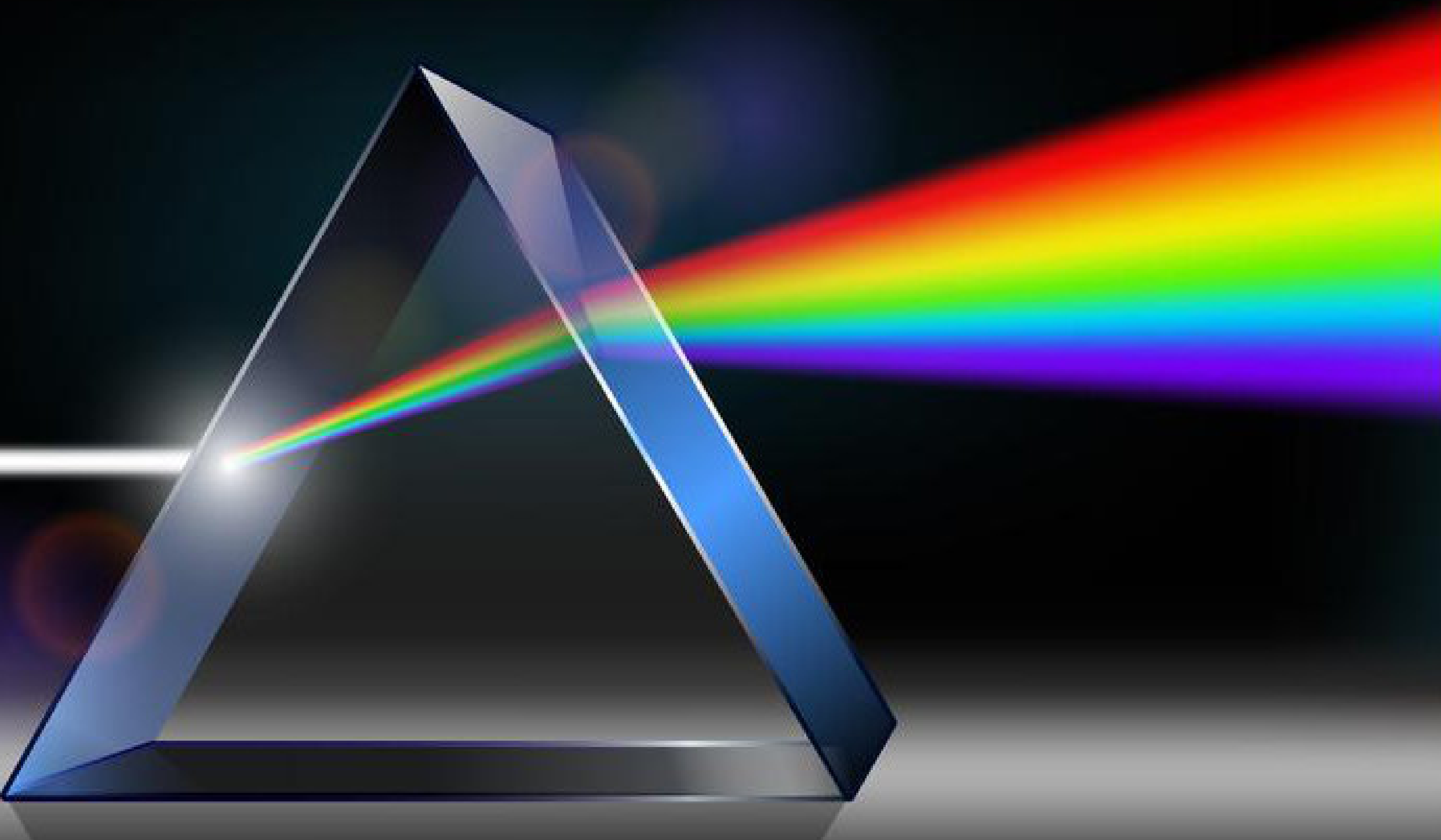
January 10, 2024

PRISM

2024: From Euphoria to Frustration



BIZNOMICS

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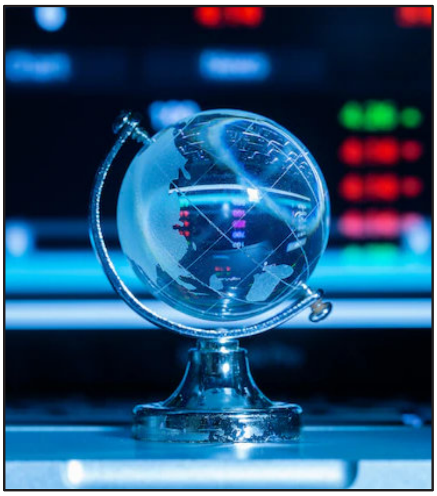
GLOBAL ECONOMY- RECOVERY TO CONTINUE

01

Global soft landing imminent in 2024



The global economy is set to rebound in 2024 after a series of downturns in the past year. According to the International Monetary Fund (IMF), global growth will slow to 2.9% in 2024 from 3.0% in 2023, with the US and China being significant drivers. Inflation is projected to decline to 5.2% by 2024 from 8.7% in 2022, signalling a gradual end to the global monetary tightening cycle.

However, the resurgence of geopolitical tensions threatens the optimistic inflation projections as global commodity prices, particularly oil are starting to increase. The rising Middle East tensions, US disruption of the Houthis boats in the Red Sea and the lingering Israel-Hamas war are supporting global oil prices and we expect the upward trend to continue in January 2024, supported by OPEC+ supply cuts.

In Nigeria, the prospect of rising oil prices could potentially boost revenue and support external reserves, which are down 11.25% to $32.91bn in 2023 from $37.08bn in 2022.

However, lean reserves amid persistent forex supply shortages limited the CBN's ability to defend the naira, resulting in the sustained depreciation by 62% at the official market in one year. Exchange rate pressures significantly contribute to stubbornly high inflation, now at an 18-year high of 28.2% as of November 2023.

The naira's free fall and price instability ensued despite the implementation of crucial FX reforms and ongoing monetary tightening measures, a testament to lingering structural deficiencies and the failure to solve for reform preconditions to avert the unintended consequences of market reactions. "The Markets are Not to Blame", assesses why policy inactions are more detrimental to the macroeconomy compared to market reactions.

The second article goes further to explain why the reforms must go beyond revenue generation especially as Nigerians remain embattled.. Revenue-based reforms often reduce disposable income without ensuring a complementary rise in meaningful government spending to achieve development. The analysis emphasises the need to remove structural bottlenecks that cause extreme poverty, slow growth, and macroeconomic instability.

The next section explores a global perspective by Ruchir Sharma, an investor, author and columnist for Financial times. The article magnifies the top 10 predictions for 2024 and focuses on how current trends will evolve according to. This edition of the Prism concludes with an insightful outlook for January 2024.

