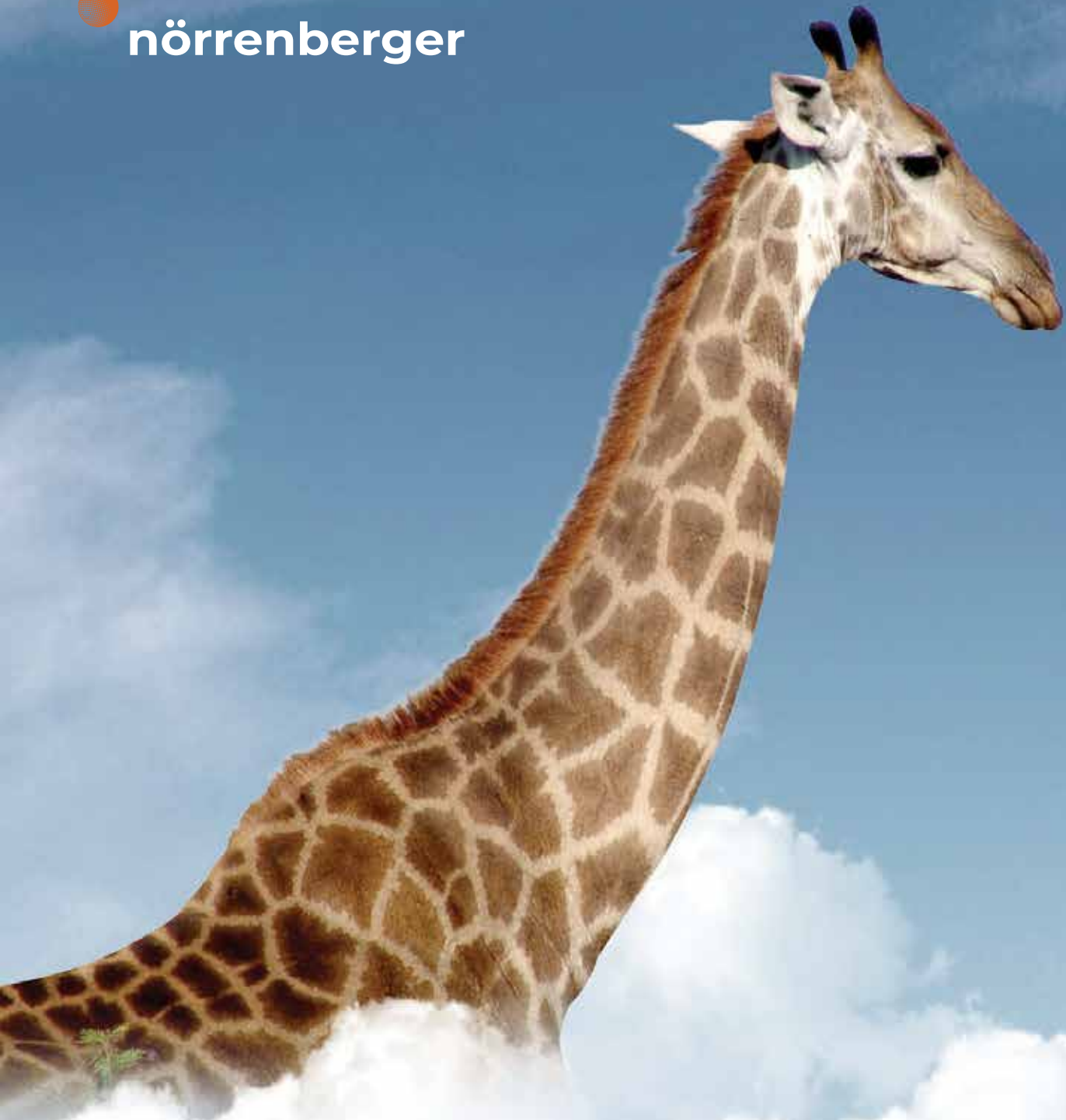


NIGERIA OUTLOOK 2021 | JANUARY

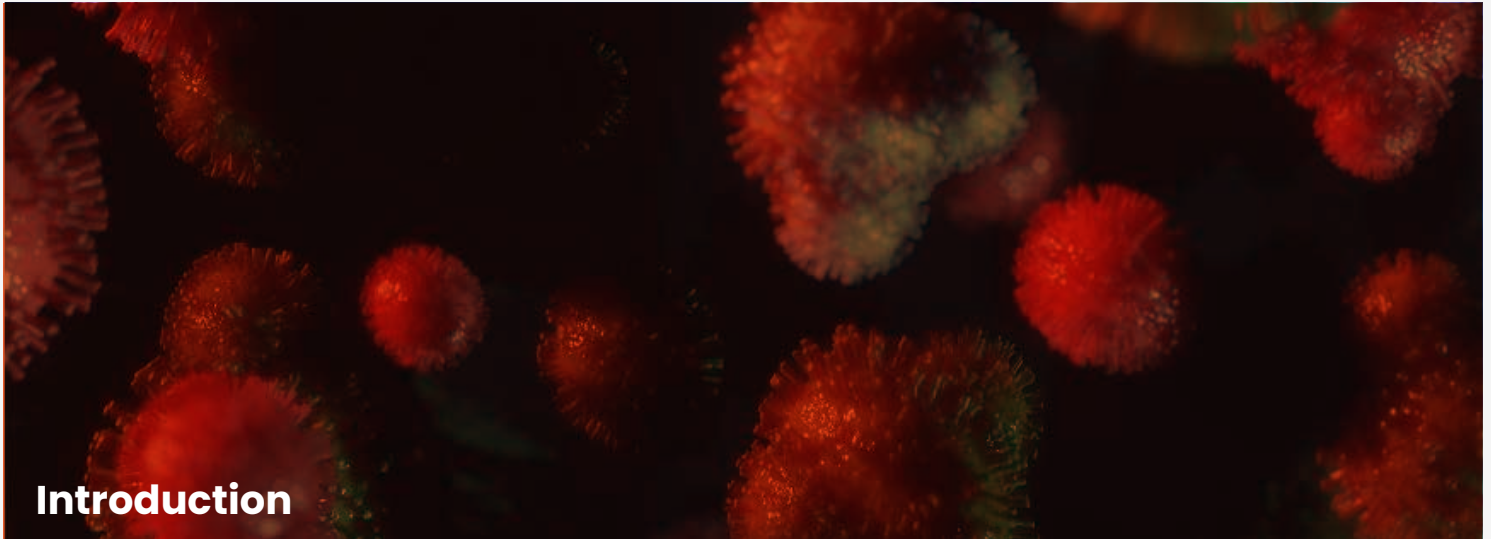
SEIZING THE NEW REALITY





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As a leading, independent financial services group, we go beyond the limits to provide innovative solutions that simplify wealth creation for our individual and institutional clients. At **Norrenberger**, we combine world class thinking with our local expertise that gives our clients the assurance that we are going the extra mile to help them achieve their investment objectives.



Introduction

The economic and social disruption caused by the pandemic and its adverse effects on the global economy are still very evident. The pandemic triggered an economic fallout leaving tens of millions of people at risk of falling into extreme poverty. While new vaccines have been discovered and are now being deployed in some countries, the number of undernourished people currently estimated at nearly 820 million, could increase by more than 320 million. We posit that with International Monetary Fund (IMF) and World Bank 2020 economic growth forecast at -4.35% and -4.4% respectively, more uncertainty lies on the path to global recovery and systemic changes triggered by the pandemic may persist for longer.

With global cases reaching 92.3 million and deaths estimated at 2 million in 221 countries affected, governments authorities continue to prioritize public health and safety over economic recovery. Although more than 162 vaccines are at pre-clinical stages, estimated vaccine doses required for immunity currently could reach 11 – 15 billion. In the same vein, it remains unclear whether COVID-19 could still be transmitted by the immunized population. In the midst of significant uncertainty, the world appears to look to the West to normalize unpredictable trade policies and geo-politics.

