Guaranty Trust Holding Company plc
RC 1690945

Q1 2024

Macroeconomic Review & Outlook

for Q2 2024

APRIL 2024

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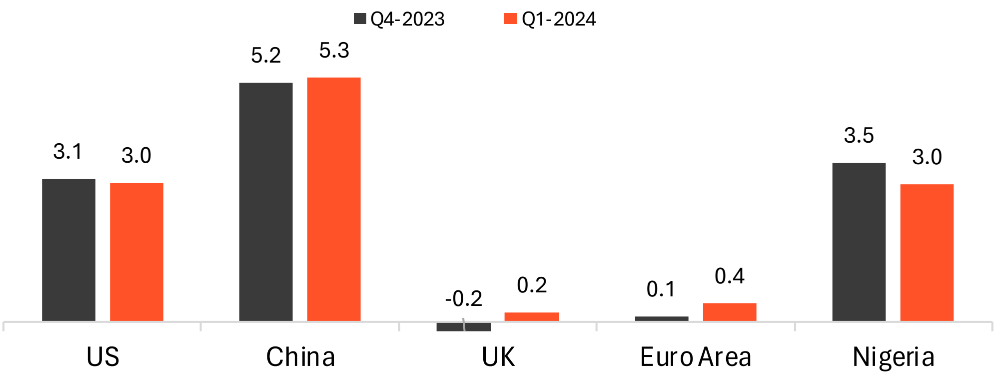
Economic Review of Q1-2024

Global Economy

The global economy saw an expansion in Q1-2024 despite the prevailing economic headwinds, as a result of increased growth in the labour force and slight improvement in economic activity in various countries. Nevertheless, GDP growth is still below pre-pandemic level in most countries as contractionary monetary policy continued to weigh on economic productivity. On a year-on-year basis, the economy of the United States, China and Euro-Area grew by 3.0%, 5.3%, and 0.4% in Q1-2024 (vs. 3.1%, 5.2%, and 0.1% respectively in Q4-2023). In addition, the latest data from the United Kingdom showed that the country exited recession as the country witnessed a growth of 0.2% in Q1-2024, primarily driven by expansion in the Service and production sector, business investments and increase in Government spending..

Fig 1: GDP Growth Rate (year-on-year %)



Source: TradingEconomics, NBS

Resilient Growth in High Interest Rate Environments

Central Banks Maintain Tight Monetary Policy in Q1-2024

Most apex banks continued to maintain contractionary monetary policy in the first quarter of 2024 in a bid to rein in inflation which is still above expected levels. For instance, the US Fed Reserve and Bank of England (BOE) held rate at 5.50% in Q1-2024 (Q4-2023: 5.50%) and 5.25% in Q1-2024 (Q4-2023: 5.25%) respectively in efforts towards achieving the 2% inflation target. The People's Bank of China kept benchmark lending rates unchanged at 3.45% in Q1-2024 as China exited deflation territory during the period.