Dangote Sugar has a

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THE MARKETS ARE NOT TO BLAME

02

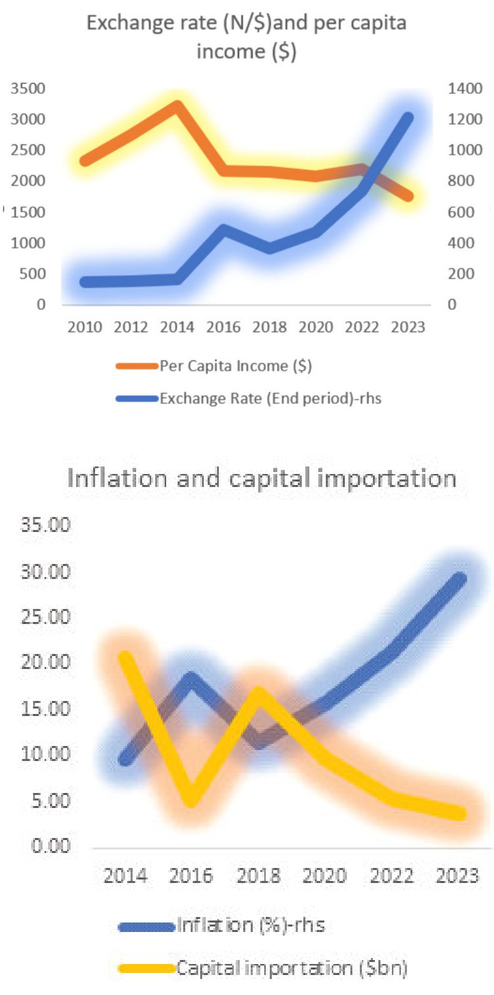
"Blaming the market for economic challenges is like blaming the thermometer for the fever."-***Milton Friedman***

Nigeria is grappling with exchange rate volatility and stubbornly high inflation despite the implementation of monetary tightening measures and crucial market reforms, including the forex market desegmentation. The heightening of macroeconomic instability after the Tinubu-led administration started a series of reforms has led many analysts to aver that market forces do not engender optimal outcomes. To them, the markets are to blame for the sliding naira and escalating inflationary pressures. Some say that bunching of reforms rather than proper sequencing is the problem. However, like Friedman said, "should we blame the thermometer for highlighting the symptoms of fever or blame the pathogens?

The efficient market hypothesis states that financial markets are efficient, with asset prices reflecting all available information. In other words, prices act as signals, guiding economic agents through the market. This market efficiency is promoted by Adam Smith's invisible hand by aligning self-interest with the common good. Market efficiency increases as imperfections decrease, allowing for optimal outcomes and better-informed investment decisions.

However, vested interests and oligarchs can undermine market efficiency by distorting prices, limiting competition, and accumulating rents at the expense of other market agents. For example, the multiple exchange rate system was an inefficient system that encouraged arbitrage and rent-seeking behaviour. The Tinubu-led forex reforms led to the desegmentation of the forex markets and a reduction in forex restrictions. This move led to the immediate unification of all the official windows and convergence with the parallel market. Regrettably, this divergence was short-lived. The exchange rate touched an all-time low of N1,300/$ in October 2023, recording a year-over-year depreciation of over 40%. The weakening of naira was not because markets are not efficient but because reforms announcements are not enough. Policy communications must be clear, consistent, and market aligned. In a market economy, the government does not fix prices.

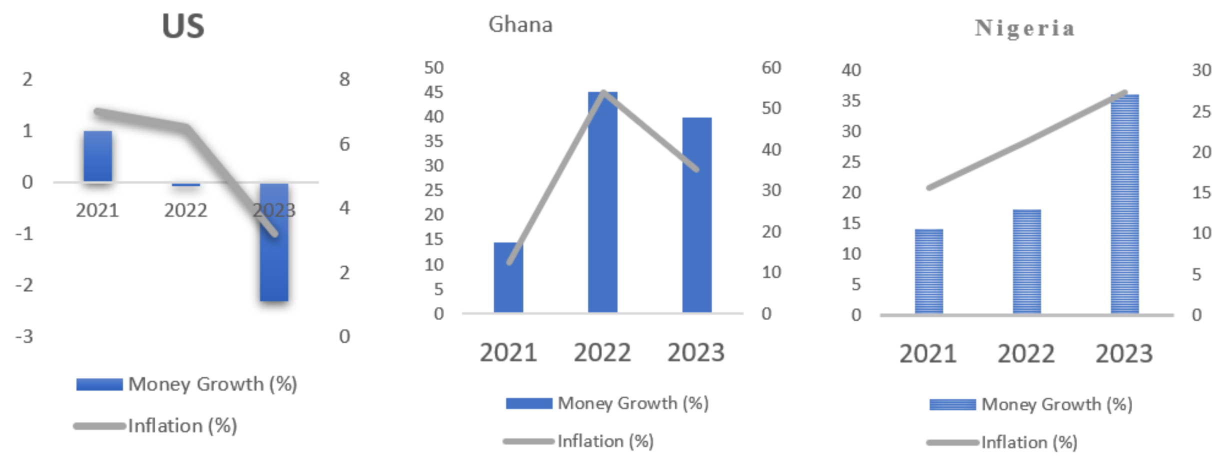
FIGURE 1: Exchange rate, per capita income, inflation and capital importation



SOURCE: NBS,WEO,CBN,FDC

However, it can either control demand or supply. If you have a policy reform that removes restrictions on demand, you must be ready to increase supply.

FIGURE 2: Money Supply Growth (%) versus Inflation Rate (%)



SOURCE: FRED,WEO, FDC

In the same vein, it is also argued that the deregulation of the petrol market is the culprit for the current stubbornly high inflation. Inflation is at an 18-year high of 28%, and it is projected to hit 29% by the end of 2023. Economic growth has remained subdued, with per capita income growth plummeting sharply by 46% to $1,755 in 2023 from $3,223 a decade ago. Is the market really to blame? Or does Nigeria operate under a faulty monetary policy framework? Was there a post-subsidy removal economic plan? Does the CBN have an effective and well-communicated exchange rate management system? These questions and several others are answered in the subsequent sections.

Expansionary monetary tightening is often problematic

The CBN has pursued expansionary monetary tightening since May 2022, a phenomenon that is counterproductive to inflation mitigation. This phenomenon refers to a situation where the central bank simultaneously pursues monetary tightening and monetary accommodation, leading to a concurrent increase in the interest rate and money supply. The CBN embarked on the fastest and most aggressive interest rate hike since the 2001 tightening cycle, raising interest by 725bps to 18.75% in 15 months. However, instead of a decline in the rate of growth of the money supply, broad money supply has maintained a double-digit growth rate, escalating to 36% in September 2023 from 22% in May 2022 when the monetary tightening campaign began.

Like Argentina, Venezuela, etc., Nigeria continued its unprecedented money printing, with the Ways and Means Advances hitting an all-time high of N27 trillion at the end of May 2023. This coupled with CBN's "pseudo quantitative easing", otherwise known as intervention program, increased banking industry liquidity, and supported excessive growth in money supply. The unavoidable outcome is that the MPR became an anchorless anchor and inflation remained stubbornly high, unlike in the US, UK, EU, or even Ghana, where inflation has halved relative to its peak in 2022.

Policy miscommunication is worse than inaction

Another factor that has contributed to the worsening macroeconomic instability is policy miscommunication. When the CBN unified the FX markets into one window and declared that it had adopted a willing buyer-willing seller model, two misconceptions emerged from the ambiguity in its communication. First, there was a misconception that the CBN had floated the exchange rate. This misconception was bookended by the Bank's miscommunication. The bank failed to announce the exchange rate regime it has adopted, whether it's free-floating or managed floating. It also failed to communicate the exchange rate management system that will subsist, whether retail Dutch auction, whole Dutch auction, or interbank exchange rate management system. This market uncertainty and the Bank's passive disposition after the unification of the forex markets quickened speculative attacks that led to the undervaluation of the naira. The second misconception that affected market expectations was the claim by the government that it unified all the exchange rates. However, it is the market (and not the government) that sets the price of the naira in a free market. Exchange rate is a price and its equilibrium value is determined by the demand and supply dynamics. Given that the supply was largely constrained even after the forex market reforms, the exchange rate crisis heightened. As the monetary authorities engaged in de facto controls, the pressure shifted to the parallel market, widening the gap between the official and parallel market. Overall, there was never a unification of exchange rates: only the official windows were unified, but the rates, especially in the parallel market, were determined by the demand-supply conditions.