With optimism for global growth derivable from current vaccination efforts and public health measures, we expect the global economy to recover on the back of real GDP expanding by up to 4.8%.

Amid improved outlook for oil prices, Africa's largest economy continues to grapple with the reintroduction of partial lockdowns enforced in the economic nerve centers of the country. The domestic economy has slipped back into recession behind weakened economic fundamentals, subsequently leading to elevated inflation and exchange rate shocks. While we expect Nigeria to exit recession in 2021, a return to deliberate policy settings is crucial. Overall, we project a slow and gradual growth at 2.43%. In the overall, global key highlights that will have major bearings on the economy in 2021 will be:

- Moderate recovery in the global economy and Fiscal Policy Support
- Authorities to focus on actionable monetary policies
- Operationalization of the African Continental Free Trade Agreement (ACFTA)
- Outlook for crude oil
- Equities market
- The final severing of ties between the European Union and the United Kingdom
- Global accommodative monetary policies
- Naira volatility posed by external account imbalances
- The trend in headline inflation and attendant impact on real return on investments

While we acknowledge inherent risks underlying our growth forecast due to rising number of COVID-19 cases, we expect improved performance in non-crude oil earnings.



Fiscal Policy Report

After the pandemic impact of 2020, we expect that critical sectors would continue to leverage on crucial lifelines from government authorities across the globe. In this regard, we expect heightened global fiscal support in the form of foregone revenues, tax reliefs, direct transfers, as well as liquidity support. Although this comes at a cost for public finance, leading to wider deficits and higher public debts for most emerging economies including Nigeria, it is hoped that the concerns about public debt sustainability may be allayed.