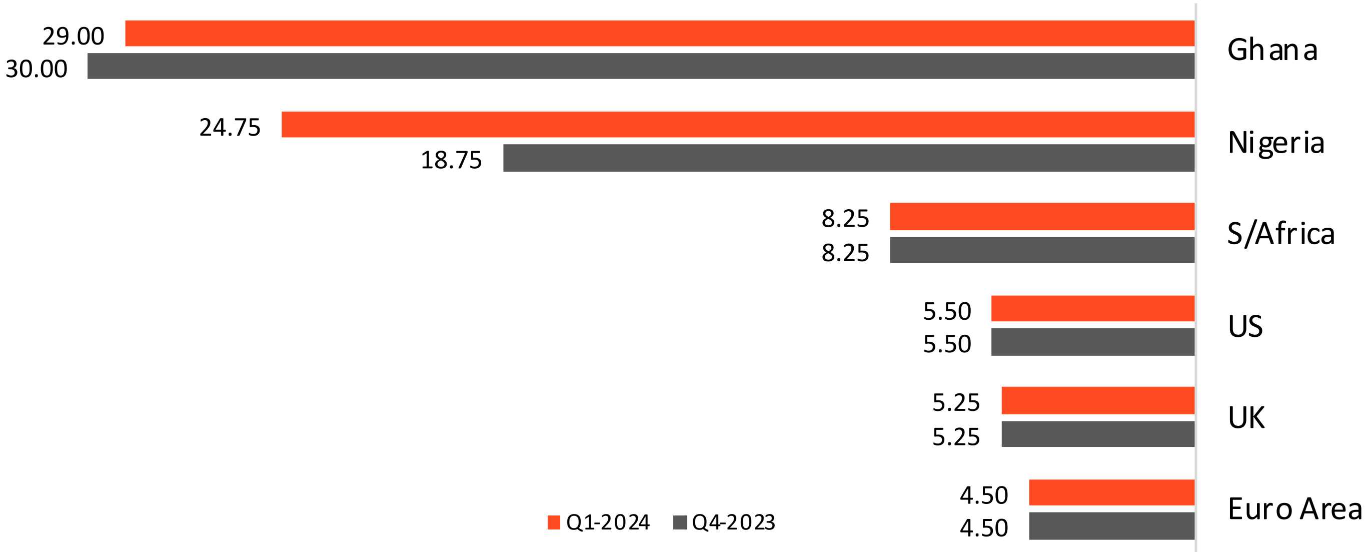


Fig 2: Policy Rate (%) *Source: TradingEconomics, CBN*

Inflation

Inflation Decelelrates in Advanced Economies as CPI Responds to Tight Monetary Policy Stance

Inflation continued to respond positively to the contractionary monetary policy in most countries as the Consumer Price Index (CPI) declined in Advanced Countries in Q1-2024. Inflation in the United Kingdom and Euro Area fell by 80 bps and 50 bps to 3.2% and 2.4% respectively in Q1-2024. Meanwhile, inflation rose slightly in the United States by 10 bps to 3.5% in Q1-2024, mainly driven by high energy costs and elevated costs of transportation. Conversely, inflation remains stubbornly high in most Emerging Markets & Developing Economies in Q1-2024 mainly due to weak local currency, high energy costs and elevated food prices. For instance, China exited deflation territory as inflation grew by 400 bps to 0.1% in Q1-2024 while inflation increased significantly by 7,650 bps to 287.9% in Argentina during the period. In addition, inflation in Nigeria, Ghana and South-Africa increased further by 428 bps, 240 bps and 20 bps to 33.2%, 25.8% and 5.3% respectively in Q1-2024.

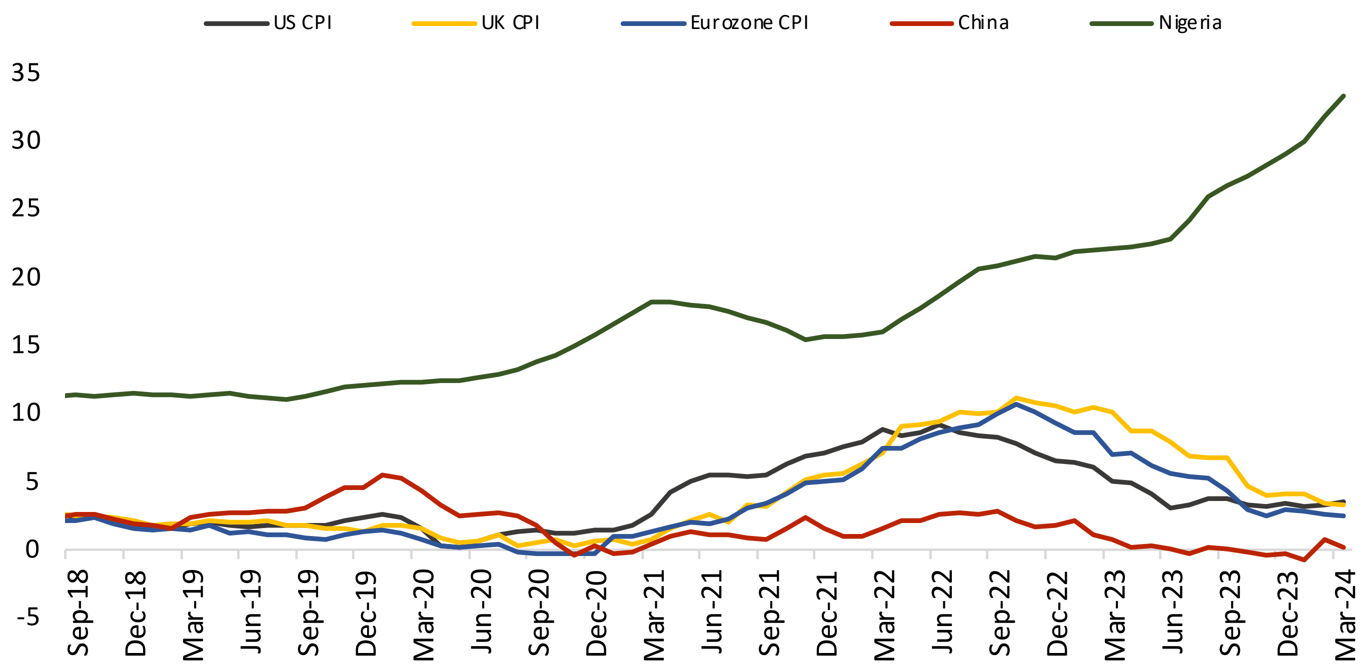


Fig 3: Global Inflation Trend (%) *Source: TradingEconomics*

Crude Oil

Crude Oil Prices Fall Further due to Global Growth Concerns

The quarterly average price of Brent Crude Oil and WTI fell slightly by 1.7% and 2.5% to $81.42 and $76.55 per barrel respectively in Q1-2024 (on a quarter-on-quarter basis), despite the extension of voluntary oil supply cuts by OPEC+, Red Sea conflict and ongoing Israel-Hamas war during the period. We attribute the setback in crude oil prices to global economic growth concerns, rising supply from non-OPEC+ members and increased oil production in the United States.