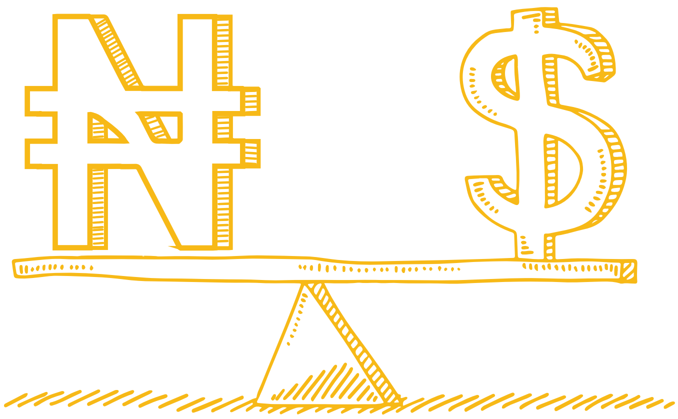
Bankruptcy of policy credibility undermined the reform agenda

Policy credibility is crucial because most economic decisions, such as household spending or firm investments, involve making plans for the future. Policy credibility, which involves transparent communication, consistent implementation, engagement with stakeholders, and demonstrating commitment to the reform agenda, is critical for effective reform outcomes. The policymakers at the CBN and the FGN seem to lack time consistency that will engender credibility.

Time consistency in central banking means that a central bank's commitment to its monetary policy strategy remains unchanged over time, regardless of changing economic conditions or political pressures. In other words, a problem of time inconsistency arises if the central bank does not follow its stated objectives or deviates from its long-term goals. The time inconsistency problem undermines central banks' efforts to achieve its long term goals by eroding their credibility. When a central bank lacks time consistency, it may be tempted to deploy policy instruments that do not align with its long-term objectives. For example, having a long-term objective of stable currency and low inflation and maintaining low short-term interest rates may undermine the public's trust in the central bank's commitment to price stability and make it harder for the bank to control inflation in the long run.

Subsidy removal without a plan for a post-subsidy economy

Monetary policy issues aside, fiscal policy authorities also had a fair share of blame that triggered the unintended market reactions to the recent reforms. The first being the fuel subsidy removal. The current cost-of-living crisis is a natural consequence of fuel subsidy removal and exchange rate devaluation. Nigeria is a "generator" economy of some sort; about 87 million Nigerians do not have access to electricity, and those that have access to the national grid are reported to have electricity supply only an average of 6.6 hours per week. For households, petrol-powered generators were the major source of electricity, and a 213% increase in the price of PMS to over N617 per litre implies a more than doubling of household energy costs. The day that the FGN announced that "subsidy is gone," there was no post-subsidy economic plan.



Reform sequencing is preferred to reform overload

Reform sequencing is vital for mitigating negative impacts and enhancing the positive outcomes of reforms. Policymakers must decide which reform to do first, which one should follow and what is the timeline or the lag between reforms. Some of the salient questions include: should we invest in increasing power supply before embarking on subsidy removal? Should we invest in CNG buses first before removing the PMS subsidy? should we have a well defined framework for increased FX supply before removing the restrictions? or should we raise interest rates high enough to attract investment inflows? Are there necessary requirements for optimal reform outcomes? By implementing preconditions before comprehensive reforms, potential disruptions can be minimized. Successful initial reforms build confidence and support for subsequent changes. The reforms that the FGN initiated in 2023 seemed not to be sequenced.

Imagine if the government had started spending on social infrastructure in a manner that would improve welfare and raise productivity before removing subsidies. Imagine what would have happened if it had first started with a probe of the subsidy regime and the opaque crude-for-fuel swap arrangement, otherwise known as Direct-Sales-Direct-Purchase arrangement.

Overall, the markets are not to blame for the worsening macroeconomic environment in Nigeria. As Ray Dalio averred, "the market is a great equalizer, rewarding those who understand its dynamics and punishing those who underestimate its power."[1] It's time to start doing smart things so we can have the desired smart outcomes.

[1] Ray Dalio is a highly successful American investor and hedge fund manager. He has held the position of co-chief investment officer at Bridgewater Associates, the world's largest hedge fund, since 1985. In 1975, Dalio founded Bridgewater in New York, establishing a firm that has become renowned in the finance industry.

BEYOND REVENUE REFORMS: AN AGENDA FOR DISRUPTIVE RECONSTRUCTION

03

Want to change the world? Upset the status quo? This takes more than run-of-the-mill relationships .... ***Guy Kawasak***i, Silicon Valley venture capitalist.

Globally, there is an overwhelming consensus that reforms are desirable. Yet, they are rarely undertaken due to their disruptive nature and pushbacks. However, as Robert Scoble, an American author, said, "Change is inevitable, and the disruption it causes often brings both inconvenience and opportunity." In less than one month, Nigeria has seen a series of disruptive reforms. The first step was the elimination of PMS subsidies. Then others followed in a "fast and furious" sequence: exchange rate unification, student loans, an expected hike in school fees, and tax reforms, among others.

So far, the reforms seem to have focused on increasing government revenue or freeing up resources for government use. It is expected that the reforms will yield about N9.36 trillion in revenue savings to the federation account in 12 months and an additional increase in collection efficiency of at

Estimated Income Gains to the federation accounts

	N'BILLION
Subsidy Savings per month	350
Exchange rate gains per month	180
Additional income from Custom duty hike	250
Total Savings Per month	780
Total savings per year	**9,360.00**
Pre-reform earning + 10% Collection Efficiency	12,588.40
Total Estimated Gross Earnings to the Federation Accounts	**21,948.40**

Estimated Income losees to businesses and households

ITEMS	N'BILLION
Income lost to petroflation	6,550.00
Net Income lost to exchange devaluation	5,240.00
Income lost to hike in Custom charge	3,000.00
Total income lost to policy change (Both households and businesses)	**14,790.00**
Total Income lost by businesses	9,157.00
Palliative to firms	500.00
Net Income lost by businesses	8,657.00
Total Income lost by Households	5,633.00
Palliative to households	210.00
Net Income lost by households	**5,423.00**

SOURCE: FDC STAFF COMPUTATION

least 10%. Overall, if there are no leakages, the federation account receipt is expected to double to N22 trillion in 12 months. However, households and businesses are expected to lose a total of N14.8 trillion due to petroflation (N6.6 trillion), exchange rate devaluation losses (N5.2 trillion), and higher customs charges (N3 trillion). Discounting the total estimated palliatives of about N700 billion to both households and businesses, the net loss to the non-government sector reduces to nearly N14 trillion or 63% of 2023 budget.