The discovery of a more infectious strain of COVID-19 means that there is need for renewed efforts directed at additional stimulus as the rollout of the vaccine gains traction. This backdrop suggests a rebound in capital flows to emerging and frontier economies and some support for economic activities. Accordingly, this would help limit the estimated persons set to fall into extreme poverty.

Actionable Monetary Policy

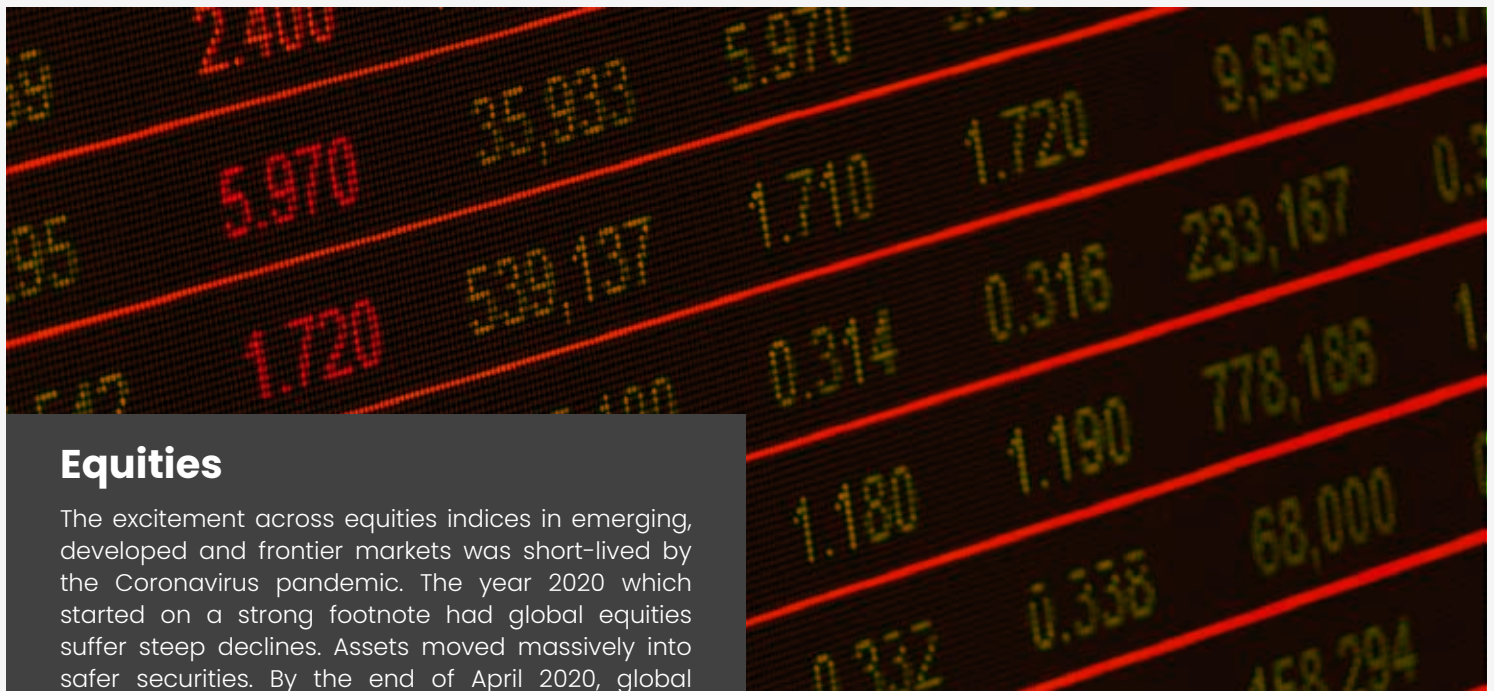
In 2020, the CBN devalued the naira at least three times. Despite this depreciation and constricted fiscal space, it is our expectation that the Apex Bank would prioritize a rebound of the domestic economy in order to maintain an expansionary stance. Depending on how swiftly economic activities rebound, improved private consumption and investments could drive aggregate demand. Nonetheless, inflows from DFIs and other external donors may be inadequate to curtail impending downside risk which may result from closing fiscal space.

Outlook for Oil Price

There is broad optimism about the outlook for the crude oil market. Much of the improvements in demand is expected from reopening of major segments in Asia, such as India and China. Our outlook on the oil market is a gradual and steady recovery. We presume upward demand from Asia, a more collaborative stance on global trade resulting from the outcome of the U.S. elections and improved acceptance of vaccinations. Our opinion puts Brent price at a range of USD48 to USD54 in 2021.