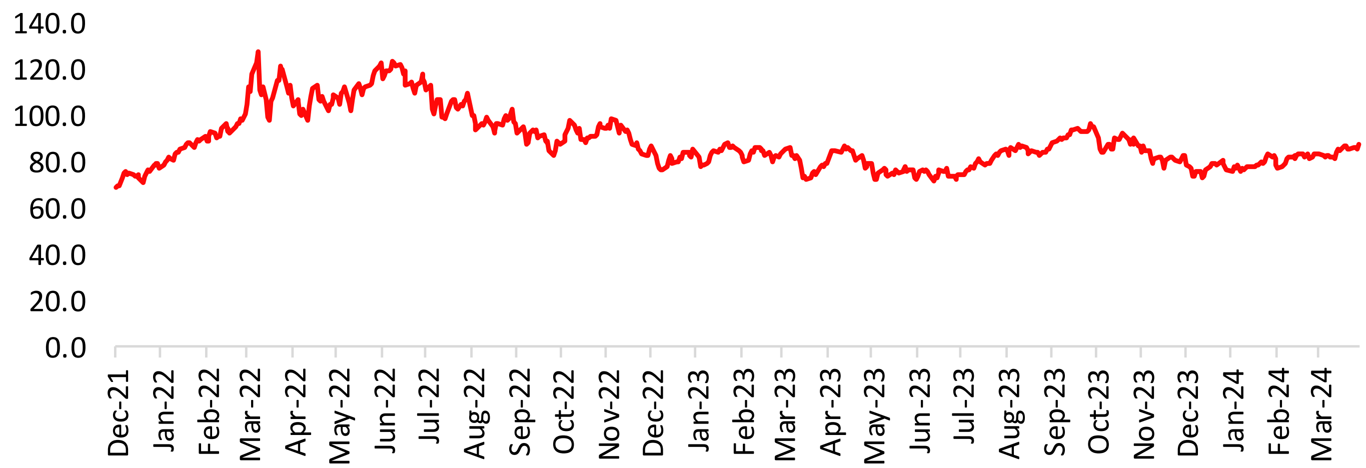


Fig 4: Trend in Brent Crude Oil Price ($) *Source: Bloomberg*

Gross Domestic Product

Nigeria maintains Positive GDP Growth

Real Gross Domestic Product (GDP) improved by 2.98% (year-on-year) in Q1-2024, driven by growth both in the oil sector and non-oil sectors. The GDP growth in Q1-2024 is lower than the growth of 3.46% recorded in Q4-2023 but higher than the 2.31% recorded for Q1-2023. The non-oil sector grew by 2.80% in Q1-2024 (Q4-2023: 3.07%), mainly driven by strong growth in financial and insurance sector (financial institutions); information and communication (telecommunication); agriculture (crop production); trade; construction and manufacturing (food, beverage, and tobacco). The oil sector growth improved to 5.07% in Q1-2024 from 12.11% in Q4-2023,, driven mainly by improvement in the oil production, which increased to 1.57 million barrel per day in Q1-2024 (1.55 million barrel per day in Q4-2023). The improvement in oil production showed the continous efforts of the government in curbing oil theft and bunkering yielded positive results in Q1-2024.

Fig 5: Trend in Real GDP Growth Rate (%)