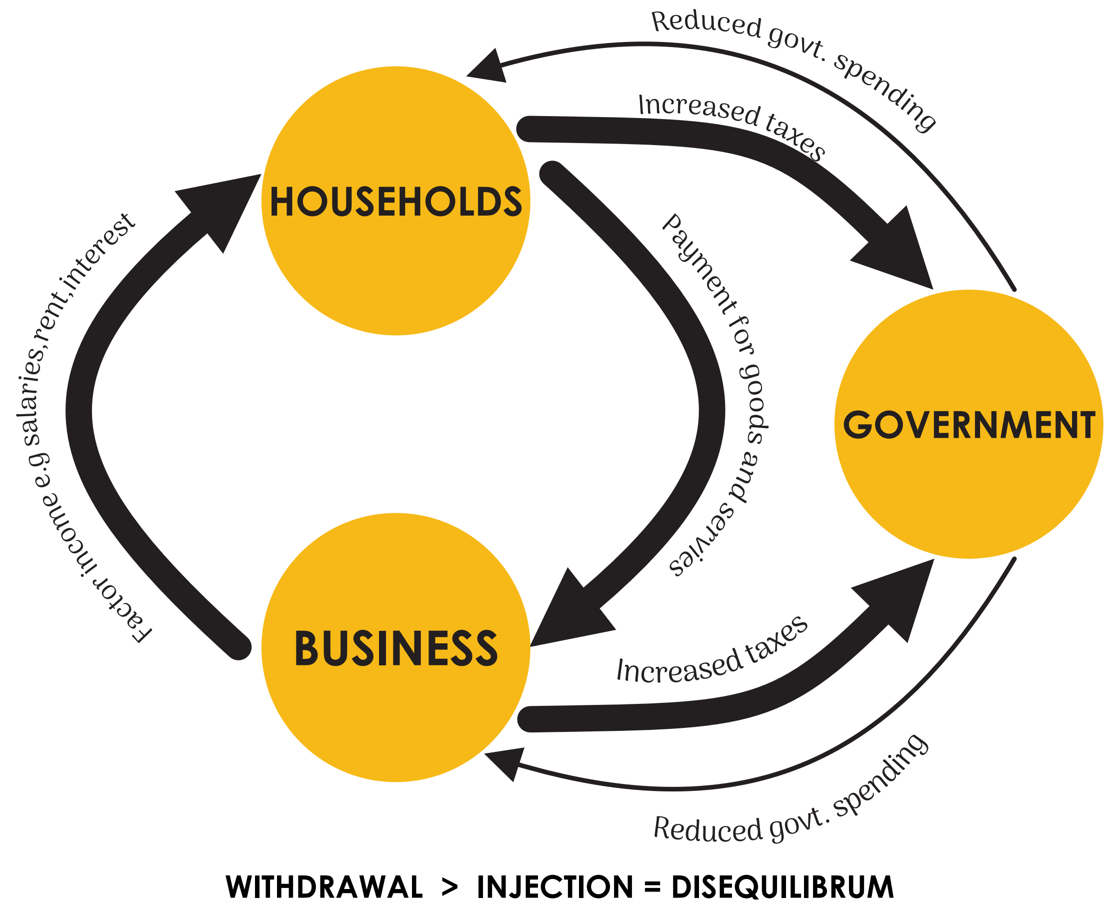
What happens when you rob Peter to pay Paul?

Revenue-based reforms such as subsidy removal, exchange rate devaluation, and widening of the tax net imply that money is taken from households and businesses and put in the hands of the government. For a country mired by unsustainable debts (N88 trillion), revenue-based reforms are critical for sustainable development. However, in the context of the circular flow of income, such increased revenue earnings represent withdrawals. To maintain equilibrium in the circular flow, there is a need for the money to flow back to households and businesses through increased government spending and intervention. If the money that flows to the government sector is trapped, withdrawals will be greater than injections, and this could lead to a decline in aggregate demand and worsened economic welfare. For example, the removal of subsidies without accompanying measures to support alternative sources of energy can disproportionately impact businesses and households reliant on affordable energy.

A palliative economy is not a productive economy

The Nigerian government has frequently resorted to providing palliatives as a means of mitigating the adverse effects of policy changes, such as the subsidy removal. Often, poor Nigerians queue for hours to get a few food items, barely enough to last a few days. In the same vein, small businesses are supported withN10,000 to N20,000 in cash awards. However, these funds do not address the root

Figure 3: CIRCULAR FLOW OF INCOME



SOURCE: FDC

causes of poverty, lacking long-term sustainability prospects. In addition, these palliatives have proven to be inadequate and prone to misappropriation by state actors.

Paradoxically, what the households or businesses need is not palliatives or meagre cash awards. What the households need is an improvement in their purchasing power, an increase in the real wage and the availability of assorted commodities. Meanwhile, businesses need an increase in real returns, and an improved investment and business climate.

In essence, Nigeria must prioritize production through economic diversification. It is imperative to promote the growth of other sectors like agriculture, manufacturing, and services, and consequently maintain low inflation (which is a corollary of high purchasing power). This increased production creates employment opportunities, reduces income inequality, and enhances economic stability. However, the structural rigidities and bottlenecks that have impaired Nigeria's development for decades are complex and endemic.

Deconstructing the Bottlenecks

Although Nigeria is richly endowed with both human and economic resources, socioeconomic development has been impaired by entrenched bottlenecks and structural rigidities.

These constraints create barriers that impede the efficient allocation of resources, hinder innovation, and limit the competitiveness of industries, thereby impeding productivity growth. Bottlenecks, such as inadequate infrastructure, can result in production delays, higher costs, and reduced efficiency. For example, although Nigeria has proven natural gas

FIGURE 4: Endowment and socioeconomic indicators – Nigeria versus proximate comparators

Size of the economy (as at 2022)

	UAE	NIGERIA	AUSTRIA
PER CAPITA INCOME ($)	51,305	2,202	52,264
PROSPERITY INDEX (RANK: H(1) - L (167))	44	142	14

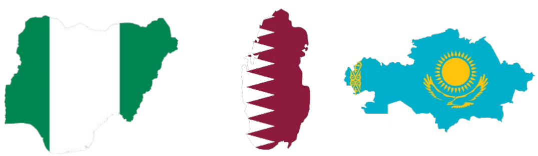
Size of Arable Farmland (hectares)

	PHILIPPINES	NIGERIA	UKRAINE
AGRICULTURAL EXPORT ($BN)	6.1	1.3	27.6
HUNGER STATISTICS	14.8	27.3	7.5

Proven Crude Oil Reserves (Barrels)

	NIGERIA	QATAR	KAZAKHSTAN
NET OIL REVENUE (% OF GDP)	6.3	15.3	15.0
EXTREME POVERTY (% OF THE POPULATION)	31	0	1

Proven Natural Resources



	NIGERIA	ALGERIA	KAZAKHSTAN
ELECTRICITY ACCESS (% OF THE POPULATION)	60	100	100
ACCESS TO CLEAN COOKING FUEL (% OF THE POPULATION)	16.8	99.7	93.9

SOURCE: WEO, OPEC, WDI, FDC

reserves of 180 trillion cubic feet, arable land of 34 million hectares, and proven crude oil reserves of 37 billion barrels, Nigeria's prosperity is ranked 142nd out of 167 countries. Only 60% of the population has access to electricity, only 16.8% of the population has access to clean cooking energy, and 62.5% of the population is living in multidimensional poverty.

Structural rigidities, such as cumbersome regulations and bureaucratic procedures, create additional barriers to productivity growth. Excessive red tape, complicated licensing processes, and lengthy dispute resolution mechanisms can delay business operations, increase costs, and discourage investment. These rigidities hinder entrepreneurship, innovation, and the ability of businesses to adapt to changing market conditions.

To stop the crisis of missed opportunities, the reforms must go beyond revenue generation and focus on removing the embedded structural bottlenecks that cause extreme poverty, constrained growth, and macroeconomic instability.

