



**RESCUE THE NAIRA
(SOS)**

OR

**EUTHANASIA
(Mercy Killing)**

WHAT NEXT FOR THE NAIRA?

OUTLINE

GLOBAL ECONOMY

Highlights

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POLICY RECOMMENDATIONS

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OUTLOOK

March 2024

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GLOBAL ECONOMY

MAJOR HIGHLIGHTS

GLOBAL AND REGIONAL HIGHLIGHTS

- Nvidia tops Saudi Aramco for third-most valuable company on Earth, crosses the \$2trn mark for the time
- Bank of Ghana suspends GTB and First Bank's forex licenses for one month
- Apple cancels work on electric car, shifts "Project Titan" team to Generative AI



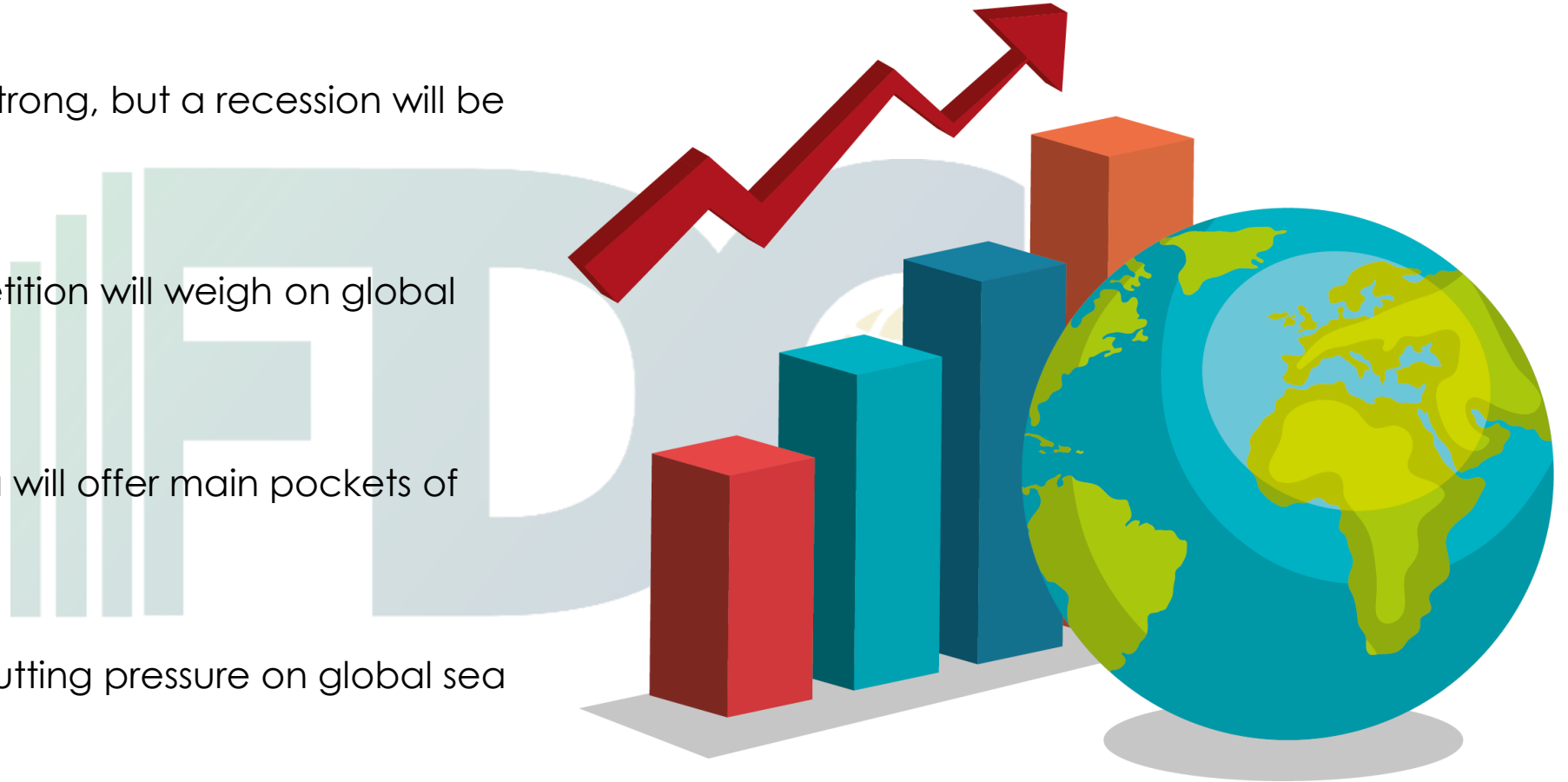
GLOBAL AND REGIONAL HIGHLIGHTS

- Japan's Nikkei 225 stock market index reached a 34-year high
- The Nikkei is up 18% in 2024
- HSBC recorded a profit of \$30.3bn after writing off \$3bn related to its stake in a Chinese bank
- China lowered its five-year loan prime rate from 4.2% p.a. to 3.95% p.a.
- China wants to revive a stagnant housing market



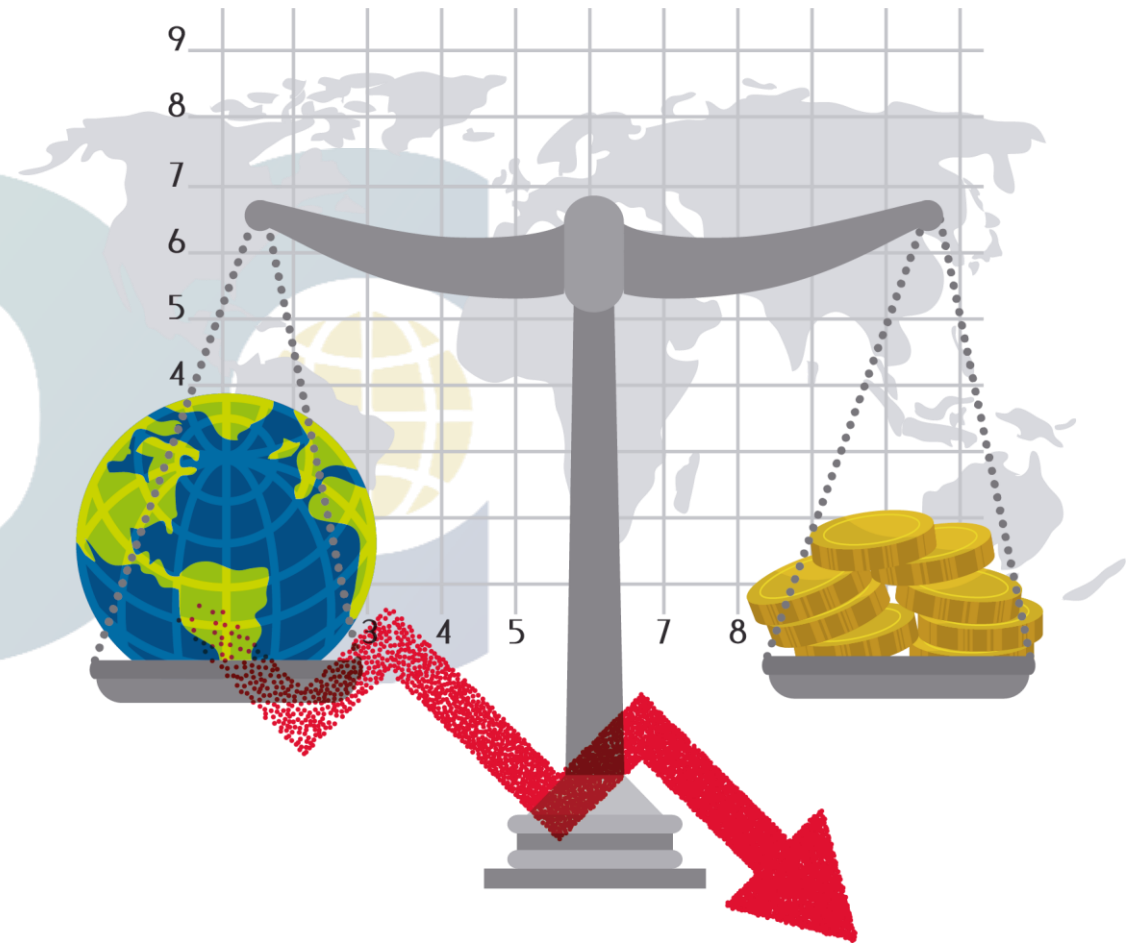
GLOBAL OUTLOOK - EIU

- World growth will not be strong, but a recession will be avoided
- Rising geopolitical competition will weigh on global growth potential
- Markets in Asia and Africa will offer main pockets of global growth in 2024
- Red Sea disruptions are putting pressure on global sea freight rates



GLOBAL OUTLOOK – THE EIU SAYS THAT

- Monetary tightening is over, but there will be caution on loosening
- Monetary policy loosening looks likely from Q2 2024
- There will be little fiscal headroom to support growth
- Vulnerability to fiscal crisis has risen amid shrinking IMF capacity
- Emerging markets, AI and green industries lead growth opportunities
- Fragmentation and regionalization will define politics and policymaking





POTENTIAL POLICY SHIFTS UNDER A BIDEN OR TRUMP SECOND TERM - EIU



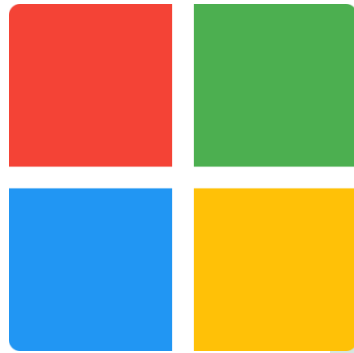
- Corporate and high-income tax increases
- Easing of support for Ukraine
- Tougher enforcement of asylum restrictions



- Repeal clean energy tax credits
- Measures to reduce all migrant flows
- Deeper corporate tax cuts
- Complete withdrawal of support for Ukraine
- Tax incentives for conventional fuels
- More conditional approach to US alliances
- Blanket 10% import tariff



THE MAGNIFICENT 7 COMPANIES ON THE NYSE



Microsoft



Apple



nVIDIA

Nvidia



Amazon



Google



Meta



Berkshire Hathaway

All seven stocks account for over:

26%

of the NYSE's total market cap



DOMESTIC ECONOMIC PERFORMANCE

7 SUPER QUESTIONS ABOUT NIGERIA &
ANSWERS



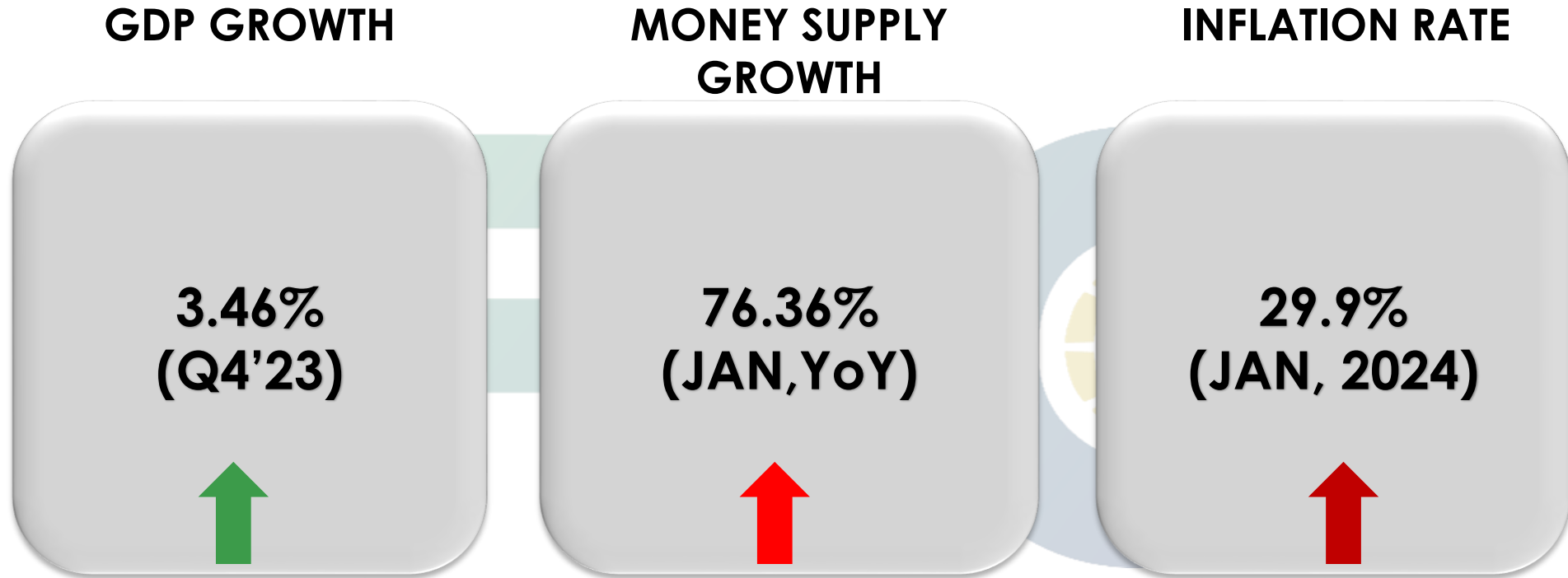
SYNOPSIS

- The Nigerian economy is sleepwalking
- Under tepid and positive economic growth
- Unemployment and underemployment rising
- Gini coefficient is 43%, that is a "poor man-rich man world" (high level of inequality)
- Rent-seeking oligarchies and state capture
- Inflation strangulating the poor and bilking the elite
- Money supply saturation and government borrowing crowding out the private sectors

Corrective policy steps being taken

- Too little too late
- or**
- Too much too late
- Medication in arrears is not a substitute for adequate policy

SYNOPSIS



COMPARISON BETWEEN JANUARY 2024 AND FEBRUARY 2024

FAAC: 2.07trn ↑	Exchange rate (Parallel): N1,610/\$ ↑	Oil Production: 1.419 mbpd ↓
364-day T-bill rate: 21.5% ↑	External Reserves: \$33.45bn ↑	Stock Market Cap: 55.04trn ↓

QUESTION 1: THE NAIRA'S PULSE



The naira has been misaligned from its fair value for an extended period. In 2024 alone, it lost over 36%, plunging from N1,210/\$ to N1,915/\$ (in the parallel market). Ever since the MPC meeting last month, the naira has regained over 18% to its current level of N1610/\$. Many pundits were of the view that the naira would fall to as low as N2,500/\$ in 2024.

Are these projections realistic, and what will stop the constant haemorrhaging of the naira?



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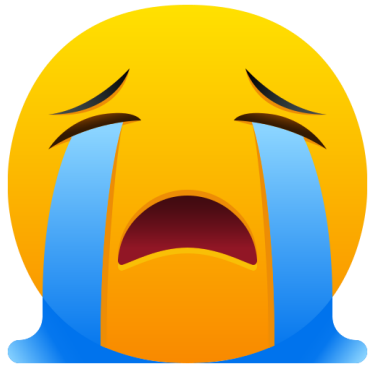


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WHAT IS HAPPENING TO THE NAIRA?

Is the naira...