Source: NBS

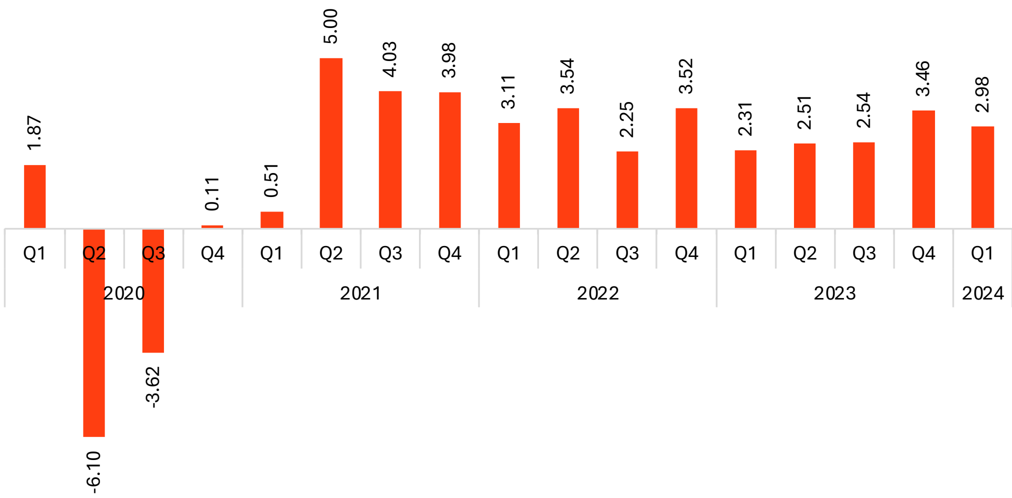
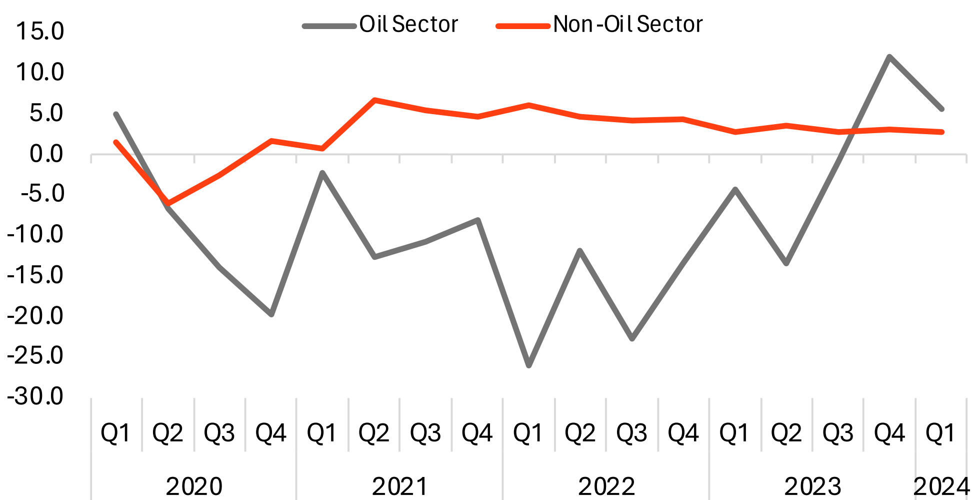


Fig 6: Oil Sector vs. Non-Oil Sector Growth (%)

Source: NBS



Inflation and Policy Rate

Inflation Rises Further in Q1-2024

Insecurity in food producing states, depreciation of the Naira and high energy prices continued to impact the prices of goods and services as Nigeria's inflation increased persistently by 428 bps to 33.20% in Q1-2024, from 28.92% recorded at end of Q4-2023. Food inflation also rose persistently by 40.01% in Q1-2024, an increase of 608 bps from 33.93% reported in Q4-2023. Additionally, core inflation increased by 25.90% in Q1-2024 (vs. 23.06% in Q4-2023), mainly driven by the depreciation of naira during the period.

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held two meetings in the first quarter of 2024. Consequently, the Committee raised MPR by 400 bps and 200 bps to 22.75% and 24.75% in February and March 2024 respectively, from 18.75% in Q4-2023. In addition, The Committee also raised Cash Reserve Ratio (CRR) of Deposit Money Banks and Merchant Banks to 45.0% (Q4-2023: 32.5%) and 14% (Q4-2023: 10%) respectively in 2024. The Committee also adjusted the asymmetric corridor to +100/-300 bps around the MPR during the period to mop up excess liquidity. Meanwhile, the Liquidity Ratio remained unchanged at 30.0%.

Fig 7: Nigeria's Inflation Trend (%)

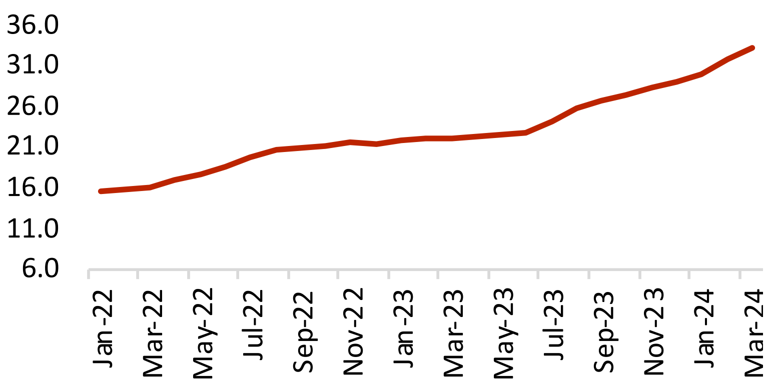


Table 1: Nigeria's Policy Rate – Q1-2024

	Q4 2023	Q1 2024
Monetary Policy Rate	18.75%	24.75%
Cash Reserve Ratio	32.50%	45.00%
Liquidity Ratio	30.00%	30.00%