60%

Of the population has access to electricity

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Start now. **Dial *770#**
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Pay bills
Transfer
Check Balance
FastLoan
Open Account
Cardless Withdrawal
Buy airtime
Contact Us: trueserve@fidelitybank.ng
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GLOBAL PERSPECTIVE RUCHIR SHARMA: TOP 10 TRENDS FOR 2024

Culled from Financial Times

04

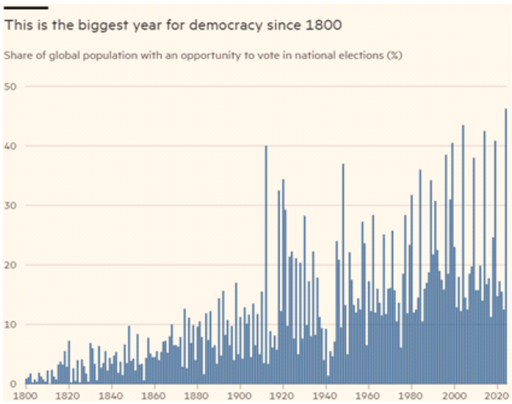
Europe’s economy will be more resilient than the US, the dollar will weaken and investors will demand a premium on long-term debt

The year gone by played out as if the pandemic had never happened. The widely anticipated global recession never came. Markets surged. Disinflation was the buzzword. The post-pandemic world unexpectedly resembled 2019 — the year before the coronavirus supposedly changed our lives forever. Yet in the end, 2023 was a reminder that most years turn out to be a mix of the surprising and the predictable. Not all the purely contrarian bets would have paid off. Europe’s economy fell farther behind the US. American mega-cap tech stocks again led the charge. With that in mind, my top 10 predictions for 2024 focus on how current trends will evolve. The price of money, inflation and big tech will remain at the heart of the global conversation, though not in quite the same ways. Meanwhile, politics will command centre stage for a simple reason: the world has never seen a bigger year for elections.

Democracy in overdrive

Elections are scheduled to occur in more than 30 democracies including the three largest — the US, India and Indonesia. In all, 46%t of the global population will have an opportunity to vote, the largest share since 1800 when such records first began, says Deutsche Bank research. And voters will bring their dissatisfaction with them.

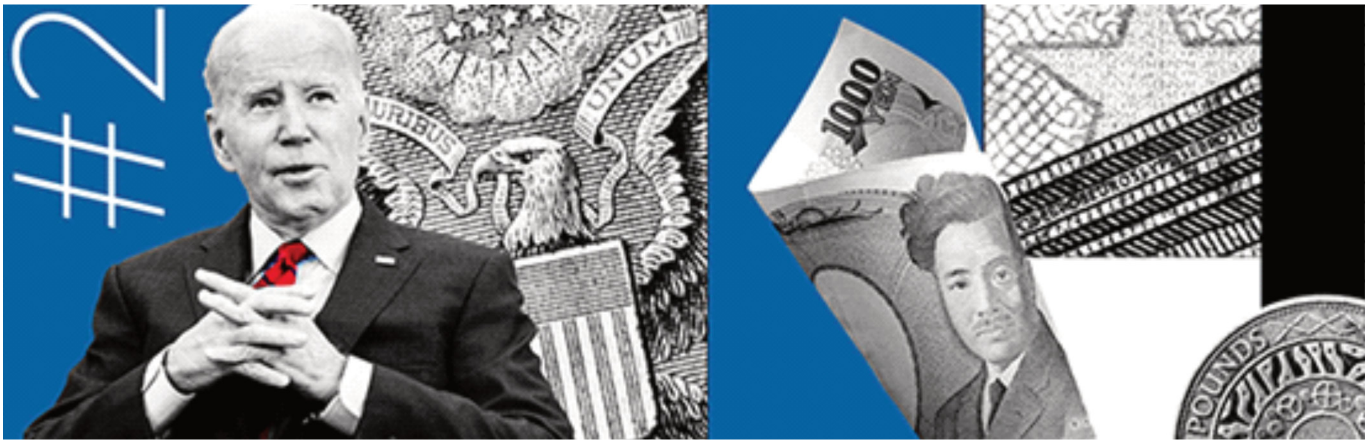
The recent rise of angry populists reflects a deeper trend — distrust of incumbents. In the 50 most populated democracies, seated politicians won re-election 70% of the time in the late 2000s; now they win 30% of the time. Leaders of India and Indonesia buck this trend but US president Joe Biden exemplifies it.



Incumbents used to enjoy the obvious advantage of high office and high visibility, but that is no longer a guarantee of popularity. Over the past 30 years, US presidents have seen their approval ratings wither away in their first terms, to lower and lower levels. At just 38%, Biden’s approval rating is at a record low for this stage of a presidency. And many of his developed world peers are no more popular. These trends foretell upheaval in the roster of world leaders.

Bond vigilantes versus politicians

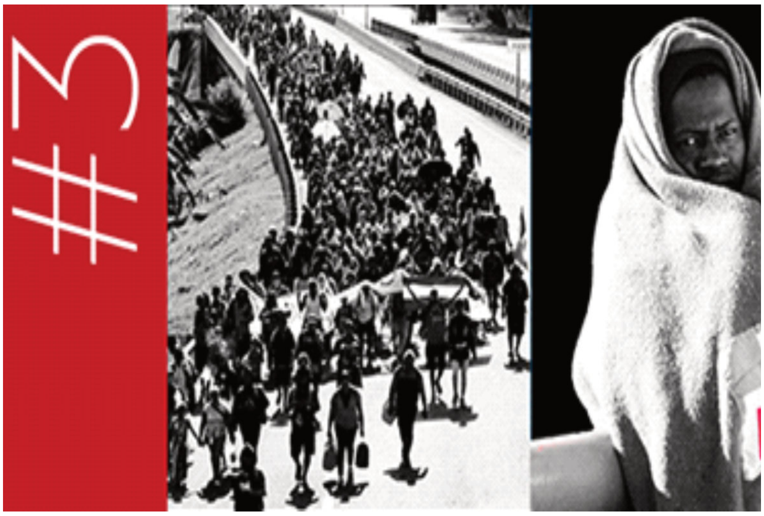
The surreal calm of 2023 gave way to mild euphoria in the closing weeks of the year as inflation fell faster than expected, creating hopes that interest rates will keep falling. This overlooks one key trend. In a campaign season, political leaders are much more likely to raise than cut spending, which means mounting deficits. In the US, Biden's spending programmes have already pushed the deficit up to 6%t of GDP, double its long-term trend and five times the average for developed economies. The key issue is the "term premium", or the added pay-off bond investors demand for the risk of holding long-term debt. In the 2010s, with inflation low and central banks buying bonds by the billions, that risk disappeared. Only now, debts and deficits are much larger than before the pandemic, inflation has not fully retreated, and central banks are no longer big bond buyers. Even if inflation fades further, investors probably will demand something extra to keep absorbing the huge supply of government bonds. That means interest rates, long-term rates, in particular, will not fall anywhere near as much as they did in previous disinflation cycles.



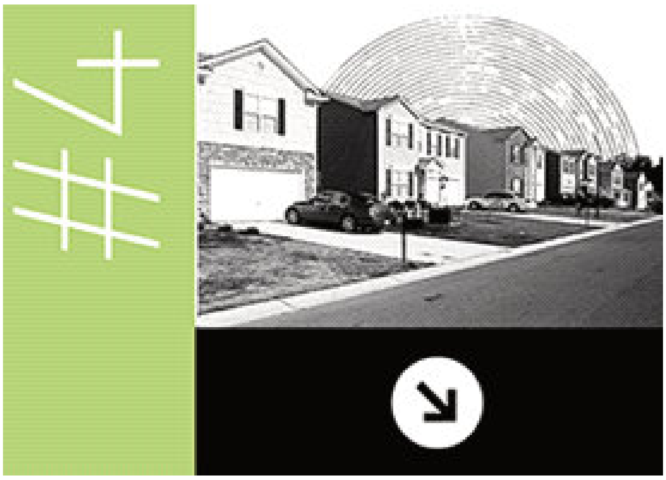
Backlash against immigration

For many reasons — from labour market shortages in the Western world to war in Ukraine — immigration has exploded, up since 2019 by 20% in Canada, nearly 35% in the US and45% in the UK.

