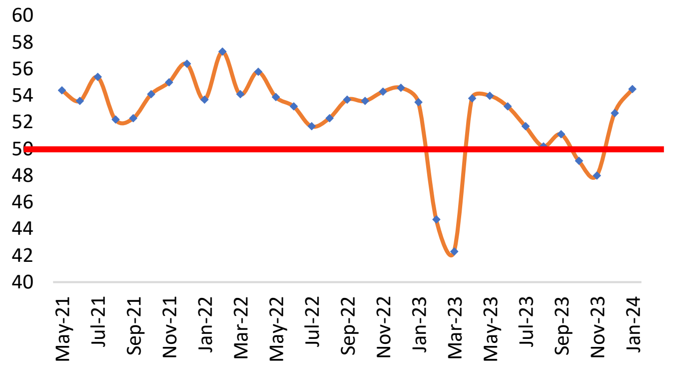
MACROS

The Nigerian economy continues to gather pace in January towards a complete recovery from the Covid-19 pandemic and inherent doldrums. It was a busy month for the African giant, as the government seeks to revamp the economy having signed N28.7 trillion budget into law.

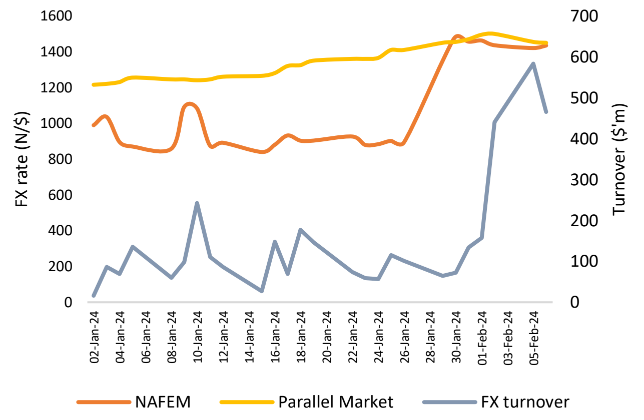
The headline Purchasing Managers' Index (PMI), which indicates the prevailing direction of economic trends in the manufacturing and service sectors rose to a 13-month high of 54.5 in January from 52.7 recorded in December 2023, driven by sharp expansions in output and new orders, reflecting improved business activities in the private sector.

Nigeria's headline PMI



S&P, Norrenberger Research

N/$ FX rate - YTD



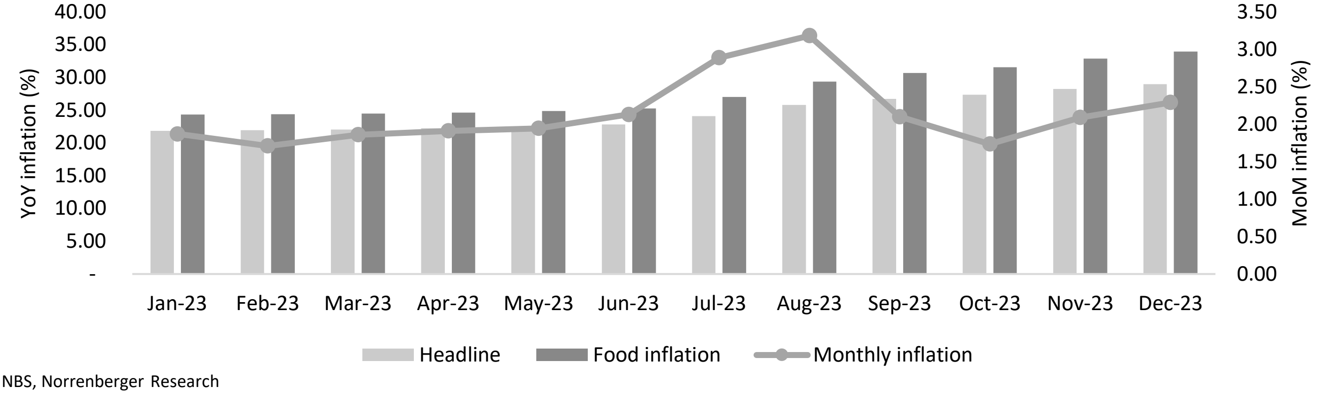
FMDQ, Norrenberger Research

However, the double whammy impact of inflation and FX volatility continues to be a major bane for average Nigerians and businesses. The official exchange rate depreciated by 37.7% in January 2024, closing at N1,455/$ from N907.1/$ recorded as of the end of December 2023, largely driven by FX illiquidity and speculations in the market as turnover dropped slightly to $2.14 billion from $2.15 billion recorded in the previous month.

At the parallel market, the exchange rate depreciated by 17.3% to N1,470/$. Meanwhile, the spread between the official and parallel market closed significantly from N307.9/$ recorded as of the end of December 2023 to N14.4/$1.