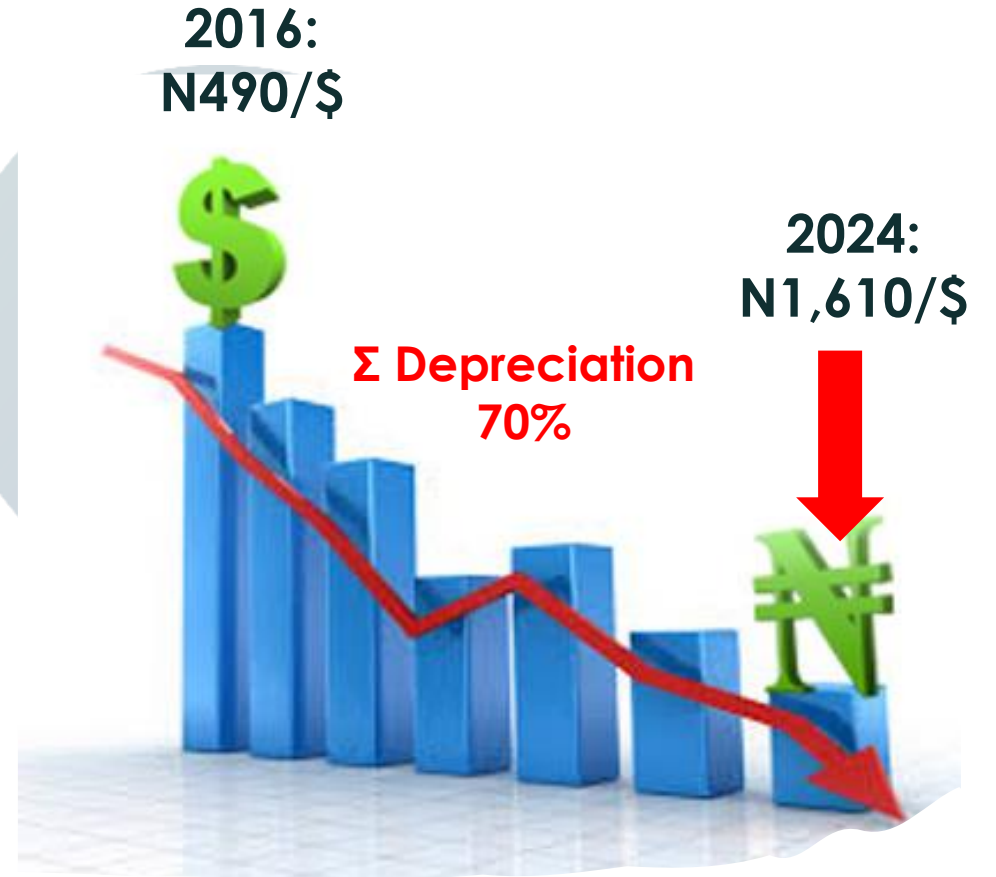
...jinxed?



...on life support?

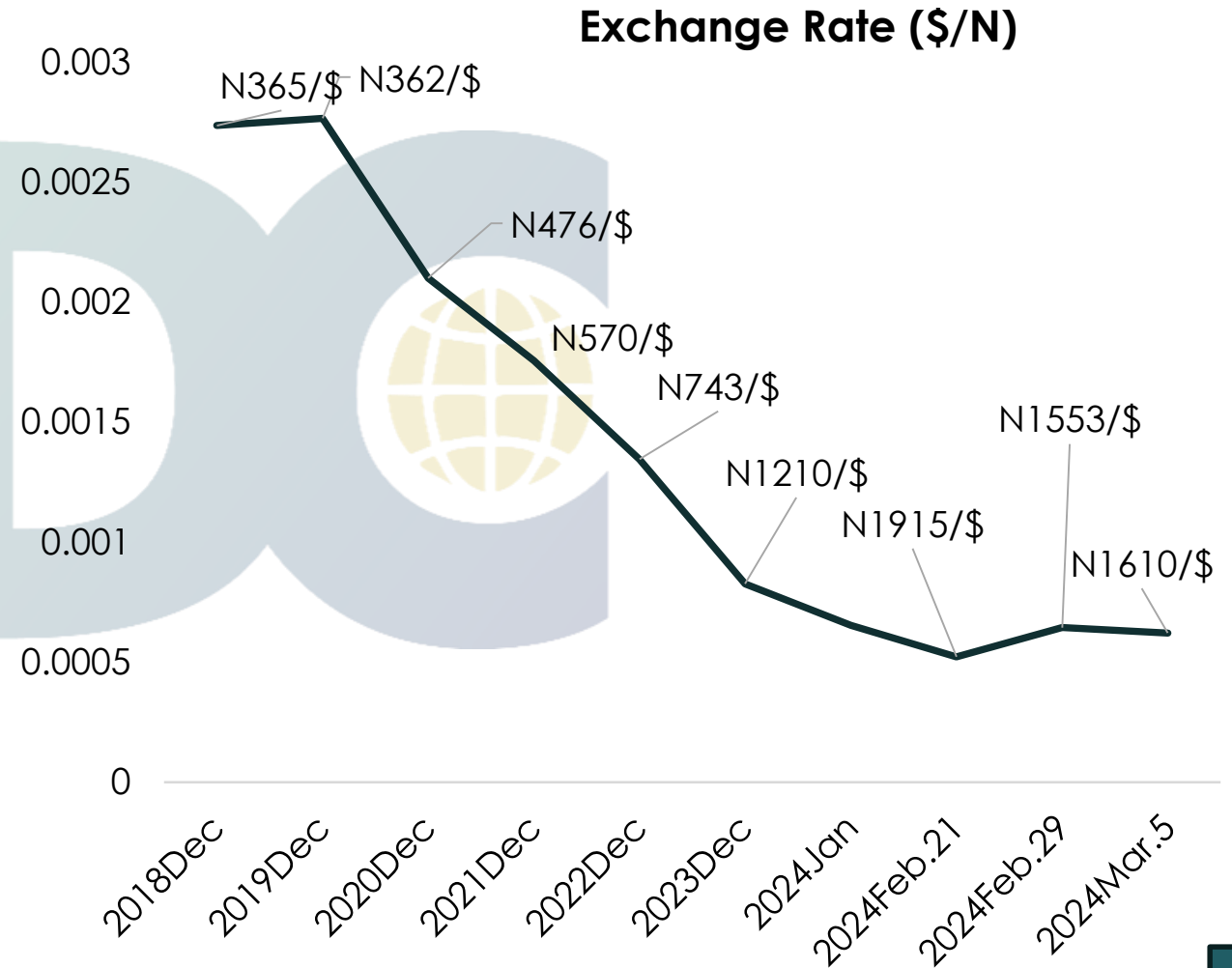


...or lights out?



WHAT IS HAPPENING TO THE NAIRA?

- The naira has been on a free fall since 2019
- Due to:
 - Low forex liquidity
 - Loss of confidence as a store of value
 - Increased naira speculation and fear
 - Restrictions and exchange rate control
 - Negative real interest rates



WHY IS THE NAIRA APPRECIATING & FOR HOW LONG?

Forex Liquidity

01

Onboarding BDCs with the promise to supply forex in the market

02

Jumbo rate hike (400bps) to 22.75% from 18.75%

03

CRR increase to 45%

04

T/bills rates up to 21.5%p.a.

Policies to reduce speculative activities

01

Restrictions on digital assets platforms

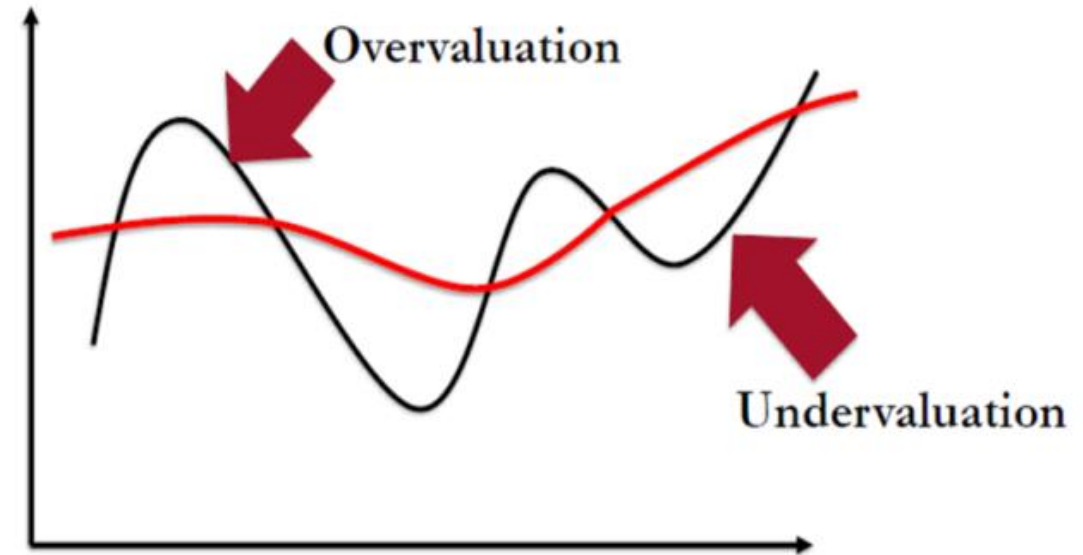
02

Guidelines to prevent banks from speculative activities

- CBN must promote transparency, efficiency & price discovery in the forex market
- Naira will recover in H2'2024 – No short cuts

IS THE NAIRA MISALIGNED?

- A misaligned currency deviates from the long run equilibrium path
- Currency misalignment may manifest in form of persistent currency weakness
- **Overvaluation:** Exchange rate is stronger than its equilibrium value
- **Undervaluation:** Exchange rate weaker than its equilibrium



IS THE NAIRA MISALIGNED?



Exchange rate is one of the most important economic variables



Especially when there is a high transmission effect of imported inflation into domestic prices



Exchange rate pass through to domestic commodities through the cross-elasticity effects e.g. the price of yam jumped 20% without import content



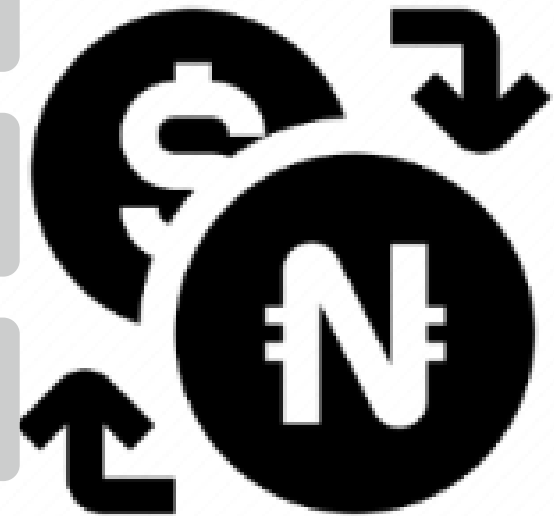
The opportunity cost of export smuggling on domestic prices is reduced domestic supply



Currencies are typically misaligned in the short term due to shocks and shortages



When misaligned for an extended period, it creates distortions with knock on effects



CURRENCY MISALIGNMENT – MYTHS & FACTS

MYTHS

- Misalignment is the difference between the parallel and official rates
- A strong currency is equal to a strong economy
- Rapid adjustment of the naira to its perceived fair value

FACTS

- Misalignment is the deviation of the exchange rates from its long run equilibrium path
- A strong currency does not necessarily mean a strong economy
- Exchange rates often adjust gradually



REASONS FOR CURRENCY MISALIGNMENT

- Misalignment can be transitory or structural

Transitory factors

Geopolitical events

Speculative activities

Monetary conditions

Commodity price volatility

Structural factors

Current account imbalances

Fiscal dominance

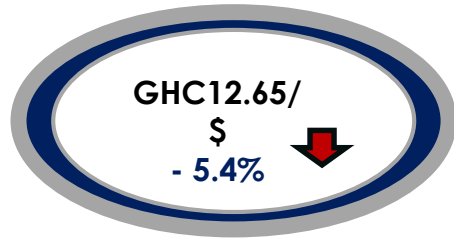
Low productivity

Investment inflows

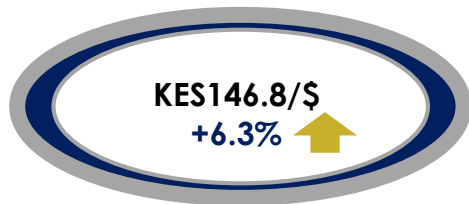
CURRENCY MISALIGNMENT IS UNIVERSAL & TEMPORARY

How other currencies performed in 2024

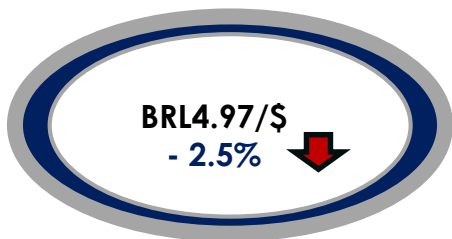
Ghana



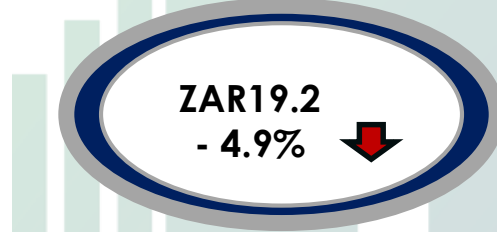
Kenya



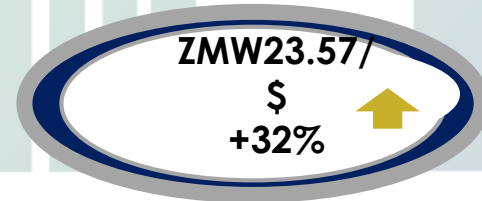
Brazil



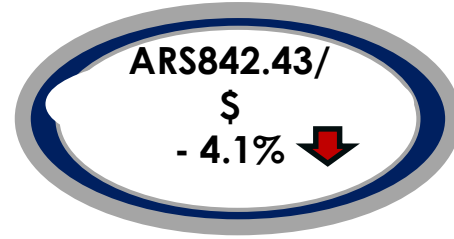
South Africa



Zambia



Argentina



- Exchange rate misalignment has been a serious problem for developing countries over the years
- With inconsistencies between macroeconomic policies and exchange rate systems leading to misalignments

CRITICAL FACTORS FOR A STRONG & STABLE CURRENCY

Trade balance

\$6.0bn(2022)

Inflation

29.9% (Jan 2024)

External debt

\$41.59bn (Q3'23)

FDI

\$377.38mn (2023)

GDP growth

2.74% (2023)

Terms of trade

39.3 (2022)

Current account

\$1.0bn (2022)

WAY OUT?