These flows are a huge plus to economies facing worker shortages, even if they are unpopular. Dutch rightwing populist Geert Wilders came first in the national ballot last year on a migrant-bashing platform. Migrants also became a campaign issue in Poland, which has become less welcoming of new waves of refugees — despite a particularly dire need. Poland's working-age population growth rate had turned negative before the influx of immigrants turned it around.



The next hotspot is the US, the largest nation with surging immigration and a 2024 election. Though the immigrants are reducing wage pressure, helping to lower inflation, the blowback is already loud and clear, led by Donald Trump. Its main target is illegal immigrants, who outnumbered legal immigrants by 2mn to 1.6mn in 2023. Whoever wins the election, the backlash is likely to spill over and slow the flow of immigrants — and the benefits they bring.



The no-bust cycle

Interest rates rose so sharply, it seemed almost certain that indebted businesses would fail quickly, consumers would hunker down immediately, markets would tank, recession would strike, and the world would face a classic bust in 2023.

But the economy, at least in the US, proved remarkably resilient. One reason: Americans are locked into lower rates. Investment grade companies have been selling bonds with longer terms, which now average 12 years, so the burden of recent rate hikes has yet to strike. US homeowners still pay an average mortgage rate of 3.75% — roughly half the rate on new mortgages.

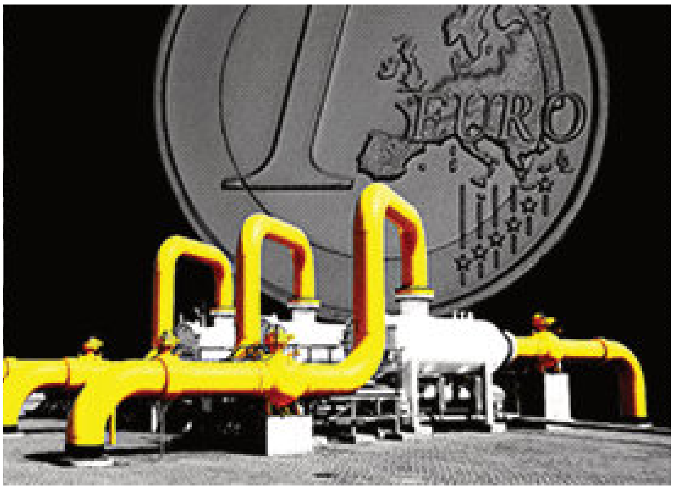
Another: during the 2010s action shifted from public to private financial markets, where there are signs of weakening, including slower flows to private funds and fewer sales of PE-owned companies. But private firms don't have to report returns as frequently as public funds do, so the weakness won't be fully visible for a while.

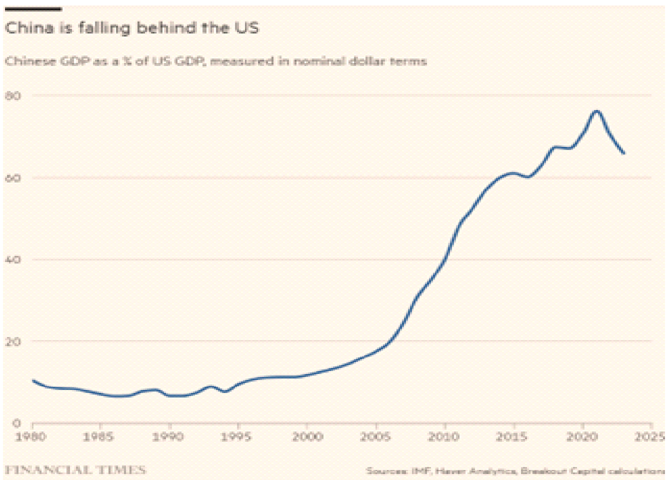
The air could still come out slowly of both the economy and the markets. In a way that's already happening, as seen in the public markets. The S&P 500 has not made a new high in two years, and is now 20% above its 150-year trend, down from 45% in late 2021. With borrowing costs still relatively high, the economy is likely to slide downward as well, though possibly avoiding the classic bust.

European resilience

In 2023, the US economy grew at 2.5%, five times faster than Europe, widening a gap that has been growing for years if not decades. Europe can seem hopeless, and trashing its economic prospects rarely inspires much pushback.

But against a backdrop of zero expectations, even small changes for the better can rekindle animal spirits and Japan demonstrated that point last year. Europe could do the same this year. As the Ukraine war-related energy crunch eases, inflation has collapsed from over 10% to 2.5%. Real wages were falling, now they are growing at a





pace of 3%, the fastest in three decades, giving consumers a lot of spending power.

Europeans were hit harder by recent rate hikes than Americans because they have more mortgages and other long-term loans with floating rates. Now, having absorbed much of the pain of tighter money, Europe faces less pain down the road than the US does. Also, the trillions amassed by consumers during the pandemic are largely spent in the US, but continue to grow in Europe. Excess household savings currently amount to 14% of annual incomes, up from 11% two years ago, according to JPMorgan.

The markets are taking notice. Excluding the mega cap stocks, which juiced US returns, the average stock in Europe outperformed the mighty US market in 2023. And the signs above point to a wider comeback in 2024.

China fading

Many China watchers continue to parrot the Beijing party line, that growth is purring along at 5% — perhaps double its real potential. Asked why Beijing is not taking more aggressive steps to rescue a faltering economy, the answer from Chinese policymakers is, well, the official growth rate is fine, why take more action?

Behind this absurdity are global bragging rights. President Xi Jinping aims for China to overtake the US as the world's dominant economy, and his officials closely track its progress in nominal dollar terms — not in PPP terms, which is commonly used among Western academics. In nominal terms, China's GDP is now 66% of the US GDP, down from 76% in 2021. The aggressive stimulus could weaken the renminbi, further shrinking the economy in dollar terms — and leaving the paramount leader farther from his goal. Better to keep up the charade, and pretend China is not fading.

Global investors are looking past this nonsense and will continue to reduce their exposure to China. Net foreign direct investment into the country has just turned negative for the first time. Beijing can avoid a crisis with this extend-and-pretend game, but that won't keep its economy and markets from losing share to its peers.

Emerging outside China

Not so long ago, many smaller emerging economies thrived by selling raw materials to the largest one and grew in lockstep with China. No longer. The link has broken. Now a fading China is more of an opportunity than a challenge for the rest of the emerging world.

China until recently was drawing more than 10% of global foreign direct investment, and as those flows reversed, the big gainers were rival emerging countries, led by Vietnam, India, Indonesia, Poland and above all Mexico, which has seen its share more than double to 4.2%.

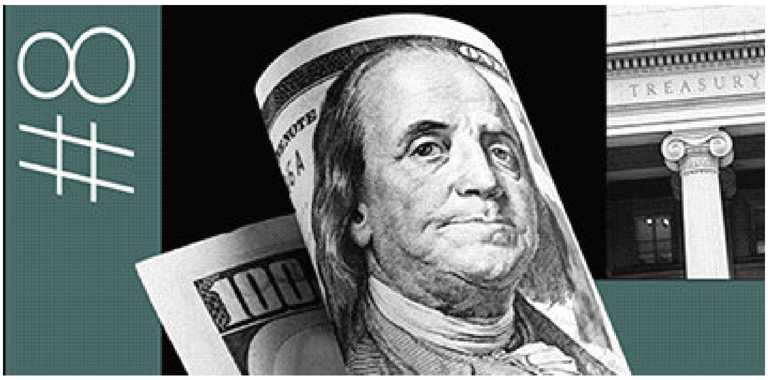
Investors are moving to countries where they can trust the economic authorities. During the pandemic, emerging world governments refrained from borrowing too heavily. Central banks avoided large bond purchases and moved more quickly than developed world peers to raise rates when inflation returned. Even Turkey and Argentina, once emblems of irresponsibility, have embraced policy orthodoxy.