African Continental Free Trade Agreement (ACFTA)

Following the launch of the operational phase of the ACFTA, we expect positive prospects for local enterprises and manufacturers. Further, improved external sector performance arising from members intra-Africa trade volumes is expected. This would also ride on the back of reduction in tariff revenues.



Equities

The excitement across equities indices in emerging, developed and frontier markets was short-lived by the Coronavirus pandemic. The year 2020 which started on a strong footnote had global equities suffer steep declines. Assets moved massively into safer securities. By the end of April 2020, global equities and commodities market headed southwards.

For the domestic equities, while most analysts held a modest outlook for 2020, the impact of excess financial liquidity and the downward movement in yield curve prompted a sustained rally in the equities market. By the end of the year, the NSE Bourse emerged as the highest performing Exchange.

Compared to history, there is a sense that the NSE is relatively overvalued. In addition, technical indicators show that the market is also overbought. The All-Share Index in recent time traded at about a PE ratio of 15x, 27% higher to its 5-year average of 11.88x and 54% premium to its 3-year average. This suggests a correction is in order. Nonetheless, the market is still at trading discount amid its peers in Africa and emerging markets. This may suggest that the market remains cheaply priced to peers. Our opinion is that the macroeconomic backdrop, especially the scarcity of FX does not make a compelling case from the foreign investor perspective. This is reinforced by the fact that the MSCI has indicated it will not implement any changes in the MSCI Nigeria Index. We expect this to ultimately mean that foreign fund managers tracking this index will not need to buy Nigerian equities in their portfolios.

We posit that the activities of the bears would outweigh the positives in 2021. Our projection is based on the limited upsides of stocks given the overbought status, mid-term uncertainties, the weak macroeconomic backdrop and thin foreign investors' participation.

Fixed Income

The domestic fixed income market lost its attraction for investors in 2020 as rates dropped from the double-digit era, following the CBN decision to shut out domestic corporates and High Net-Worth Individuals (HNIs) from the OMO market in late 2019. Subsequently, yields at both the short and long ends of the fixed income market tumbled, due to the sheer volume of liquidity the policy unlocked. Unlocked liquidity came roughly equivalent to the total size of Treasury Bills auctioned in 2020. In our opinion, this policy bore the most impact on the direction of yields in the fixed income environment in 2020.

Amid unclear direction of yields in 2021, our outlook is largely influenced by the drivers of market liquidity. With the announcement of the Federal Government's N5.06trn deficit in the 2021 budget and the activities of corporate borrowers, we expect minimal impact on fixed income rates. We also project corporate issues between N2trn and N3trn, for a meaningful impact on yields. With CBN's issuance of Special Bills up to N4.1trn to commercial banks, an uptrend in money market yields is probable, given that a liquidity crunch by the banks could spark a sale of these bills.

In our opinion, rates would remain low over the short term while pressures build-up for an upward movement in yield over the medium term.

Alternative Assets

Cryptocurrencies and other digital assets became popular having quadrupled investors returns in 2020. Ahead of China, U.K., India, and Canada, Nigeria ranked as the world's second-largest Bitcoin market.

Surpassing its all-time high of USD19,800 to reach USD29,000, we note the level of volatility in this class of asset and advice investors to tread cautiously.

Conclusion

In conclusion, we view the prospect of improved economic activities across the world suggested by the prospect of herd vaccination against COVID-19. While major policies and actions from government authorities and international organizations should be enough to restore economies to the growth path, aggregate consumption is expected to grow at a gradual pace. Equities market are likely to remain favoured. The Nigerian equities market in 2021 will be shaped by system liquidity, corporate earnings, attractive corporate dividends, foreign exchange and foreign portfolio investors. The fixed income market may likely return to higher yields on the back of overbought securities in the equities market, local borrowings, and monetary policies.

About Us

Norrenberger is an industry leading, Integrated Financial Services group that provides individuals and institutions with a comprehensive range of financial products and services including Investment Banking, Asset Management, Venture Capital, Financial Advisory and Securities Trading; tailored to meet and exceed our client needs and expectations.

We are guided by our mission to positively unlock the opportunities in society for our clients and stakeholders. We are passionate about the strength of our brand and our vision – to simplify wealth creation for our clients and our people, through the benefits we bring and the results we achieve. To do this, we work by a set of values that enable us to live out our purpose of empowering the people and organization we work with.

At Norrenberger, we unlock opportunities in our society by providing cutting edge investment options and access to alternative financing which in turn allows people to bring their innovative ideas to life and expand their existing businesses. Our focus is to continue to create financial asset classes targeting the need of every single household in Nigeria. By 2025, we hope to have delivered at least one financial solution to every household.

Our component companies are licensed and regulated either by the Central Bank of Nigeria (CBN) or the Securities & Exchange Commission (SEC).

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