Productivity Improvement

Transparent FX markets

Consistent macroeconomic policies

Foreign exchange intervention

THE TRUE VALUE OF THE NAIRA

Purchasing Power Parity			
		Mar-24	
	=N=	US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	300	1.30	230.77
Beer (60cl)	900	2.17	414.75
Hamburger (Burger King)	8,500	5.49	1548.27
Indomie (1 unit)	350	0.50	700.00
Nestle Bottled Water (60cl 1 unit)	250	0.32	781.25
Big Loaf Bread	1,500	4.36	344.04
Corrola (2023 Model)	36,500,000	27150.00	1344.38
Irish Spring Soap (1 cake)	1,000	1.16	862.07
Chicken Breasts (1 kg)	4,500	4.08	1102.94
Trolley	18,000	11.02	1633.39
Peak evaporated milk (pack of 12)	11,000	12.96	848.77
Uncle Ben's rice (5.44kg 1 pack)	20,000	24.66	811.03
Eggs (30 large eggs)	4,500	3.72	1209.68
Average PPP			910.10
Naira Price at NAFEM			1534.19
PPP (%)			
Decision: Naira is		Undervalued	-40.68%
Spot Rate (Parallel)			1,610
Outcome: Compared to NAFEM rate of N1534.19/\$1, the Naira is undervalued by 40.68%			

Parallel Market Rate



N1,610/\$

PPP



N910.10/\$

Official Rate



N1,534.19/\$

Hamburger



N1,548.27/\$

- The naira is theoretically undervalued by 40.68%

TRUE VALUE OF THE NAIRA - OTHER CRUDE METHODS

Nigeria as a Liquidated Entity

Adjusted Money Supply
External Reserves

N77trn
\$34bn

=

N2,265/\$



Nigeria as a Going Concern

Adjusted Money Supply
Total Exports

N77trn
\$64bn

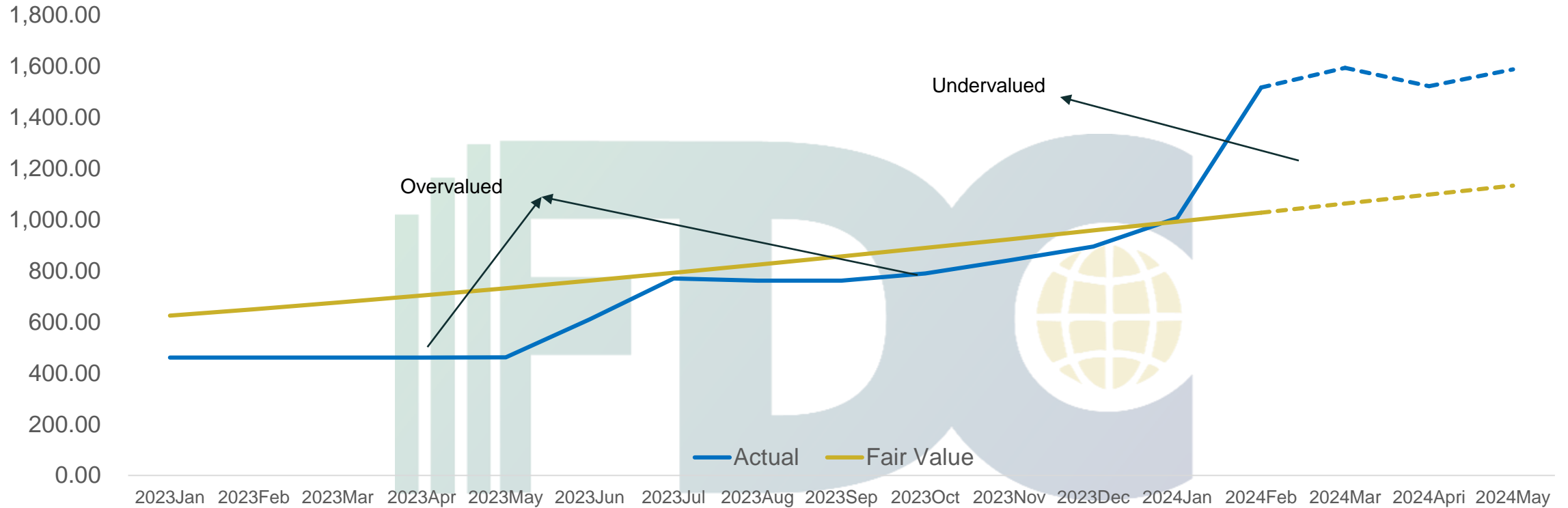
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N1,203/\$



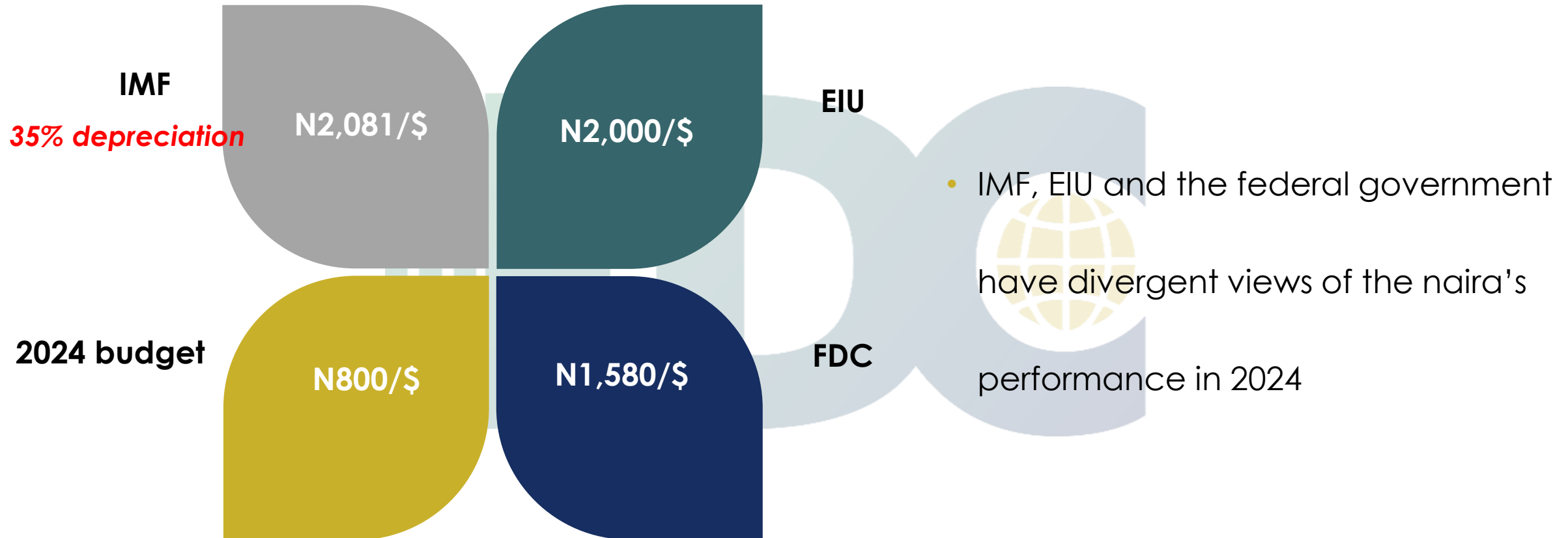
NAIRA MISALIGNMENT – MODELED EQUILIBRIUM PATH

Actual Exchange Rate Vs Fair Value



- The misalignment of Nigeria's currency is a persistent challenge that predates the present time
- The modeled exchange rate path shows that
 - The naira is currently undervalued
 - **Will hover between N1500 and N1600 in April and May**

DIVERGENT OUTLOOK FOR THE NAIRA – 2024



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QUESTION 2: SPIRALLING INFLATION



Headline inflation is projected to rise to about 30% in February, which will be a 27-year high. What is more troubling is that retailers are marking up prices at a rate corresponding to the inflation trajectory. The CBN mopped up liquidity and jacked up the MPR by 400bps.

Do you see inflation moderating soon, and if so, when do you think that interest rates will begin to decline?

QUOTES!!!



RONALD REAGAN

"Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hitman"

"Inflation is taxation without legislation"



MILTON FRIEDMAN

COUNTRIES WHERE INFLATION HAS WRECKED ECONOMIES



Lessons to learn from



Israel-Stagflation Crisis in the years 1979-1985



Germany- hyperinflation in the early 1920s



Argentina- hyperinflation during the early 2000s



Brazil-hyperinflation in the 1980s and early 1990s

IS INFLATION THE REASON FOR EXCHANGE RATE WEAKNESS IN NIGERIA?

Not just inflation alone!

Several factors led to exchange rate weakness

Macroeconomic Imbalances
(High inflation and fiscal deficits)

Currency Policy
(Floating exchange rate policy)

Speculative Activities

Market Sentiment and Expectations

Interest Rate Differentials

Structural Factors



INFLATION HITS 30% AND FOOD INFLATION IS OVER THE ROOF

- Persistent inflation reaching 29.9%
- Food inflation is the major driver (35.41%)
- There is a total disconnect between inflation expectations and the rising inflation rate
- Inflation expectations have risen significantly
- Consumers adjust their behavior leading to higher actual inflation
- This unanchored inflation expectation is triggered by
 - uncertainty due to the unrelenting rising inflation
- This has further exacerbated the cost-of-living crisis

Food Basket



↑ 35.41%

Commodities	Previous Month Prices	Current Prices	% change	
Garri (50kg) Yellow	N20,000	N33,000	65.00	
Rice (50kg) long grain	N70,000	N78,000	10.00	↑
Flour (50kg)	N46,000	N55,000	19.57	↑
Beans (Oloyin)(50kg)	N50,000	N75,000	50.00	↑
Cement (50kg)	N5,700	N9,500	66.67	↑
Tomatoes (50kg)	N20,000	N25,000	25.00	↑
Pepper (bag)	N30,000	N60,000	100.00	↑
Onions (bag)	N85,000	N45,000	47.06	↑
Plantain Bunch	N2,000	N3,500	75.00	↓



IS THE INFLATION LEVEL OF 30% FOR REAL?

NCES Basket reconstruction: 15 years lagging

Consumption exp. N24.25trn

2009

Varied

NCES Last updated

(Weight severely outdated)

Consumption exp. N40.21 trn

2014

Evolving- spending habits were not stagnant

Not updated

Consumption exp. N63.52trn

2019

Diversified-more varied and complex

Not updated

Consumption exp. N81trn' H1'23

2024

Tech-driven

Not updated

- Reflective but does not tell the true inflation rate
- Potential biases in the inflation index
- Not representative of present spending habits
- If the correct methodology was utilized
- **Nigeria's inflation figure could be significantly higher, possibly exceeding 40%**





IMPACT OF INFLATION WORKERS

- Decreased purchasing power
- Malnutrition and food insecurity
- Increased financial stress
- Increased stress and anxiety
- Job losses

WAGE REVIEW IS INEVITABLE, BUT THERE ARE RISKS

Wage review

- Upward review of minimum wage to N50,000 from N30,000

Desired Outcome

- Improved consumer demand and savings
- Could support industry profit and overall GDP growth

Unintended Consequences

- Renewed inflationary pressures
- Lay offs
- Increased labour costs and risk of corporate mortality

IMPACT OF INFLATION ON MANUFACTURERS, SMES AND RETAILERS

MANUFACTURERS



- High cost of production
- Decline in consumer demand
- Erode profit margins
- Supply chain disruptions

SMEs



- Increased cost of goods
- Supply chain disruptions
- Decline in consumer demand
- Squeeze profit margins
- Drive up operating expenses

RETAILERS



- Disrupted supply chains
- Increased logistics cost
- Pricing and profit margin pressure
- Stock shortage

THE TIGHTENING BEGINS - TO CURB RUNAWAY INFLATION

- Inflation rising above target levels and posing a threat to economic stability
- CBN in its last meeting raised MPR and CRR in a bid to rein in inflation
- MPR raised by 400bps, the highest one-time raise
- Inflation is higher than the effective interest rate:
- **$22.9\% - 22.75\% = 7.15\%$ (Negative)**
- The monetary policy is not enough but a necessary measure
- To reduce aggregate demand and moderate inflationary pressures

MPR
22.75%p.a



The highest one-time raise

400bps



18.75%p.a

CRR
45%

&

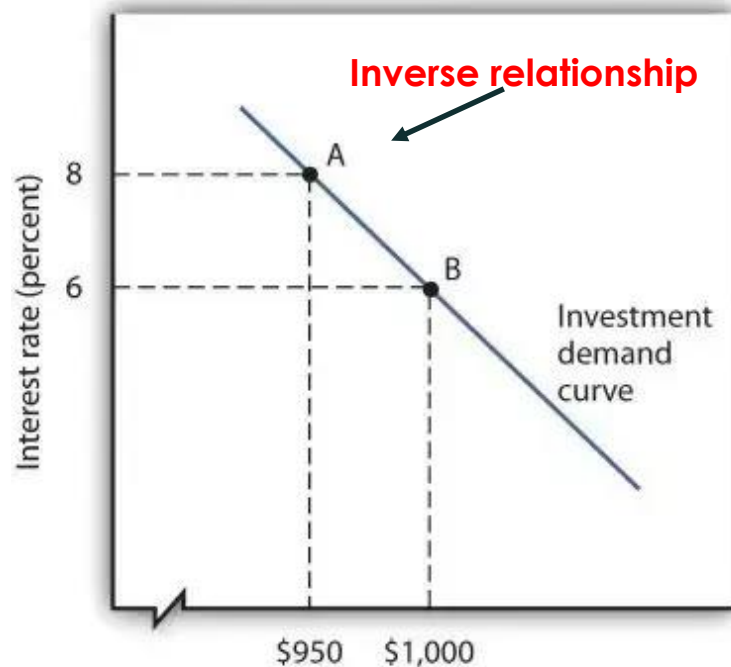


12.5%



32.5%

IMPACT OF THE TIGHTENING - EXPANSION OR STRANGULATION



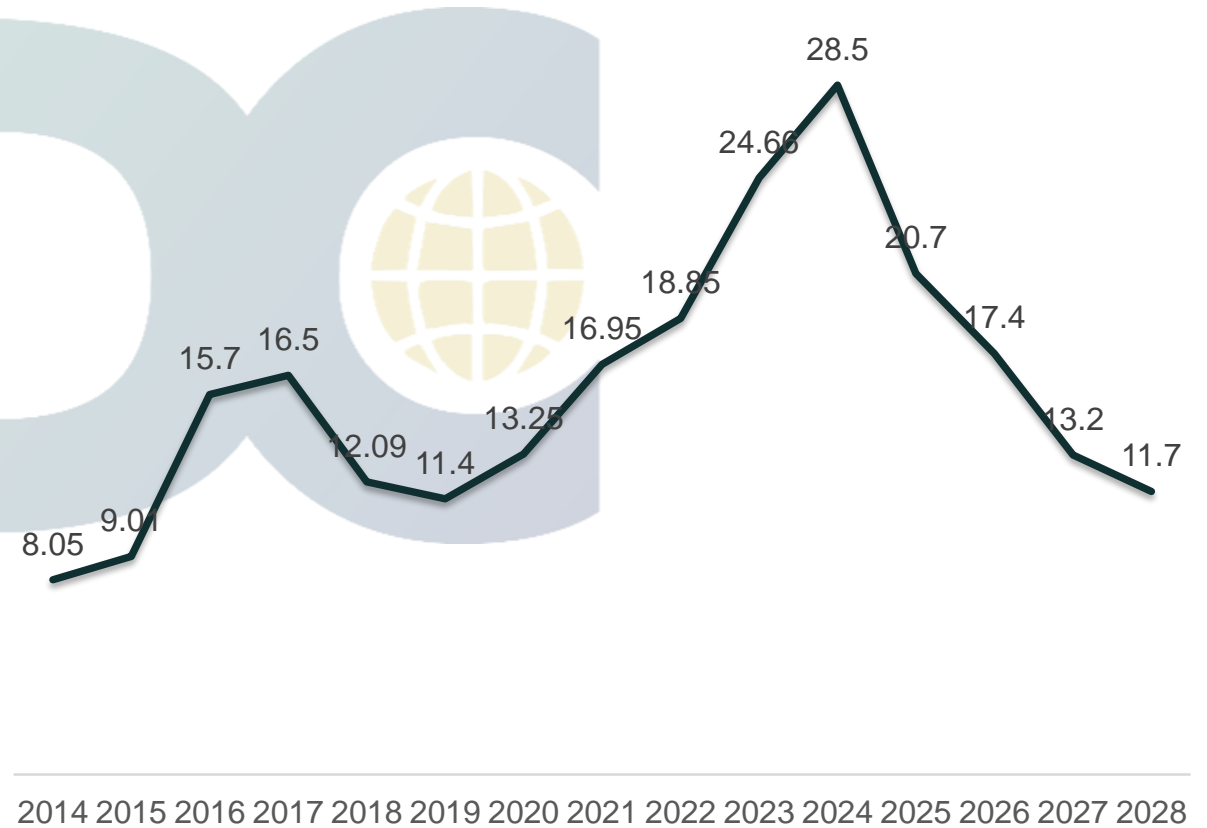
$$\text{Investment} = (\text{Money to borrow}) - (\text{Cost of borrowing})$$

- Hiking interest rates and increasing the CRR can help control inflationary pressures
- Leading to some adverse effects during the transition mechanism in the short run
- When the cost of borrowing (interest rate) is high, investment goes down
- Borrowing becomes more expensive
- Less attractive for businesses to invest in new projects or expand their operations
- Could lead to layoffs and decline in labour demand in companies as production declines
- Increase unemployment rate
- These effects highlight the trade-offs that MPC must consider when implementing contractionary monetary policy measures

HOW SOON IS INFLATION LIKELY TO MODERATE?