At the start of 2023, many observers feared that rising rates would rekindle the instability of the 1990s when dozens of emerging nations were defaulting each year. What happened? Two minor emerging markets (Ghana and Ethiopia) and not a single major one defaulted in the course of the year. Emerging nations are surprising for their resilience, not their fragility, and the world is likely to start taking notice in the coming year.

Dollar decline

Late in 2022, the value of the dollar hit a two-decade high against other major currencies and has since drifted downward. History suggests that dollar down-cycles last around seven years. And signs are the decline could accelerate. Even now, the dollar remains overvalued against every major currency.

Most economists are still confident that the dollar won't fall much because there is no alternative and investors will never tire of buying US debt. Too confident. At over 10% of GDP, the US twin deficit — including the government budget and the current account — is more than twice the average for other countries. Since 2000 US net debts to the rest of the world have more than quadrupled to 66% of GDP — while on average other developed countries were reducing their debt load and emerging as net creditors.



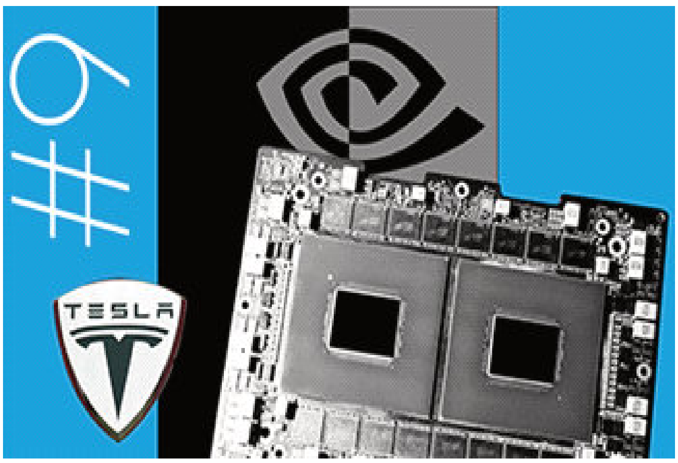
The search for alternatives is on. Foreign central banks are moving reserves to rival currencies, and buying gold at a record pace. The United Arab Emirates recently joined Russia and other oil producers who accept payment in currencies other than the dollar. And if America's rising debt burden slows its economy faster than expected — a real possibility — the dollar faces a double-barrelled threat in 2024.

Splintering the Magnificent Seven

In 2023 the big US tech stocks boomed anew on the widespread assumption that they are the only firms rich enough to capitalise on the next big thing, artificial intelligence. Yet only three of the seven are major players in AI: Microsoft, Alphabet and Nvidia. Only one, Nvidia, is making real money on AI. The rest, blessed by association with the buzzword du jour, saw their stock market value rise well in excess of their earnings growth.

This is a familiar syndrome: a new innovation excites investors, who pour money into any company loosely related to that innovation until they realise that most aren't going to make money on it anytime soon. This happened in the dot-com era, and it is happening now. Already expectations for 2024 earnings by the big seven are fracturing: rising rapidly for Nvidia, barely at all for Apple, and shrinking for Tesla.

AI mania is unfolding against an unusual backdrop, in that the rest of the tech sector is in a mini-recession. Venture capital funding has fallen sharply. Led by Amazon, Alphabet and Microsoft, more than 1,100 technology firms laid off workers last year; the net loss of 70,000 jobs made tech the only sector, outside motion pictures, to downsize in 2023. A further culling, not a boom, is more likely in 2024.

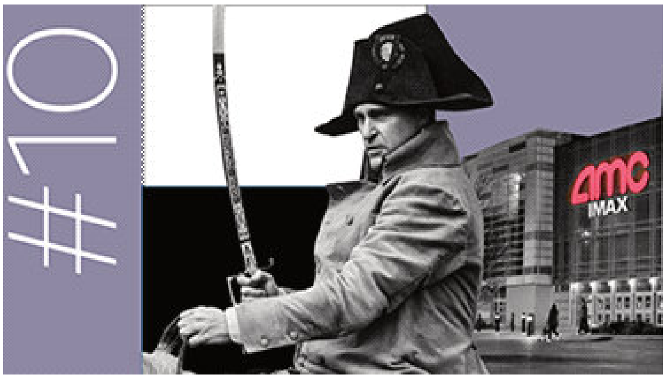


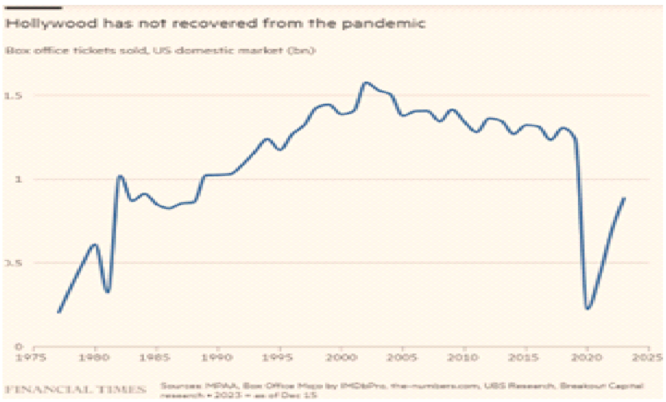
Hollywood's Napoleon complex

No doubt the pandemic left many people leery of indoor spaces, but for the most part bars, restaurants and other entertainments are packed again. Movie theatres, however, are not. Ticket sales have yet to top 900mn in the US domestic market, down from 1.2bn in 2019 and nearly 1.6bn at the peak in 2002.

Hollywood's problems are well known, including the challenges from streaming services and other online media, and the limits of its blockbuster action film formula. Underplayed in all this is a growing tendency to filter scripts through a progressive lens, increasing their appeal to the liberal 30% of the population, at the risk of alienating the rest. One can hear the axes grinding in many new releases but perhaps most crudely in Napoleon, a politicised parody of one of history's most complex figures.

In Ridley Scott's telling, the emperor was neither a grand military strategist, nor a champion of republican revolution, nor a civil service and education reformer — just a cranky little murderer. The film ends with a scroll of battlefield death tolls. Asked whether he had seen it, a French-born conservative friend told me "Of course not". He knew Hollywood would render Napoleon to fit its own political worldview. That may draw applause from the Academy — it won't help revive box office revenues.