Source: NBS, CBN

Naira Continues to Weaken

Despite the effort of the CBN to attract foreign exchange inflows, naira depreciated further against the greenback by 44.3% and 8% at the official NAFEM and parallel market to close at ₦1,309.39 (Q4-2023: ₦907.11) and ₦1,310.00 (Q4-2023: ₦1,210.00) respectively in Q1-2024 (On a quarter-on-quarter basis) as the country witnessed second devaluation during the period. Although the apex bank defended the naira by constant intervention at the foreign exchange market and cleared all valid FX backlogs, speculations and high demand for foreign currencies weighed on the value of naira during the period.

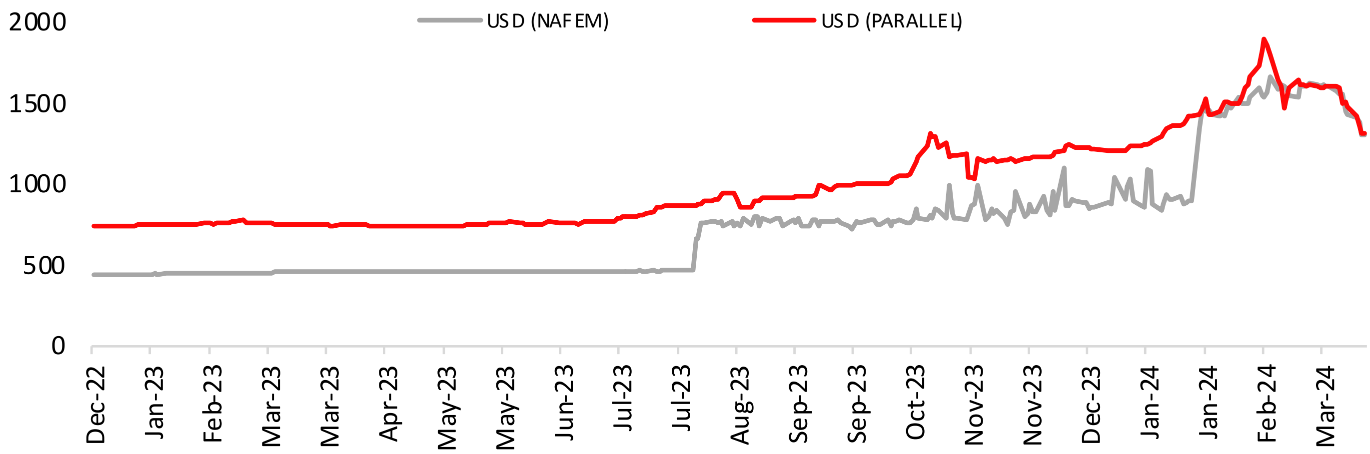


Fig 8: Exchange Rate (Naira) *Source: Bloomberg (BGN), AbokiFX*

Foreign exchange reserve and crude oil production

Foreign Reserves Rises above $34 Billion in Q1-2024

Nigeria's foreign exchange reserves increased by 2.78% ($914.9 million) to close at $33.83 billion in Q1-2024 (Q4-2023: $32.91 billion), despite the clearing of valid foreign exchange backlogs and improved intervention by the Central Bank of Nigeria at the foreign exchange market during the period. We attribute the growth in the foreign external reserves in Q1-2024 to improved foreign exchange earnings – improved oil production; disbursement of US$2.25 billion (under a syndicated US$3.3 billion Crude Oil Prepayment Facility sponsored by the NNPCL) from the African Export-Import Bank (Afreximbank).

Fig 9: CBN Foreign Reserves Trend ($Billion)

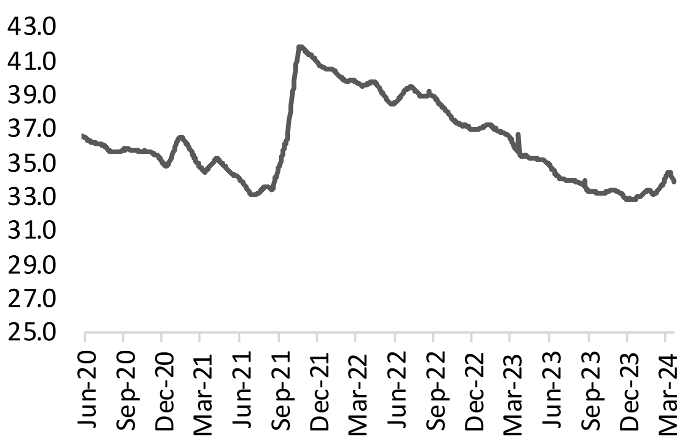
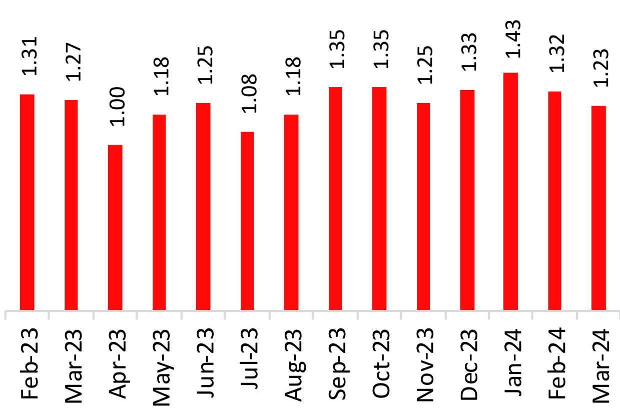