- In the near to medium term, inflation is expected to remain elevated
- Underpinned by festive demand (Easter and Ramadan) and seasonality effects
- Will accelerate on a slower pace on higher interest rates

(Average Inflation (2014-2028))



HOW SOON IS INFLATION LIKELY TO MODERATE?

- Both EIU and IMF projected that inflation rate will drop by the end of 2024/25
- This can be achieved if the supply problems are met
 - Support food production
 - Price stability
 - Improve dollar supply
 - Boost electricity generation capacity
 - Reduce the truth deficit

Outlook for Inflation



2024: 23%

2025: 15.5%



2024: 28.5%

2025: 20.7%

*770#

Start now. Dial *770#



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QUESTION 3: RECESSION OR NOT!



3

Nigeria's Q4'23 GDP report showed a tepid improvement and an increase in oil production, but also revealed a contraction in certain level of activities.

Is Nigeria heading towards a recession, or should we be hopeful Q1'24 will be better?

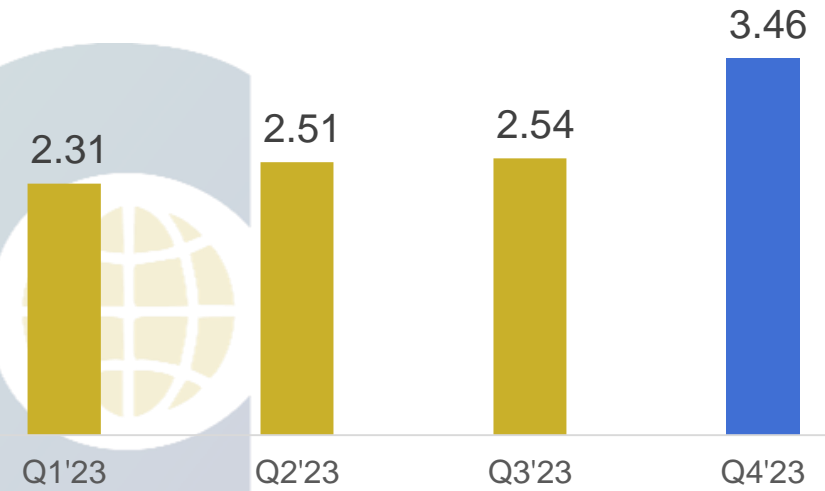
DID THE GDP OUTPERFORM EXPECTATIONS IN Q4'23?

- Q4 real GDP growth of 3.46% reflects an expansion when compared with 2.54% in Q3
- And a slowdown when compared with 3.52% in Q4'22
- The growth was supported by seasonal effect (Christmas activity)
- Constrained by

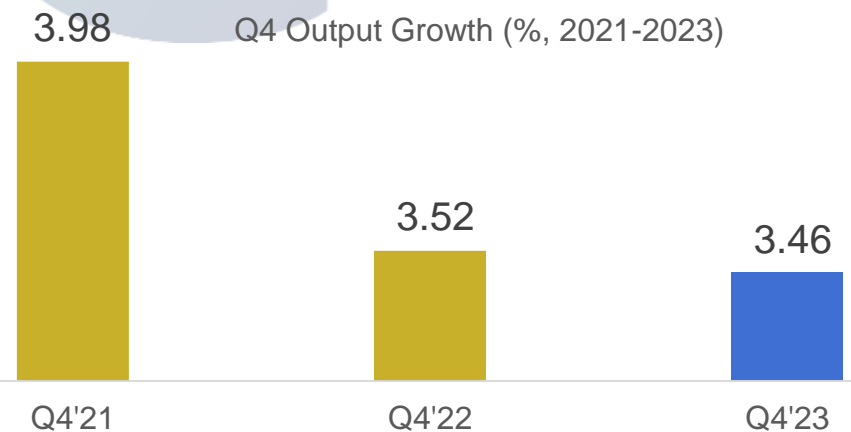
Runaway inflation (28.92% at Dec'23)

Exchange rate devaluation (71% YoY)

2023 Output Growth (% , Q1-Q4)

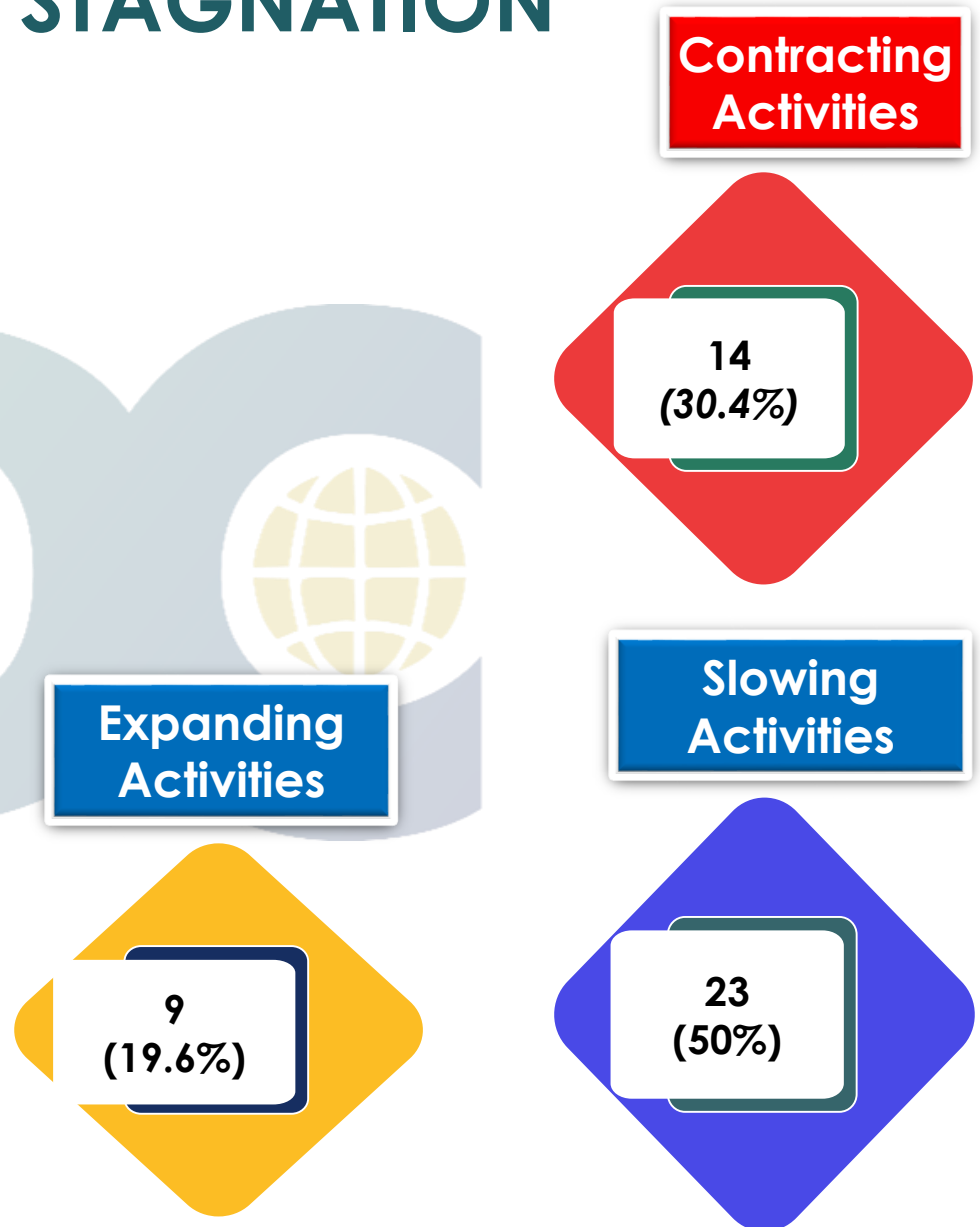


Q4 Output Growth (% , 2021-2023)



GDP GROWTH VEILS SECTORAL STAGNATION

- Most sectors contracted or slowed, only 9 (19.6%) sectors expanded in Q4
- Job elastic sectors like manufacturing, trade, construction, etc underperformed.



Q4 REAL GDP GROWTH – THE GOOD AND THE UGLY

Worst Performing Activity

Quarrying & Other Minerals - 40.9%

Oil Refining - 35.5%

Road Transport - 33.8%

Coal Mining - 26.4%

Metal Ore - 17.4%

Best Performing Activity

Financial Institutions, 31.4%

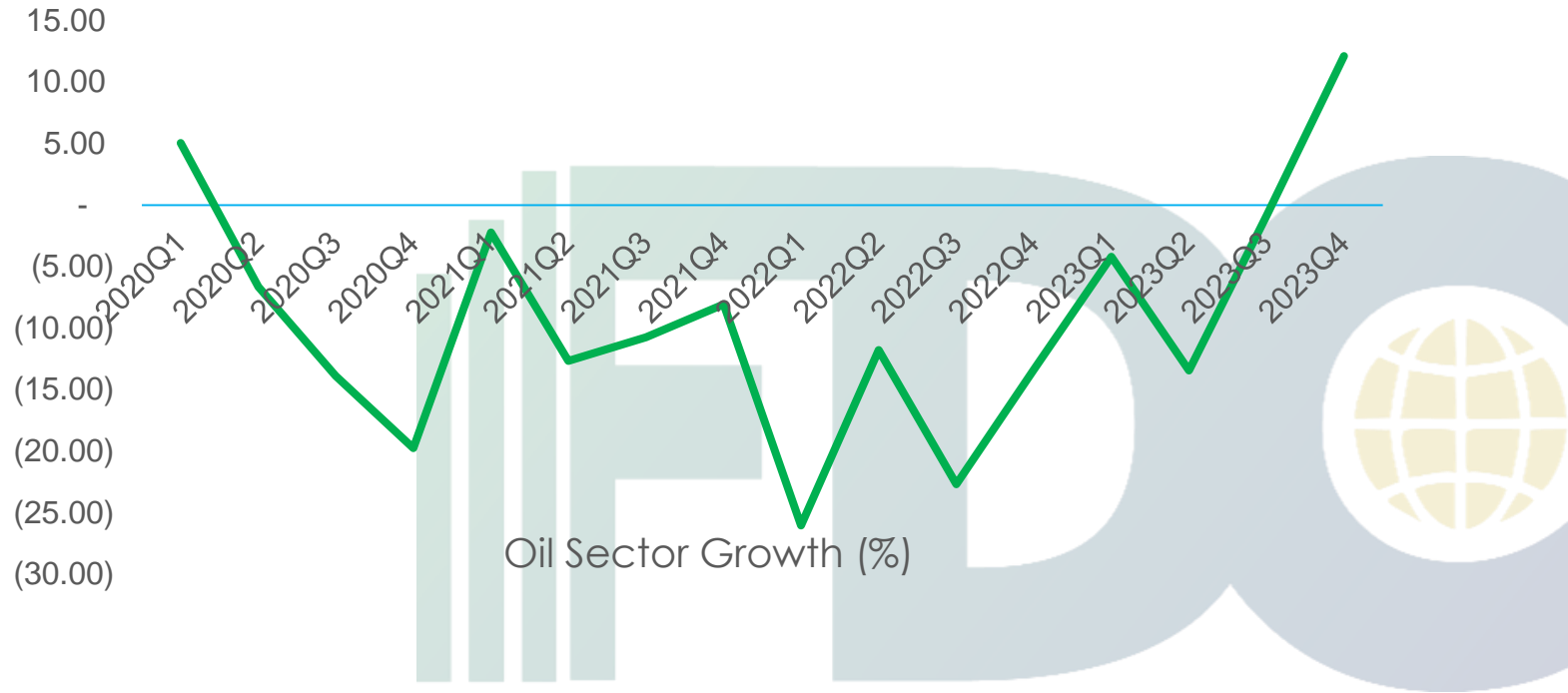
Crude Petroleum & Natural Gas, 12.1%

Rail Transport & Pipelines, 10.4%

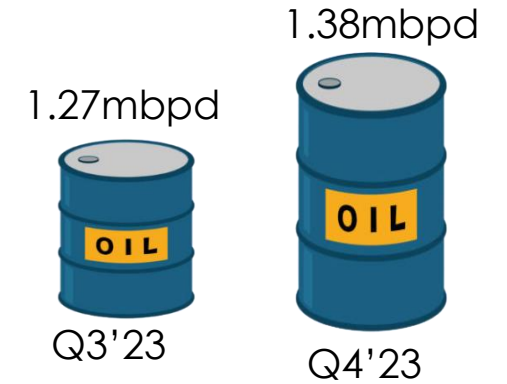
Insurance, 8.3%

Telecommunications, 3.9%

OIL SECTOR EXITS RECESSION AFTER 14 QUARTERS



Oil Production

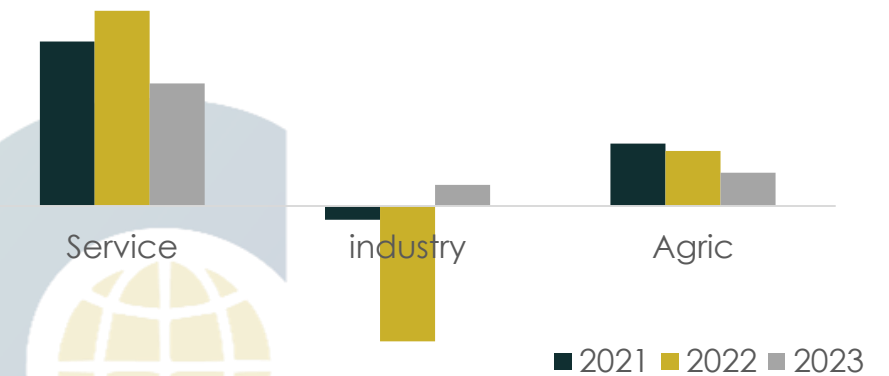


- The oil sector has been in recession for 14 quarters due to suboptimal crude oil production
- Impressive growth of 12% was buoyed by improvement in oil production

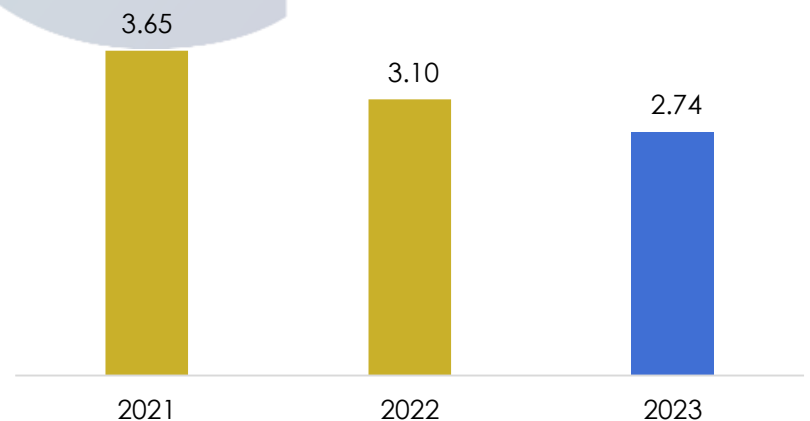
IS NIGERIA ON A PATH TO RECESSION?