Headline Inflation

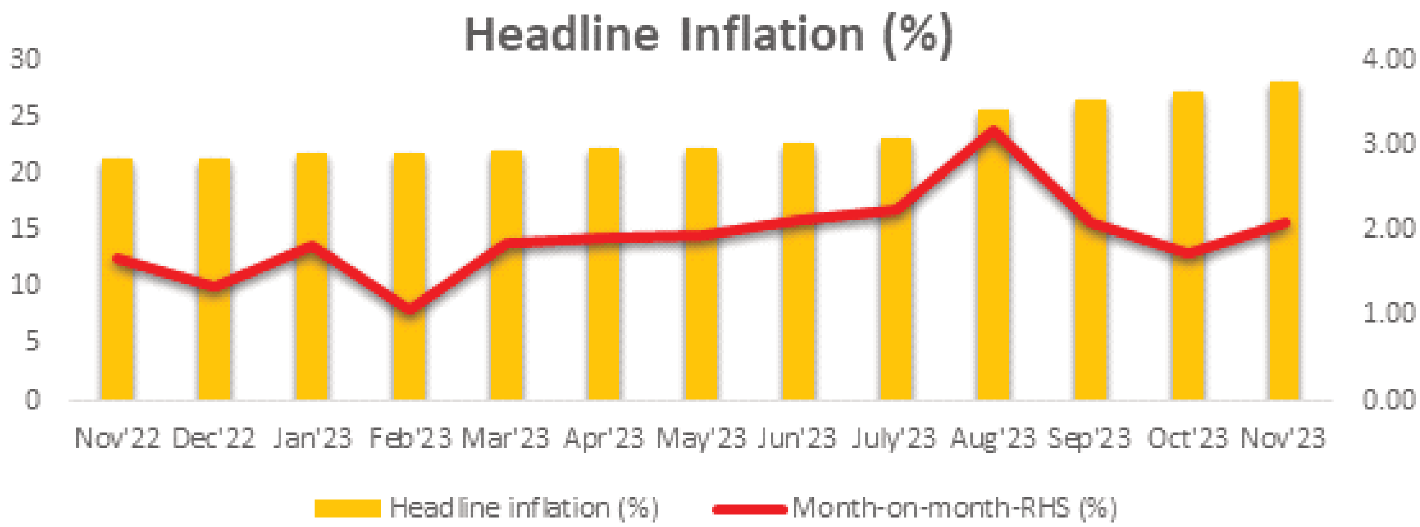
To edge higher to 28.70%

28.7%

Projected Official headline inflation rate for Nigeria

The National Bureau of Statistics (NBS) will release its December 2023 inflation report on January 15. We are projecting another increase in headline inflation to 28.7% from 28.2% in November. There is a high probability that our projection will be correct subject to the margin of error between -0.5% to +0.5%, meaning that inflation in Nigeria will be at a record high.

In view of the fact that global and regional inflation has slowed and, in many cases, falling, Nigeria is fast becoming an outlier. More importantly, most analysts are questioning the veracity of the inflation data. The answer to this question is not far-fetched because imported inflation has two components, the first is the nominal prices of commodities in the global markets, and the other is the exchange rate effect on domestic prices. The naira fell by 38.84% in 2023; according to Bloomberg, it is now the 3rd worst-performing currency in the world.



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[1]NBS, FDC Think Tank

Data Breakdown

Month-on-month inflation to increase marginally to 2.11%

Monthly inflation is a more accurate measure of current inflation than annual inflation as it gives the current situation in the market than historical inflation. We are projecting that month-on-month inflation will rise to 2.11% (annualized at 28.52%) from 2.09% (annualized at 28.19%) in November as cost pressures persist. It implies that the pace of increase in the average price level surpassed the rate observed in October 2023,

Food inflation to remain elevated due to planting season

Food inflation has been a major driver of inflation in Nigeria. Based on our model, it is projected to rise by 0.36% to 33.20% in December from 32.84% in November. Notably, commodity prices moved in different directions in December. While the prices of festive-related commodities like rice (17.14%), egg (15.38%), and turkey (10%) increased significantly, the price of onions (64%), tomatoes (47%), yam (20%), and pepper (16%) declined sharply due to the seasonal demand (festivities). Meanwhile, core inflation (inflation less seasonalities) is projected to decline by 0.07% to 22.21% from 22.38% in November. This marginal decline is partly because of the slight appreciation in the value of the currency (especially towards the end of December).

Monthly inflation

To: 2.11%

By: ▼2bps

From: 2.09%

Food inflation

To: 33.20%

By: ▲36bps

From: 32.84%

Sub-Saharan African – Mixed inflation trend

The inflation trend in Sub-Saharan Africa was mixed. Of the six countries that have released their December inflation statistics, three recorded lower inflation rates, two reported increases while one was flat. The gradual ease in inflationary pressures is partly due to lower energy costs. The EIU expects inflation in SSA to average 17.6% in 2023, down by 1.7% from 19.3% in 2022.

	DECEMBER INFLATION (%)		INTEREST RATE POLICY (%)	
KENYA	6.6	▼	12.5	▲
TANZANIAA	3.0	▼	5.0	↔
TUNISIA	8.1	▼	8.0	↔
UGANDA	2.6	↔	9.5	↔
ZAMBIA	13.1	▲	11.0	▲
ZIMBABWE	26.5	▲	130	↔
GHANA	26.4 (Nov'23)	▼	30.0	↔
SOUTH AFRICA	5.5 (Nov'23)	▼	8.25	↔
ANGOLA	18.19 (Nov'23)	▲	18.0	▲

Concluding Thoughts

Inflation expectations are more important than historical inflation. Even though inflation in Nigeria has consistently increased in 2023, many experts have projected a significant decline in 2024. According to EIU, inflation in Nigeria is expected to fall to 23.6% in 2024 and 17% in 2025. These projections are not unrealistic, and some factors that will make this feasible include an increase in aggregate output and a constant supply of diesel and petrol, tightening of monetary policy and interest rates. The administration is making serious efforts to increase dollar liquidity within the Nigerian forex market, which includes the securing a $ 3.3 billion loan from the Afrexim Bank. If the supply of forex increases, we might see a marginal appreciation in the value of the naira in the near term. This could give some impetus to the expected slowdown in inflation.

A PRISM OUTLOOK

Global

- Inflationary pressures will ease further, indicating that rate cuts may begin in 2024. The IMF projects global inflation to slow to 5.2% from 6.8% in 2023 and the US Fed has hinted at lowering interest rates.

- Still, the pace of rate decreases will slow, meaning that interest rates will remain higher than in previous years when interest rates stayed near zero. Higher rates amid geopolitical tensions are expected to taper global growth prospects. The IMF revised its growth forecast downward to 2.9% in 2024 from 3.0% previously. At 3.0%, global growth is 0.5 percentage points lower than the 3.5% growth recorded in 2018.

- Meanwhile, the persistent deflation (-0.5% vs -0.1%) and slow growth (4.9% vs 6.3%) in China, the world's top importer and exporter, is expected to weigh on global commodity prices, particularly crude oil.

- However, tepid Chinese oil demand would be offset by lingering supply concerns due to the Middle East crisis and production cuts by OPEC+, supporting oil prices. Brent prices started the year 2024 bearish, trading at 82.1pb, 6.24% below the 76.98pb in January 2023.

Domestic

- In Nigeria, rising oil prices coupled with the expected increase in oil production in December (propelled by a rise in oil rigs and sustained efforts to combat oil theft and pipeline. In the recently signed 2024 budget, the FG plans a 65.79% increase in revenue to N18.32trn from N11.05trn, primarily hinged on higher oil earnings. The budget assumes an oil production estimate of 1.78mbpd, up 36.92% from the actual average of 1.3mbpd in 2023.e vandalism in the Niger Delta region) could bolster government revenue.

- Although the CBN secured a $2.25 billion loan from Afreximbank, the pressure on the naira is yet to ease. This is largely attributed to the persistent forex supply shortages in the forex market. Naira depreciation is a major stoking factor of inflation, therefore, the sustained decline in the value of the naira will continue to fuel inflationary pressures in the country. Already, inflation spiked 0.87% to 28.2% in November 2023 from 27.33% in the previous month.

- The MPC is set to meet in H1'2024, the first meeting under the new governor after suspending the two meetings at the end of last year. The stubbornly high inflation rate would be a major consideration, which could prompt a hike in interest rates.

- Moreso, the CBN's announcement of a slow return to orthodoxy implies that other traditional methods of squeezing liquidity (including OMO sales) from the system will likely be explored.

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