Fig 10: Oil Production Trend (Million Barrel Per Day)



Source: CBN

Financial Market Performance

Equities Market

Bullish Sentiment Dominates Nigerian Bourse in Q1-2024

Despite the economic headwinds and profit-taking witnessed in some stocks, the Nigeria bourse was dominated by bullish sentiments in Q1-2024 as NGX All-Share index and market capitalization rose by 39.47% and 44.10% to close at 104,283.64 and ₦58.96 trillion respectively driven by strong renewed interest in low-cap stocks, new listed stock, and expectation of dividend payments. All the indices within our coverage recorded impressive growth in Q1-2024. The best performing index in Q1-2024 was ASEM index which gain 135%, mainly driven by JULI PLC (+1,508%).

The total number of transactions at the nation's bourse increased significantly by 192% to ₦1.55 trillion in Q1-2024, when compared with ₦0.53 trillion achieved in Q1-2023. The market friendly policies of the government yielded positive results as transaction by foreign portfolio investors increased by 297% to ₦213.18 billion in Q1-2024, from ₦53.71 billion reported in Q1-2023. In addition, transactions by domestic investors accelerated by 180% to ₦1.33 trillion in Q1-2024, from ₦0.48 trillion achieved in Q1-2023.

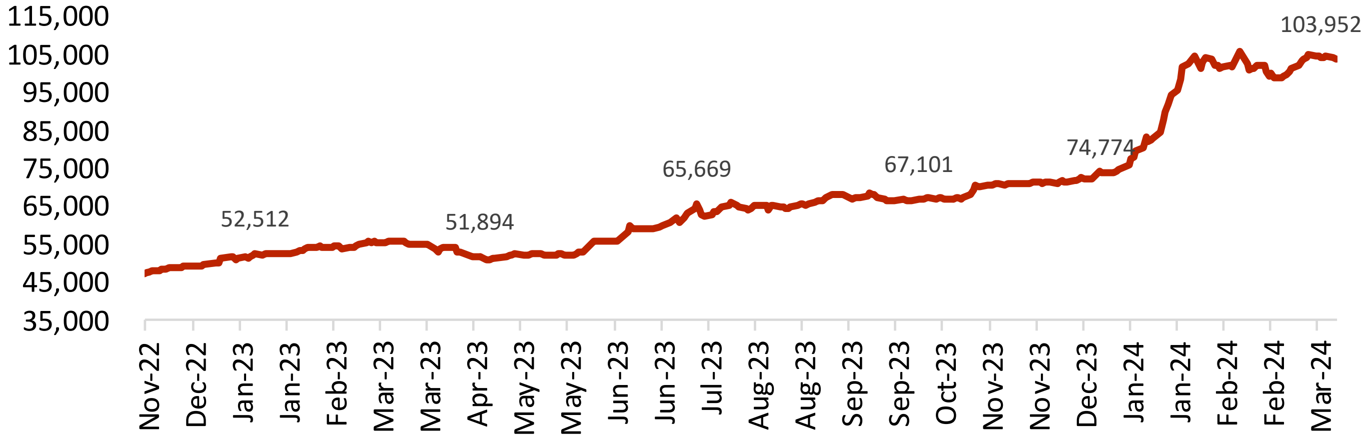


Fig. 11: NGX All-Share Index Trend *Source: Bloomberg (BGN)*

Fixed Income Market

Average Yield of Bonds Improves as Investors React to High Inflation and MPR in Q1-2024

The average yield of FGN local bonds rose by 100 bps to 16.29% in Q1-2024 (vs. 15.29% in Q4-2023) in the secondary market as investors repriced yields upward to reflect the hike in policy rate and high inflation. In addition, stop rates improved across board in the primary market as investors reacted to a high policy rate and a high inflation environment during the period.