- Real GDP growth has been on a decline since 2021 due to
 - Geopolitical disruptions
 - Escalating inflationary pressure
 - Structural bottlenecks
- Agric sector has been nosediving since 2021
- Industry returned to positive growth (0.72%) after contracting by 4.7% in 2022.
- The growth in 2024 will be sedate, but recession is unlikely

Sectoral Performance (%)

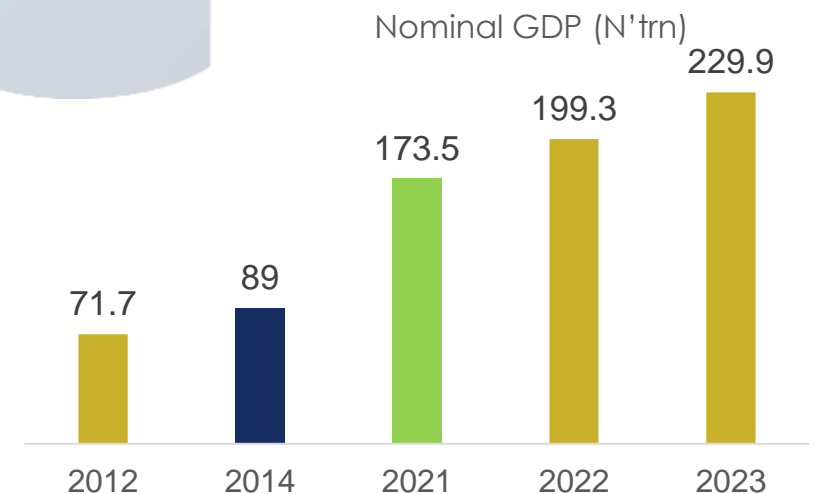
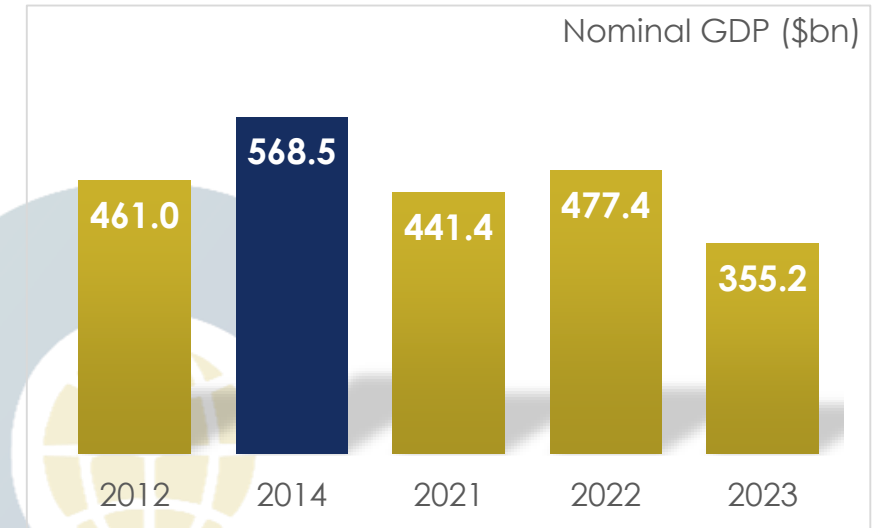


Annual Output Growth (%)



GDP - THE MORE THE NAIRA, THE LESS THE DOLLAR

- The economy expanded astronomically following the rebasing exercise of 2014
- In dollar terms, Nigeria's GDP has plunged by 38% to \$355.2bn in 2023 from \$568.5bn in 2014
- Nigeria loses its ranking as the largest economy in Africa on weak currency and tepid growth
- Now estimated to rank 3rd largest economy in Africa
- May not overtake Egypt (\$392) and South Africa (\$377.8bn) until 2026
- Will another rebasing exercise do the magic?



THE INFORMAL SECTOR IS THE POSTER BOY

Informal sector as share of economic activity

Informal Sector GDP

N76.90trn
(33.6% of GDP)

Informal Sector Employment

92.3% of total employment

Key informal activity with the largest share of sectoral output

Informal

Agriculture

92% of total Agric Output

Informal

Arts, Entertainment & Recreation (AER)

89% of total AER



QUESTION 4: ASSET BUBBLE



4

Ten capitalized companies on the Nigerian stock exchange reported combined FX losses of N1.89trn in Q4. The market had gained an astronomical 33.71% in the last 2 months.

Is the Nigerian stock experiencing a market bubble?

What are the wider implications of these reported FX losses?

Is the Nigerian stock market heading for a correction/crash?

NGX GAINS 33.7% IN TWO MONTHS-IS THERE AN ASSET BUBBLE?



Researcher

- Phenomenon where the prices of specific assets, like stocks, real estate, or other investment instruments, become significantly inflated compared to their intrinsic or fundamental value.

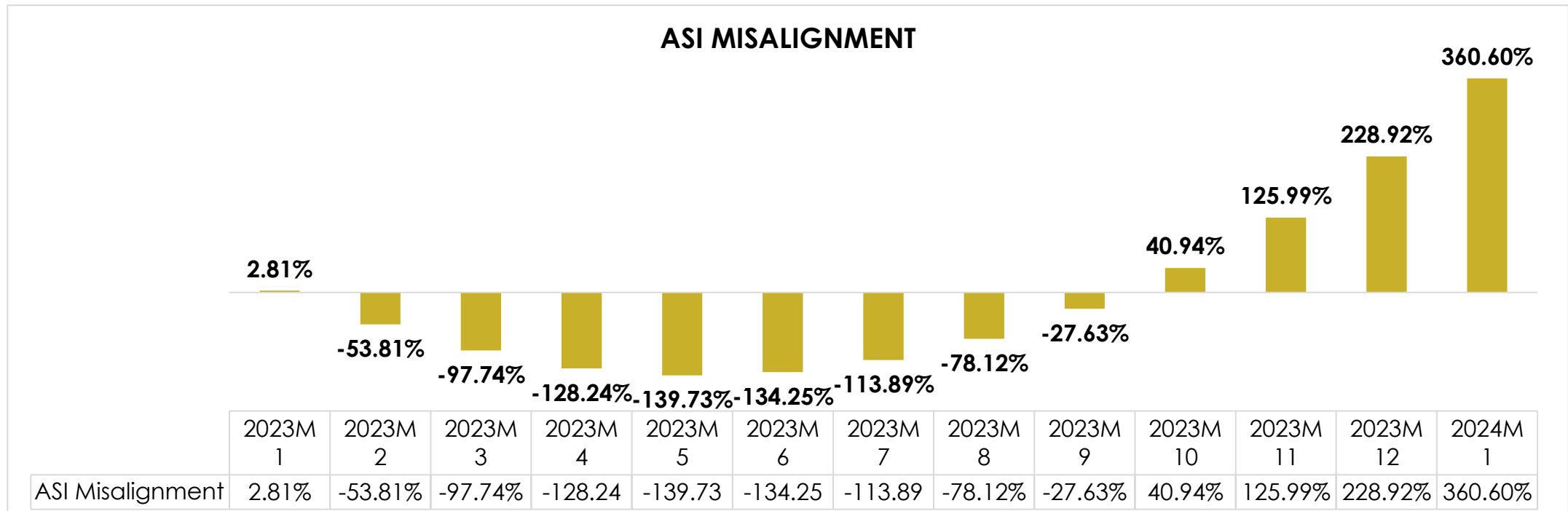
Academia

- Situation where the prices of certain assets significantly deviate from their intrinsic values, driven by speculative trading, investor psychology, and market dynamics

Economist

- Situation where the prices of certain stocks rise to levels significantly above their intrinsic or fundamental value.

NGX GAINS 33.7% IN TWO MONTHS-IDENTIFIED BUBBLE



- The results suggest that the Nigerian stock market was marginally overvalued in January 2023
- The NGX was also overvalued in October, November, December 2023, and January 2024, with 40.94%, 125.99%, 228.92%, and 360.60%, respectively
- This indicates the potential presence of asset bubbles



NGX GAINS 33.7% IN TWO MONTHS-IDENTIFIED BUBBLE

- The identified bubbles are attributed to the combination of macro and micro factors
- Speculation of growth in the market due to government policies
- Abrupt institutional buy or sell interest in shares of companies
- Investors hunting for high returns amid limited investment options
- Revaluation gains spurred buying interest in Nigerian banks
- These all contributed to a general market rally across board
- **All other economic indicators are showing a divergence from the growth of the Nigerian**

stock market



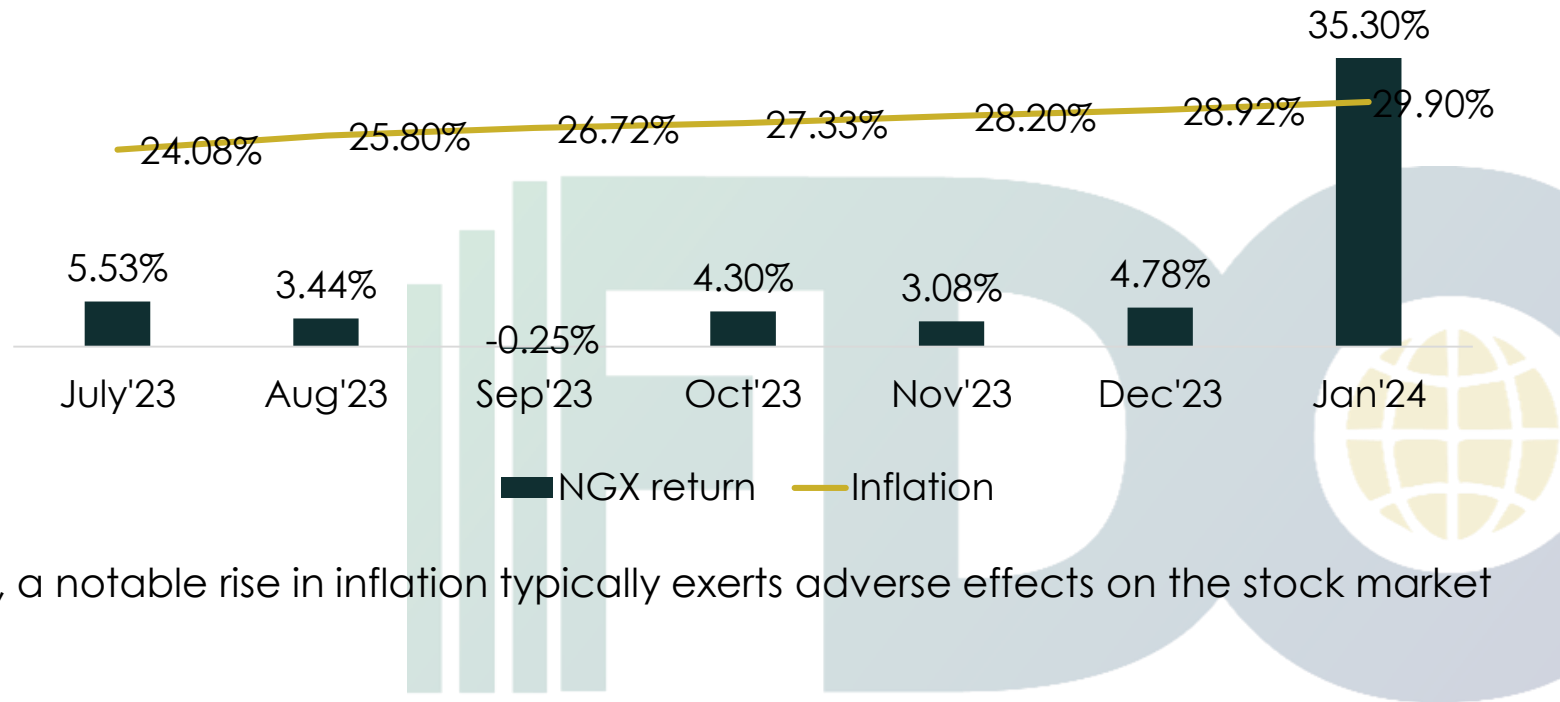
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THE NGX AND NIGERIAN INFLATION

NGX Vs. Nigerian Inflation



- Mainly, a notable rise in inflation typically exerts adverse effects on the stock market
- Investors usually anticipate a monetary policy tightening to rein in inflation
- Persistent high inflation erodes consumers' purchasing power, diminishing the attractiveness of stocks
- However, the NGX delivered impressive results, despite surging inflation and its detrimental impact on the real rate of return

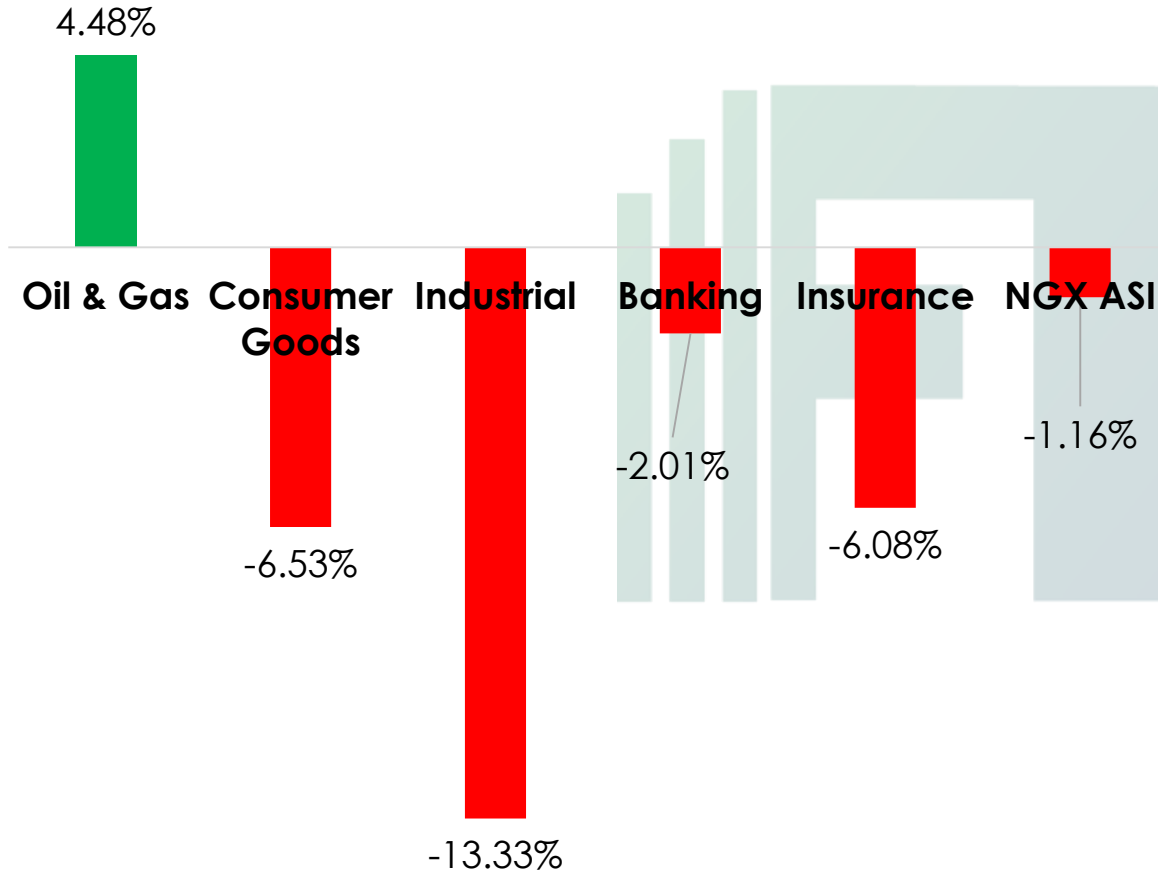
WHAT NEXT AFTER AN ASSET BUBBLE

- Wealth Erosion and Financial Distress
- Dampened Investor Confidence
- Future Panic Selling
- Tighter Credit Conditions
- Weak Consumer Purchasing Power



NGX PERFORMANCE IN FEBRUARY 2024

Feb'24








What!!!