Headline inflation as of the end of December 2023 stood at 28.92%, the highest in 21 years, majorly driven by food, transport, and imported inflation. The month-on-month inflation rose to its highest level in four months, standing at 2.29% in December, 20bps increase from 2.09% recorded in the previous month. Inflation continues to remain sticky on the back of the removal of petrol subsidy by the Federal Government and the unification of the FX market, which led to a significant devaluation of the official exchange rate. Festive buying spree in December also contributed to the increased pace of inflation in the period under review. Dangote Refinery commenced the production of diesel and aviation fuel in January, after receiving an initial six million barrels of crude oil supply. This is anticipated to improve Nigeria's local oil industry, boosting export inflows and reduce import dependency on petroleum products.

Nigeria's inflation rate - 2023



NBS, Norrenberger Research

GOVERNMENT AND INDUSTRIAL

The Federal Government commenced plans to build a new steel plant in Nigeria as well as construct a military hardware at the Ajaokuta Steel Plant in Kogi State, in partnership with Luan Steel Holding Group.

The construction is part of the FG's strategy to industrialise the nation through the steel industry.

The successful completion of the new steel plant has the potential of driving inflows in terms of foreign direct investments into the economy, create employment in the mining sector as well as drive economic expansion.

The metal ores sub-sector has recorded significant growth in recent times, expanding by an average of 63% in 9-month 2023, with an annualized value of N53.7 billion, but has yet to yield adequate result in terms of job creation due to its size. However, this development could help drive expansionary activities in the sector as well as curb illegal mining.

Meanwhile, in a bid to cushion the impact of rising cost of goods and services on Nigerians following the series of inflationary policy reforms, the FG has earmarked N150 billion to implement poverty alleviation programmes in 2024 under the National Poverty Reduction and Growth Strategy. While this presents an opportunity to soften the hardship faced by several Nigerians, a cocktail of policies need to be put in place to curb rising cost of food in the country and ensure price stability, particularly FX.

CURRENCY

The Nigerian currency market was eventful in the month of January, with several reforms and activities shaping the direction of market. The FMDQ announced the revision of the foreign exchange rates pricing methodology for NAFEX and NAFEM, aimed at addressing volatility in the market and ensuring improved transparency. This led to a significant surge in the closing spot rate, effectively settling around N1,400/$.

The CBN followed with a circular to commercial banks, limiting their Net Open Position (NOP) to 20% short or 0% long of shareholders' funds, indicating that banks had to shed some of their FX positions.

This is targeted at curbing speculative and round-tripping activities in the Nigerian FX market as well as limit banks' FX exposures.

Also, the CBN rolled out a revised CRR framework for banks and restricted them from operating international money transfer services. In the same vein, the apex bank removed the cap on allowable limit of -2.5% to +2.5% around the previous day's closing rate at the NAFEM.

In furtherance to international transaction guidelines, the CBN restricted IMTOs to only inbound transfers, indicating that they can no longer facilitate transfers from Nigeria to other countries, while barring them from accessing FX from the domestic exchange. This could have an overarching effect on the FX market, reducing the pressure on the nation's foreign reserves as well as enhancing the monitoring of international financial transactions and the prevention of illicit financial flows.

Money supply (M3) is however at a record high of N78.7 trillion, while 94% of the currency in circulation is outside the banking sector. The CBN will be looking to tighten liquidity, to curb demand-pull inflationary pressure, while mopping excess liquidity in the economy.

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INVESTMENTS | OPPORTUNITIES | WEALTH

INVESTMENT

- The equity market maintained its bullish trend in January, gaining 37.5% on the back of a 45.9% rally recorded in 2023. The market capitalization gained N14.22 trillion in the review month.
- The treasury bills market closed bearish in January 2024 following intermittent CRR debit by the CBN and the N1 trillion OMO bill auction. This subsequently led to the rise in the average treasury bills benchmark yield by 324bps from 6.01% to 9.25%.
- At the January Bond Auction, the DMO replaced the 2053 bond with the 2027 bond maturity. It also offered N360 billion for the 2027, 2029, 2033, and 2038 bond maturities. The total subscription at the auction was N604.56 billion with an allotment of N418.21 billion at stop rates of 15.00%, 15.50%, 16.00%, and 16.50% for the respective tenors.
- The secondary FGN Bonds market closed the month bearish due to the suppressed liquidity and uncertainty attributed to the late release of the auction circular as average benchmark. The S&P Sovereign Bond Index declined by 0.42% to close the month at 665.91.

OUTLOOK FOR FEBRUARY

- Economic activity is expected to remain resilient in February, largely driven by the services sector (ICT, banking, and construction). Also, improved crude oil production, and increased activities in oil refining will serve as growth levers for the economy in Q1 2024. The crippling impact of high operational cost and FX losses on the manufacturing sector may, however, suppress growth in the period.
- The exchange rate at the official market is expected to stabilize around the region of N1,350/$ to N1,450/$ as liquidity from banks' net open positions drive market supply.
- Inflation is expected to remain high in January 2024 on the back of high food and transport costs. Also, the impact of FX volatility in the official and parallel market is projected to keep inflation at sticky levels, in the region of 29.3%.
- We anticipate a hawkish stance by the CBN in its upcoming monetary policy meeting, with an expectation of MPR hike around 100 – 200 basis points, as the CBN seeks to rein in inflation and attract foreign investors.
- In February, we anticipate fixed income yields to trend upward as the CBN aims to tighten market liquidity and investors rebalance their portfolios.