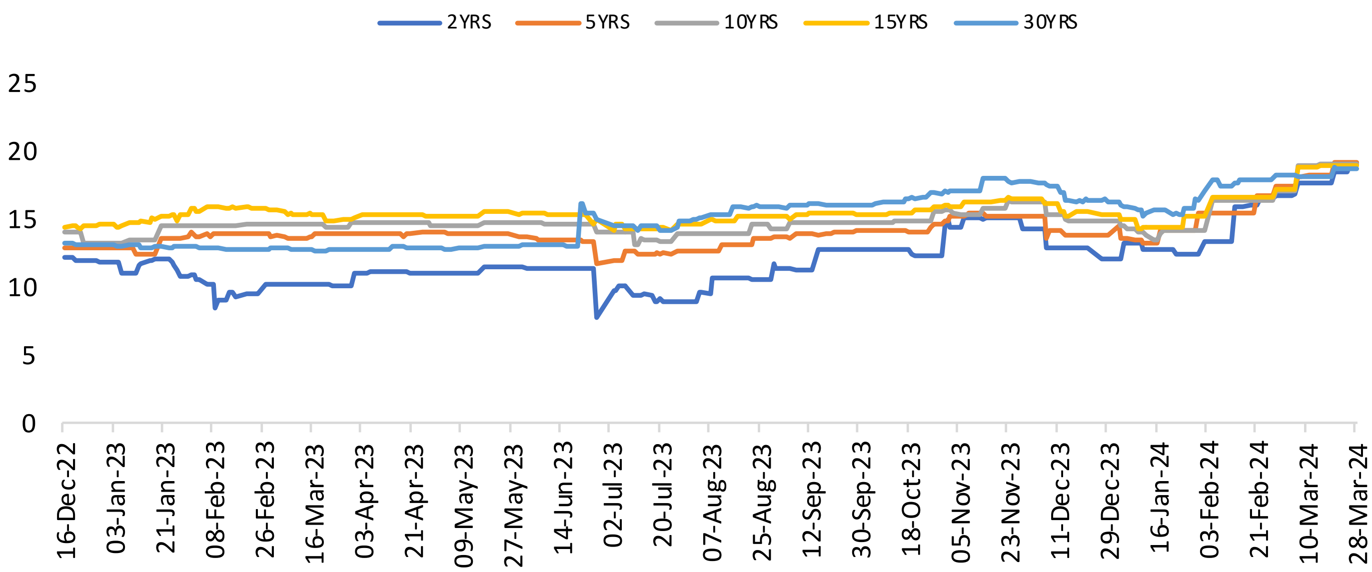


Fig. 12: Movement in Bond Yields (Secondary Market) *Source: Bloomberg (BGN)*

The average yield on treasury bills in the secondary market rose by 363 bps to 13.99% in Q1-2024, from 10.35% in Q4-2023 driven by high inflation, tight liquidity, and higher stop rates in the primary market. In the primary market, the stop rates of the last auction results for 91-Day, 182-Day and 364-Day bills closed higher at 16.24%, 17.00% and 21.124% respectively in Q1-2024 (Q4-2023 last auction results: 91-Day (7.10%), 182-Day (10.00%) and 364-Day (12.24%)) as investors also reacted to high inflation and policy rate. Meanwhile, the average yields on FGN Eurobond in the secondary market fell by 115 bps to 9.91% in Q1-2024 (vs. 11.05% in Q4-2023) due to the improvement in the country's external reserves and expectation of positive foreign exchange earnings.