- NGX begins a market correction as anticipated
- NGX lost 1.16% in February relative to a 35% jump in January 2024
- Attributed to attractive yields on fixed-income investment and profit-taking actions
- Profit taking in Dangote Cement sweeps the industrial sector into a 13.33% loss






QUALITY OF EARNINGS- FULL YEAR 2023

Companies	Revenue (N'bn)	FX Loss (N'bn)	PAT (N'bn)
 DANGOTE CEMENT	2,208	164	455.5
 BUA FOODS	728.4	26.3	111.53
 Nestle	547.12	195.07	(79.47)
 MTN	2,468	740.7	(137)
 FBN Holdings	1500	350.16	310

Ten capitalized companies on the Nigerian stock exchange reported combined FX **losses of N1.89trn in Q4**

FX losses weighed on corporate profitability and shareholder's value

QUALITY OF EARNINGS- FULL YEAR 2023

Companies	Revenue (N'bn)	FX Loss (N'bn)	PAT (N'bn)
	459.9	69.9	69.4
	441.4	172.19	(73.7)
	74.98	1.39	21.16
	599.5	153.3	(106.3)
	405.5	21.04	51.14
Total	9,432	1,893	622.24

Weak earnings take a toll on dividend payout and investor confidence

IMPACT OF FX LOSSES ON FINANCIAL INSTITUTIONS & MANUFACTURERS



- Financial institutions holding foreign currency assets will continue to experience reduced profitability due to valuation losses
- Foreign exchange losses pose a continued risk to capital adequacy and lending ability, thereby impacting the overall stability of the financial system



- High cost of production and reduced margins due to foreign exchange fluctuations
- Companies with global operations will experience decreased earnings when translating profits from foreign subsidiaries into domestic home currency
- This would hamper financial performance and shareholder value

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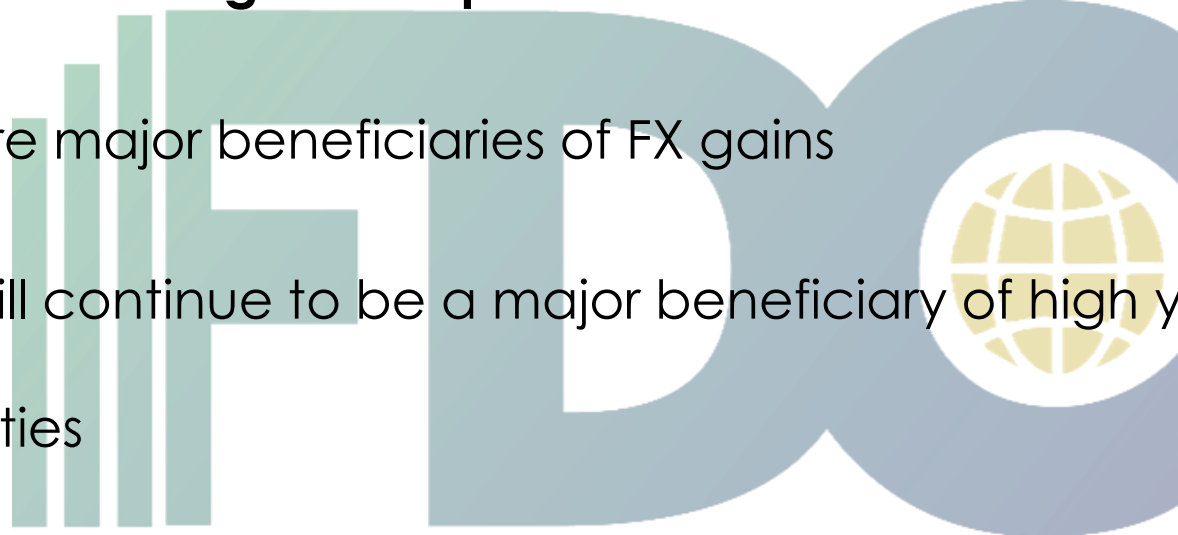
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IS THE NIGERIAN STOCK MARKET HEADING FOR A CORRECTION OR A CRASH?

- The Nigerian stock market correction is expected to persist
- A hike in monetary policy rate will trickle down to the effective rate and further dampen investor appetite for equities
- High interest rates will discourage speculative behavior in the stock market
- Leading to a reduction in the risk of financial instability
- Will drive Nigerian stocks to more reasonable valuations
- Underwhelming corporate earnings and dividend will send equity investors in search of alternative and attractive asset prices



IS THE NIGERIAN STOCK MARKET HEADING FOR A CORRECTION OR A CRASH?

- **It is not all bad news for Nigerian equities market investors**
 - Nigerian banks are major beneficiaries of FX gains
 - Nigerian banks will continue to be a major beneficiary of high yields from investment securities
 - Dividend paying stocks will be marked down for dividend
 - Opportunity for investors to position for future upsides
- 

QUESTION 5: REGULATORY OVERKILL



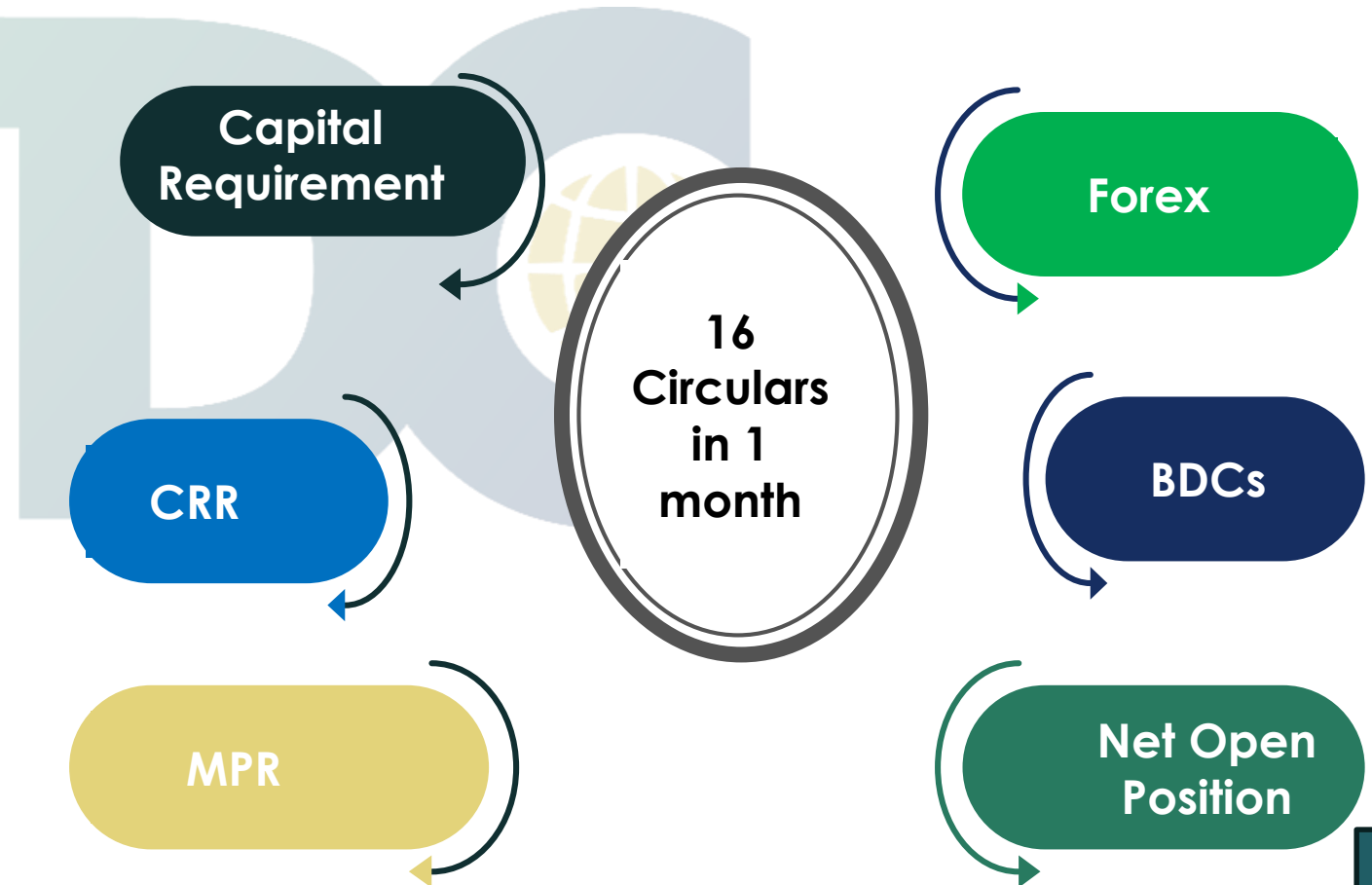
In the last few weeks, the CBN has sent out a flurry of guidelines to reinforce its resolve to maintain price stability and safeguard the soundness of the banking and financial services industry.

Do you think that these guidelines are overkill, or do you believe that this is a risk that the economy may be moving towards a regime of overregulation and thereby stifling innovation?

CBN - REGULATION RENNAISSANCE

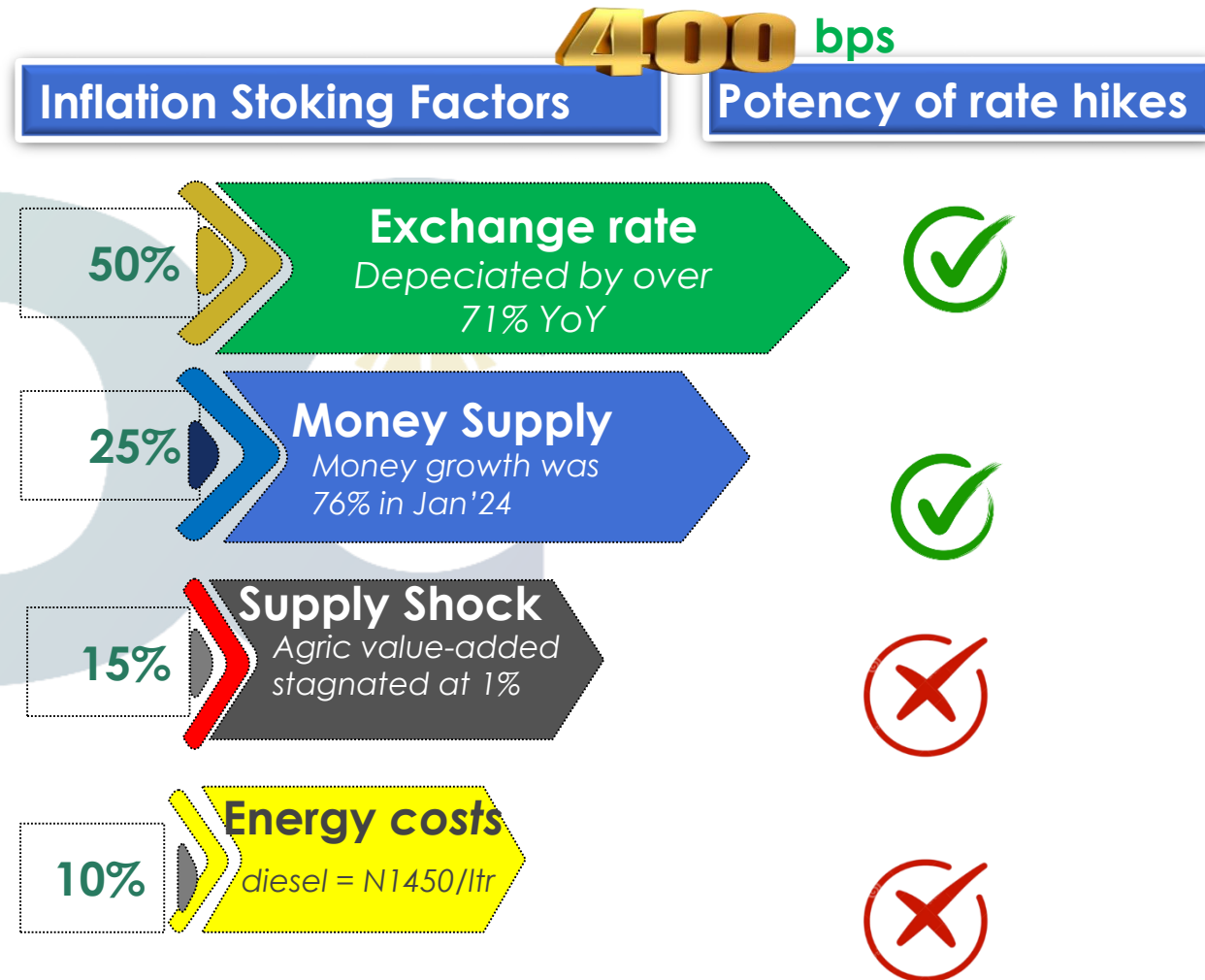
- After a few months of honeymoon (Sept'23 to Dec'23), the CBN began churning out a barrage of circulars to:
 - Address the free fall of the naira
 - Guarantee banking sector stability and financial soundness

Is an overdose a cure for an underdose?



WILL INTEREST RATE HIKE BE THE MAGIC WAND?

- 400bps interest rate hike is a jumbo size.
- It is a necessary but not a sufficient move
- Its effectiveness depends on the potency of the signaling channels
- The forward guidance about CBN's future actions
- The perceived credibility of the CBN
- Expectations about future inflation





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WHEN INTEREST RATE IS EFFECTIVE

- Interest rate hike could be short-circuited

When interest rate hike is **effective**

- Strong transmission mechanism

- Credible central bank

- When **external factors** are not countervailing

When the **real interest rate** is high

Interest rate hike
... a delicate
balancing act

When interest rate hike is **ineffective**

- Supply-side shocks

- Inelastic demand

- Liquidity trap

Structural bottlenecks

... BUT INTEREST RATE HIKE WORKED – AFRICAN EXAMPLE

- To tame inflation, the real interest rate should be in a positive territory, and increasing

Ghana Inflation

Peak: 54.1% (Dec'23) Current: 23.5% (Jan'24)

- Cum. Rate Hikes: 1650bps to 30%p.a
- Real interest rate: rose to +5.5% from +1.3%

Kenya Inflation

Peak: 9.6% Current: 7.70%

- Cum. Rate Hikes: 475bps to 13%p.a
- Real interest rate: rose to +5.5% from +0.7%

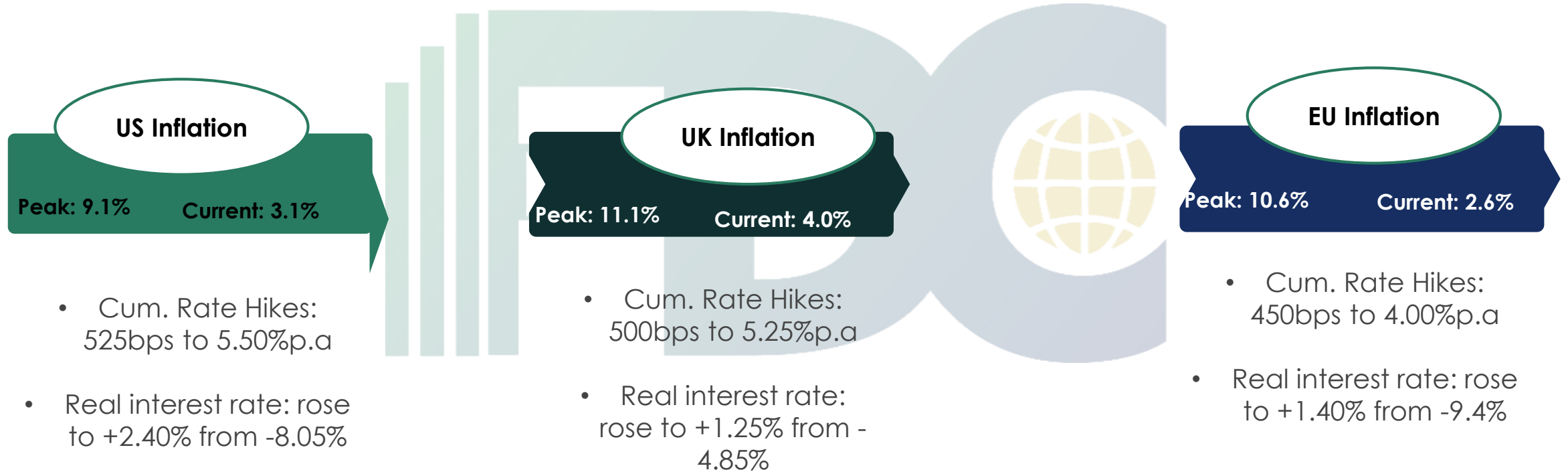
South Africa Inflation

Peak: 7.8% Jul'22 Current: 5.3% (Jan'24)

- Cum. Rate Hikes: 450bps to 13%p.a
- Real interest rate: rose to +3% from -1.7%

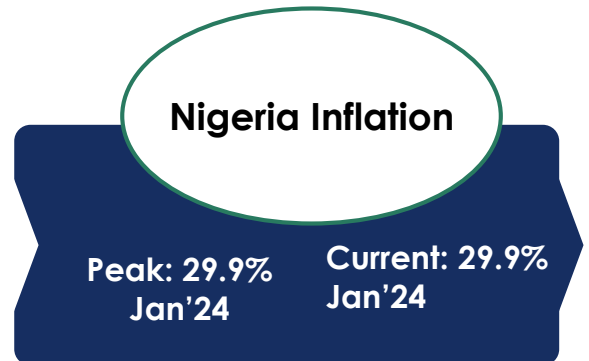
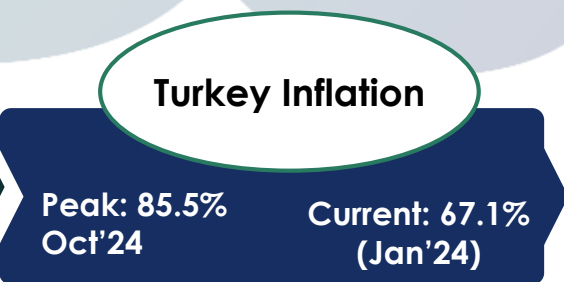
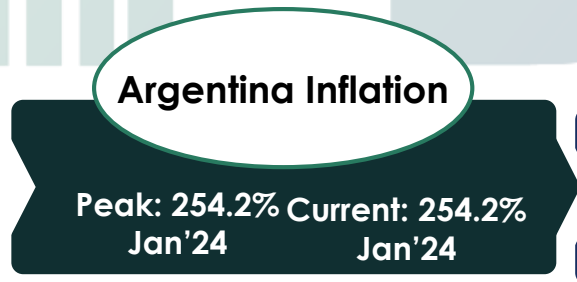
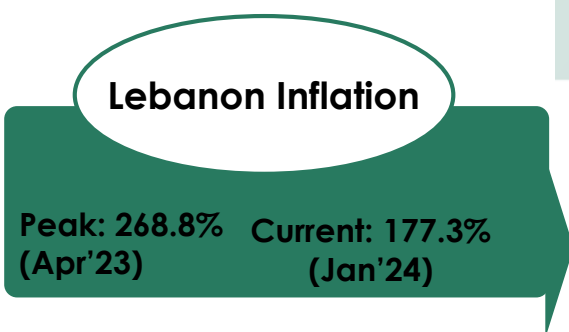
... BUT INTEREST RATE HIKE WORKED – GLOBAL EVIDENCE

- To rein in inflation using interest rate hike also requires lag, which is inversely proportional to the strength of the transmission mechanism



THE BASKET CASES – ARE THERE SIMILARITIES?

- What Argentina, Lebanon, Turkey and Nigeria have in common:
- Money supply growth(YoY): Argentina (103%); Turkey (75%); Lebanon (409%)
- Exchange rate depreciation (YoY): Argentina (76%); Turkey (41%); Lebanon (83%)
- Interest rate hike has not been effective in countries where the real interest rate is still in the negative territory



- **Cum. Rate Hikes:** 1,125bps to 22.75%p.a
- **Real interest rate:** Fell to -7.15% from -6.20%
- **Money Growth:** 76.5%
- **Exchange Rate depreciation:** 71%

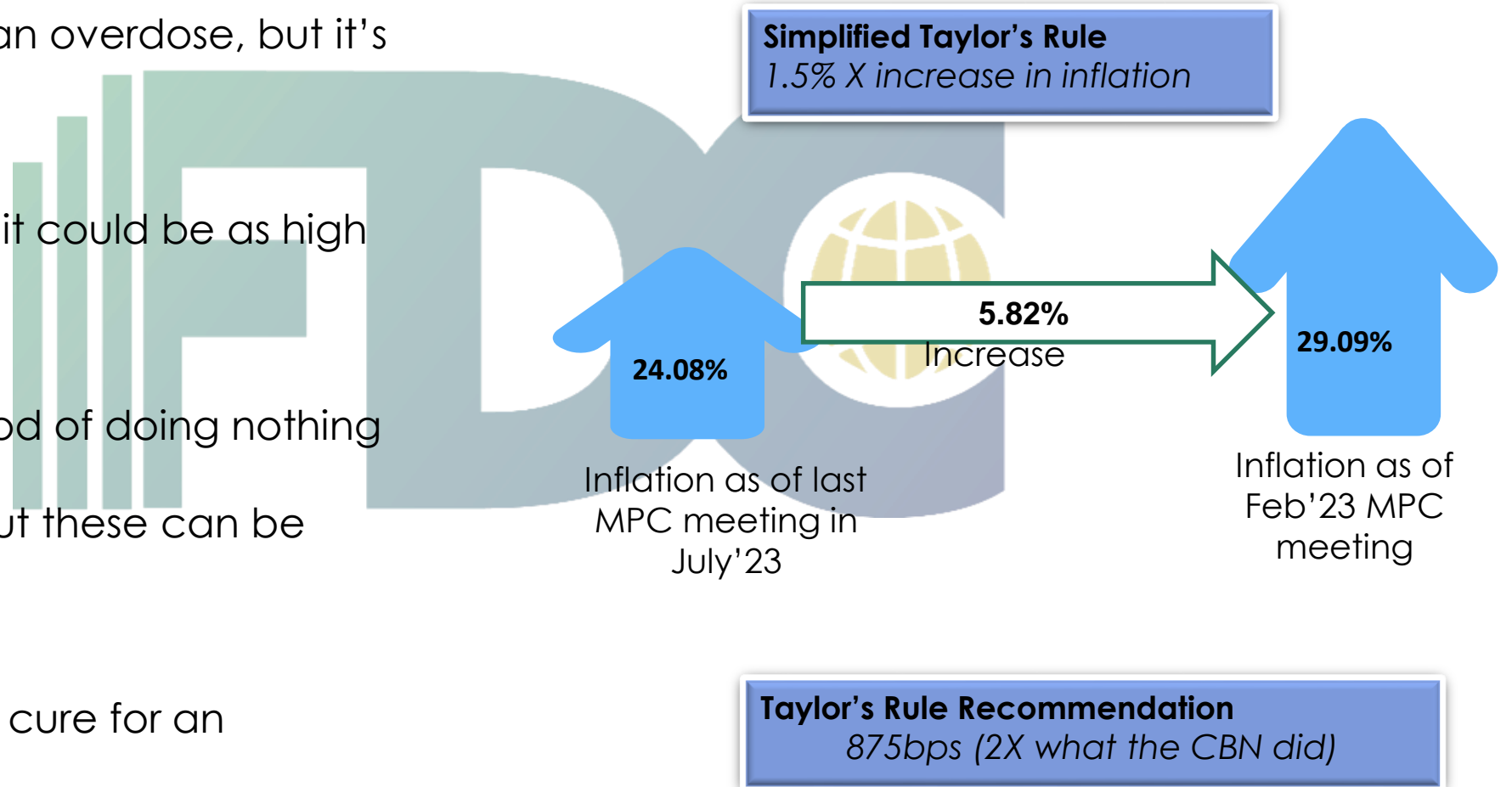
- Cum. Rate Hikes: Flat at 7.75%
- Real interest rate: - 155.5%

- Cum. Rate Hikes: 4,800bps to 100%p.a
- Real interest rate: - 154.2%

- Cum. Rate Hikes: 3,560bps to 13%p.a
- Real interest rate: - 22.1%

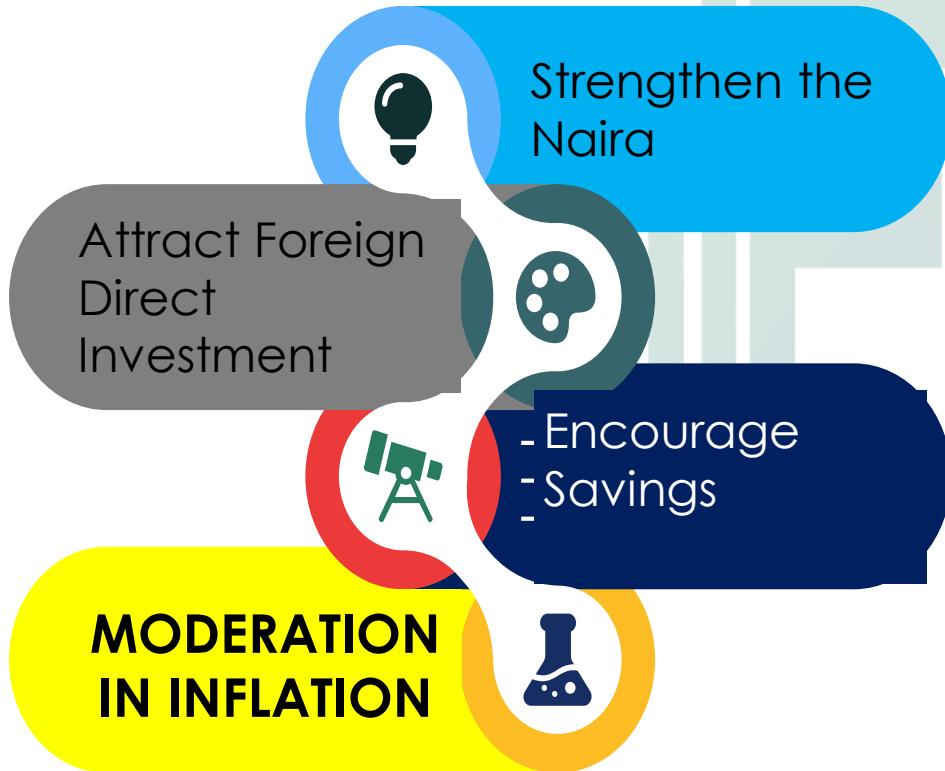
IS 400BPS RATE HIKE AN OVERDOSE?

- 400bps may look like an overdose, but it's not
- Based on Taylor's rule it could be as high as 875bps
- There was a long period of doing nothing
- There are tradeoffs, but these can be managed
- Will an overdose be a cure for an underdose?

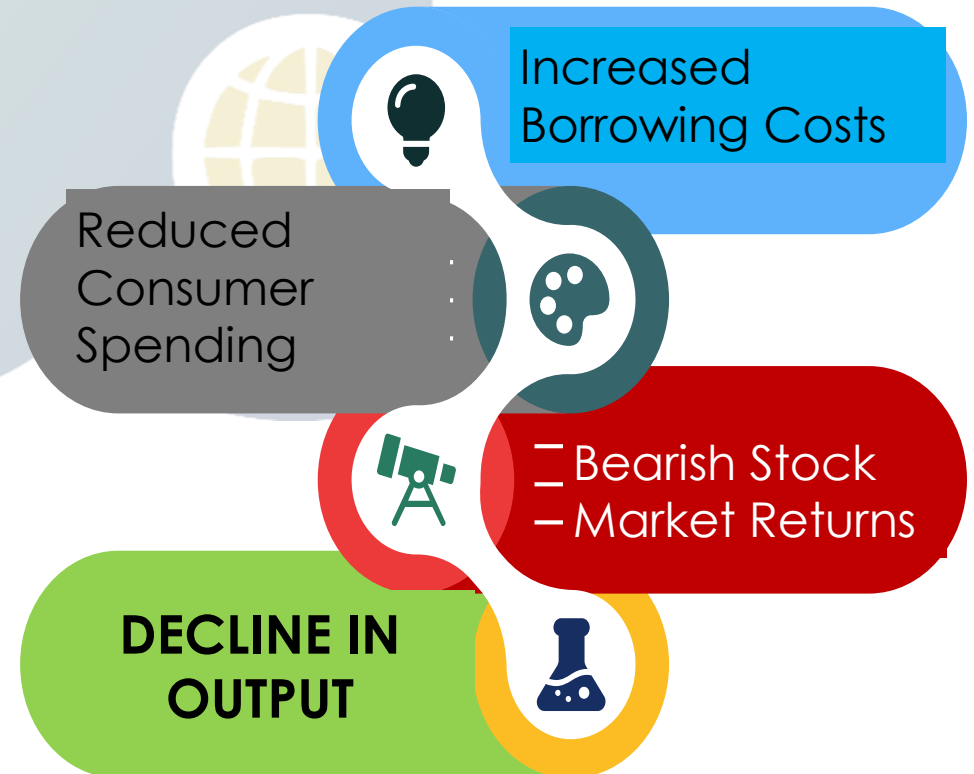


INTEREST RATE HIKE - THE GOODIES AND THE DOWNERS

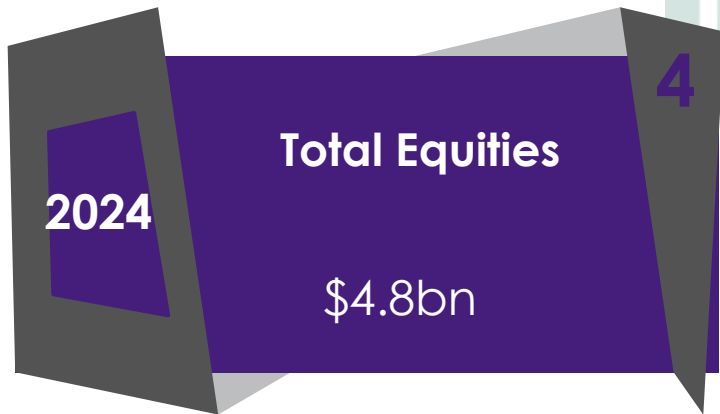
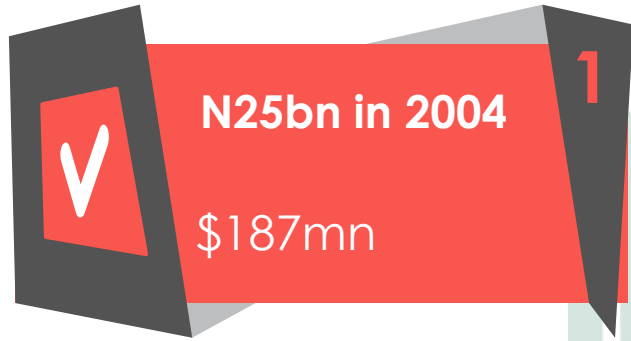
GOODIES



DOWNERS



RECAPITALIZATION, HARD BUT NECESSARY



Bank Capital

=

Bank Assets

Minus

Bank Liabilities

ASSET QUALITY, STRONG BUT THREATENED

- Nigeria banking assets declined by 18.1% to \$134.15bn
- Due to exchange rate depreciation
- Non-performing loan ratio (4.2%) remains below the prudential level (5%)
- Fund contributed by shareholders is only 7.7% of bank assets

	% Change (dollar terms)	Sept 2023	Year End 2022
Total Bank Assets (\$)	-18.1%	\$134.15bn (N102.8trn)	\$163.80 (N75.4trn)
Capital adequacy ratio (CAR, %)	- 1.6%	12.3%	13.8%
Non-performing loan (NPL, %)	0	4.2	4.2
Deposit Liabilities	22%	\$74.7bn (N57.5trn)	\$96.2bn (N44.3trn)

WHY RECAPITALIZE?