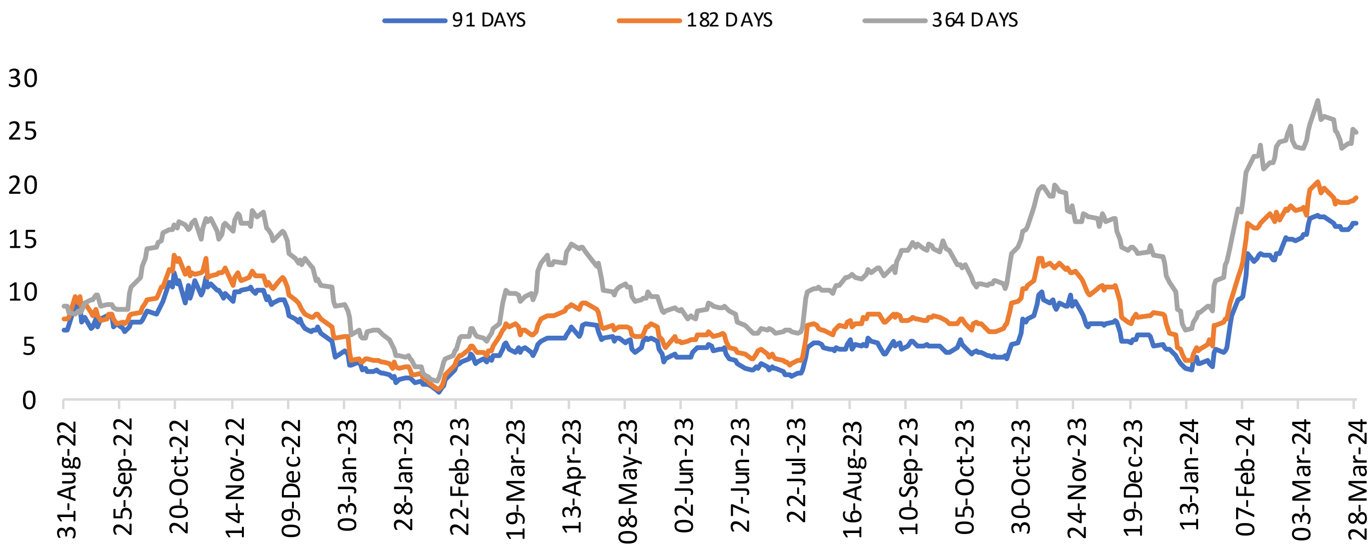


Fig. 13: Movement in Treasury Bills Yields (Secondary Market) *Source: Bloomberg (BGN)*

Economic and Market Outlook for Q2-2024

Global Economy

Global growth is expected to remain positive through the second quarter of 2024, however, growth will be sluggish as supply chain disruption (caused by the Red Sea conflict), high energy prices, conflicts in Middle East region and tight monetary policies in various countries continue to weigh on global economic output.

With the expectation of tight monetary policy continuing in various countries, global inflation will continue to trend downward. We do not expect a significant decline in global inflation as we expect the extension of crude oil production cut (of about 2.2 million barrel per day) by OPEC+ to lead to higher energy costs, weighing on inflation. In addition, we expect exchange rate pass-through effect on core inflation due to the depreciation of local currencies in various countries to continue, especially in Developing Economies in Q2-2024.

Additionally, with the ongoing efforts of most apex banks to tackle inflation to a desirable level in Advance Economies and Emerging Markets & Developing Economies, we do not expect expansionary policy in the second half of 2024. Nevertheless, we maintain that most central banks will be less aggressive in monetary policy tightening so as to avoid economic recession in 2024.

Global oil production will slow down in Q2-2024 due to the decision of the OPEC+ members to extend the voluntarily oil production cut by a total of 2.2 million barrels. In addition, the Red Sea conflict and possible spread of Israel-Hamas conflict within the Middle East (which accounts for over 30% of the world's total crude oil production) may result in lower crude oil production. Consequently, we expect prices of crude oil to remain elevated.

Domestic Economy

The sluggish GDP growth may extend to Q2-2024 as we expect high energy cost, weak local currency and aggressive policy tightening by the Central Bank of Nigeria (CBN) to keep weighing on aggregate economic output in the country during the period.

We expect inflation to remain high in the second quarter of 2024 due to the passthrough impact of high energy costs and security challenges in key food producing areas on the prices of goods and services. In addition, the electricity tariff hike, weak local currency, and possible fuel scarcity will continue to weigh on prices in the second quarter of the year. However, we expect the increase in inflation rate to be less severe in Q2-2024 due to gradual transmission effects of sustained policy tightening stance of the Central Bank of Nigeria.

We maintain that the Monetary Policy Committee (MPC) of the CBN will maintain contractionary monetary policy in Q2-2024 in a bid to reduce money supply, keep fighting high inflation and attract foreign portfolio investors.

We anticipate that the Naira will continue to struggle against major currencies in the foreign exchange market in Q2-2024 due the expectation of weak foreign exchange inflows and sluggish growth in Nigeria's external reserves. In a bid to stabilize the Naira at the foreign exchange market, we project that the CBN will extend the constant interventions at the market to the second quarter of the year.

Equities Market

Although we expect that the market friendly policies of the government and expectation of final dividend payments to keep boosting the confidence of investors in Q2-2024, the Nigerian stock market may struggle during the period as we expect investors to rebalance their portfolio in favour of fixed-income securities to take advantage of high yields. Nevertheless, we may see slight improvement in foreign participation in Nigerian stock market in Q2-2024 due to the market friendly policies of the government and attractive valuation metrics of some listed companies.

Fixed Income Market

We anticipate that rates/yields in the bonds and treasury bills market will remain elevated in Q2-2024. In addition, the recent decision of the CBN to raise monetary Policy Rate (MPR) by 600 basis points to 24.75% and increase Cash Reserve Ratio (CRR) to 45% (from 32.5%) will keep rates/interest high in Q2-2024.

With high yields in the fixed-income market in Advanced Economies, expectation of weak foreign exchange inflow and sluggish growth in Nigeria's external reserves, we expect the average yield of Nigeria's Eurobonds to remain high in Q2-2024.

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