Why Recapitalize?

- Current capital base of many banks inadequate for effective operations
- Higher risk of bank failures and financial instability

Impact on the Economy

- Strengthening financial position of banks
- Improving liquidity and ability to withstand economic shocks
- Enhancing investor confidence and attracting foreign investments

Impact on Banks

- Requirement to raise additional capital to meet new minimum requirements
- Restructuring balance sheets and optimizing capital allocation
- Enhancing risk management practices to comply with regulations

QUESTION 6: POLICY RECOMMENDATIONS



Some people believe that the Nigerian economy can only fulfill its potential by being integrated with the global economy, whilst others are of the view that protectionist policies and economic patriotism are the solutions to Nigeria's suboptimal economic performance. Many have pointed to the fact that neo-liberal economic policies are a recipe for failure and are anti-people

What type of macroeconomic policy would you recommend as a way out of the current quagmire?



THE WORLD TODAY

- The mixed model of open markets and government intervention
- There is only one country with a closed economy (**North Korea**)
- Regional integration and larger markets propel competitiveness and scale economies
- In the European Union, the laggards like Italy, Spain and Portugal have all performed better since becoming member states
- Economics in isolation of politics is not a realistic assumption
- The underperformance of economies such as Venezuela, Zimbabwe, Yemen, Iraq and Iran cannot solely be attributed to their policies; rather, it stems from political adversaries
- The more integrated and globalized an economy is, the greater its chance of a stellar performance

ECONOMIES WITH OPEN POLICIES



Singapore

Per capita income
(2022)

\$91,727

Export as a
% of GDP
(2022)

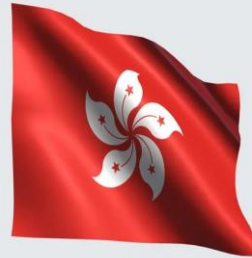
186.55%



Netherlands

\$65,194

93.52%



Hong Kong

\$54,078

193.86%

**THE ONLY CLOSED
ECONOMY IN THE WORLD**



North Korea

- Per capita income
(\$800)

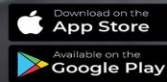
Economies with trade liberalization have high per capita income



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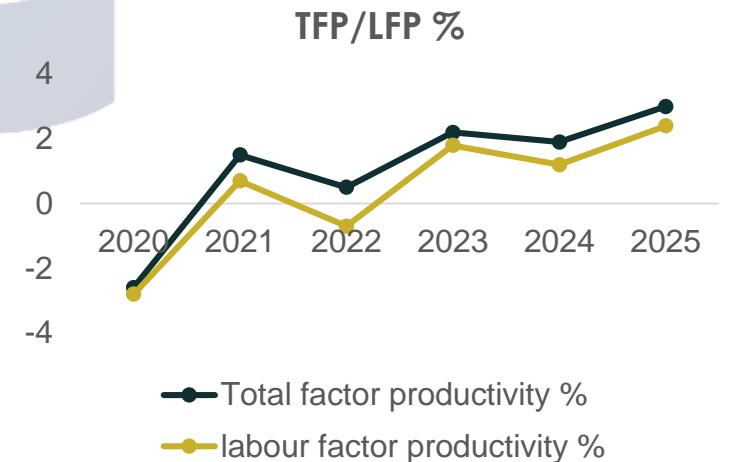
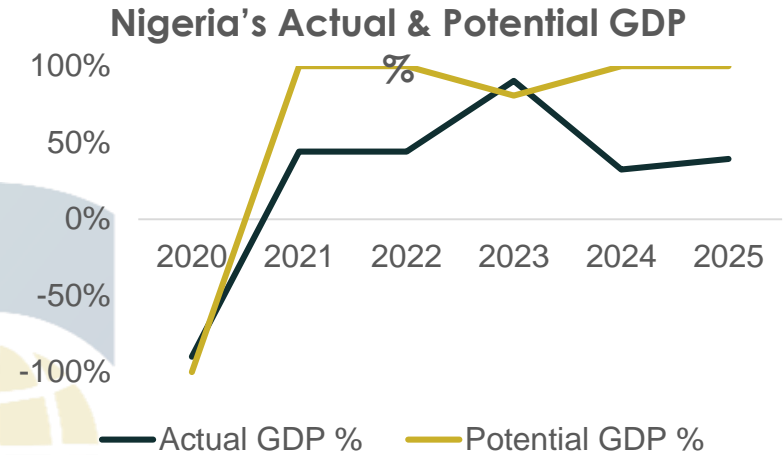
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THE NIGERIAN ECONOMY

- Nigeria is a natural wealth economy, not a produced wealth economy
- Being a big market, Nigeria has political capital and influence
- Leveraging on the African Continental Free Trade Area (AfCFTA)
- Policies, governance and strong institutions are all paramount
- Nigeria needs to play its geopolitical card properly
- The Nigerian economy is underperforming its real potential



WHY ARE WE HERE?

- The payout of a political battle is spoils
- Rent has become the spoils for political struggle

Low Foreign Investment Inflow



Fell by 26.70% (y-o-y) to \$3.91bn in 2023

Poor Governance



Nigeria is ranked 161 out of 184 countries

Low Infrastructure Stock



Nigeria's infrastructure stock is 35% of GDP compared to the global average of 70%

THE WAY OUT

- Nigeria needs mixed model
 - managed floating exchange rate
 - Public private partnership (PPP)
 - Proper corporate governance
- A closed-door policy will not make the Nigerian market bigger for the whole of Africa
- Transparency, accountability and a good governance structure
- Political capital (free and fair elections)
- Infrastructure build to improve competitiveness

THE WAY OUT

- Policies alone do not make an economy; they must be complemented
- Support macroeconomic policy with institutional and structural reforms
- Strengthen and improve the functioning of the markets and sectors
- Macroeconomic stability not only depends on
 - Efficient management of an economy, but also
 - The structure of key markets and sectors



QUESTION 7: AVIATION CONUNDRUMS!



Air Peace will start its Lagos-London route in April, offering over a 50% discount of N1.2 million. It is said that international network carriers are in a panic and are offering steep discounts.

With the unresolved IATA trapped funds controversy, what is the future of international travel in and out of Nigeria? Will this development affect the domestic aviation industry, and if so, how?

AIR PEACE GRABS GATWICK LANDING RIGHTS

IT'S A POOR MAN WHO SAYS BEER IS BITTER



Air Peace, in a charter arrangement with Norse Atlantic Airways, is set to begin Lagos-London flights in April 2024.



Norse Atlantic is expected to provide the airplane, crew, maintenance, and insurance.



The charters will run four times a week from London's Gatwick Airport, initially for two months.



Major competitors, serving as network carriers, include British Airways and Virgin Atlantic.

- They predominantly serve Nigerians using the London route as a transit hub.



However, Air Peace has slashed the Lagos-London route price by 66% to N1.2mn

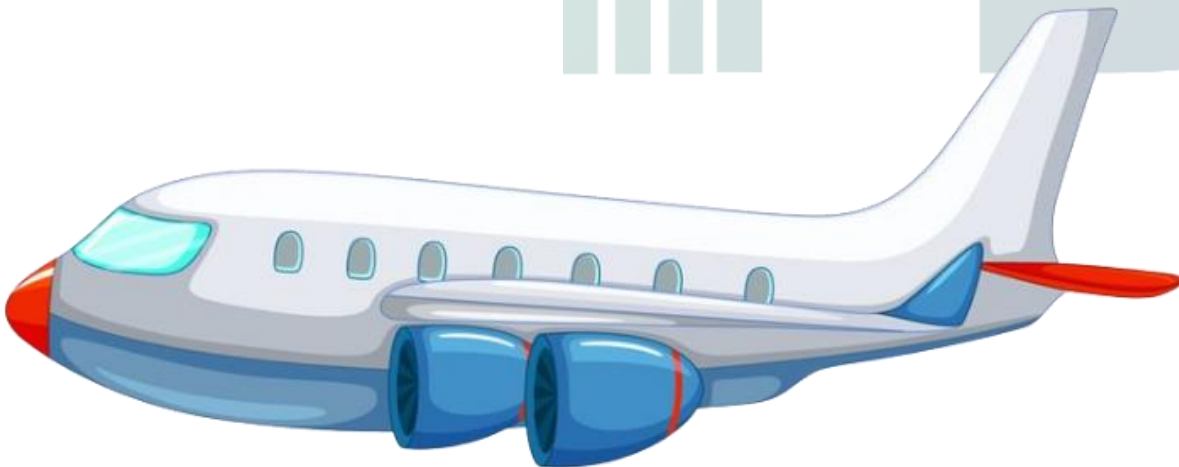
INTERNATIONAL FLIGHT PRICES CRASH

- International Airlines have reopened
 - Low-inventory tickets for reduced international flight prices.
- Low inventory tickets last seen in July 2022 were over 70% cheaper

CBN cleared trapped airline funds

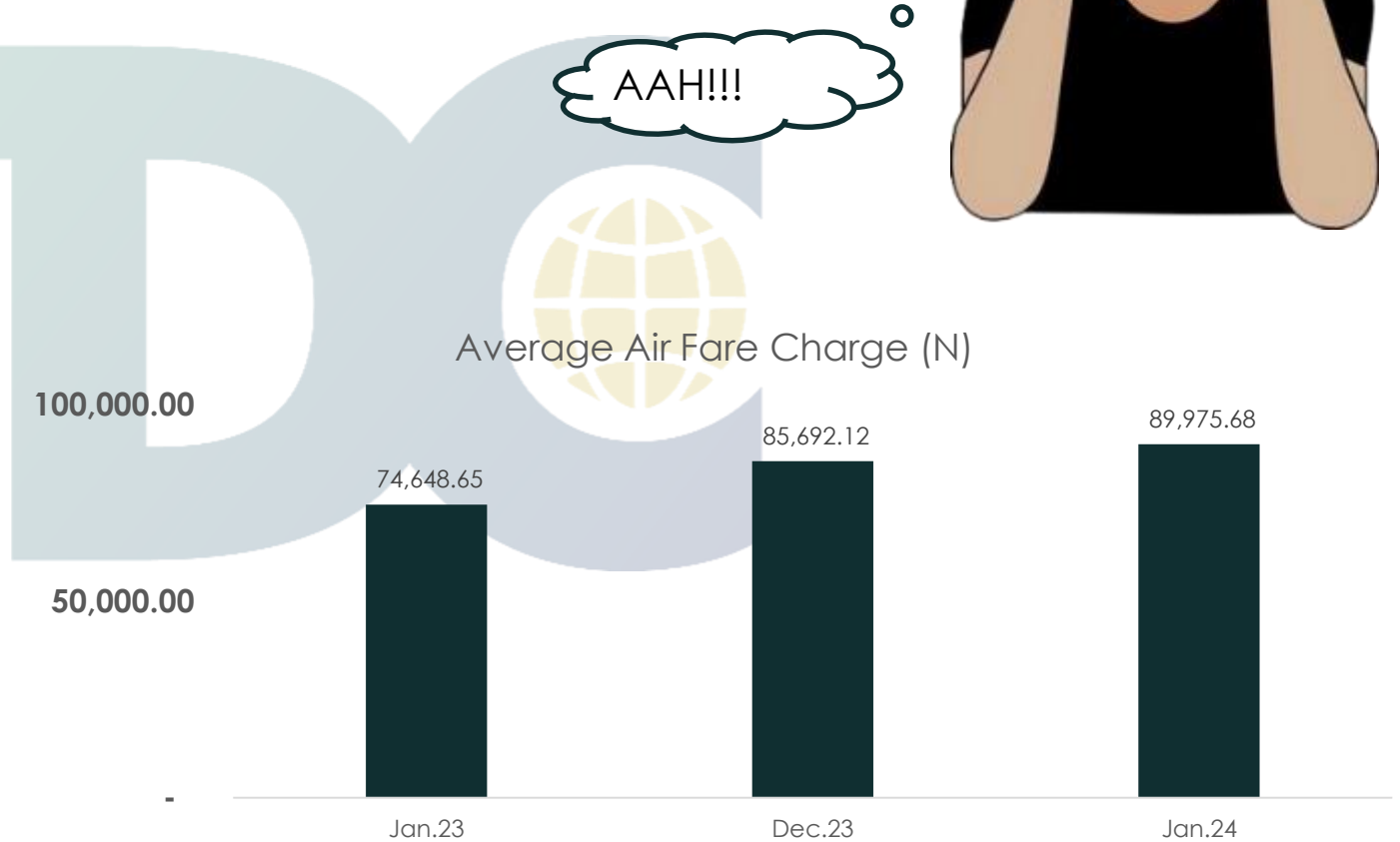
Increased Competition as Air Peace slashes price

Low patronage due to increased cost of living



DOMESTIC PRICES TAKE FLIGHT

- In Feb 2024, average domestic prices surged to N140,000 due to
 - Exchange rate depreciation (IATA rate: N1,512/\$)
 - Increased cost of fuel. (Jet fuel price up 0.8% m-o-m to \$109.66bbl)
 - Higher cost of operations in the aviation sector
 - The average fare for specified routes single journey
 - Was N89,975.68 in January 2024, 20.53% higher than N74,648.65 last year



Source: NBS

BURNING ISSUES



Foreign Exchange Fluctuation

Hampers financial planning for airlines reliant on foreign exchange for maintenance, spares, and training.



High-Interest Rates

Difficulty accessing long-term credit for aircraft acquisition and operational funds due to elevated interest rates.



Aircraft Leasing Issues

Nigeria's blacklisting in aircraft leasing affects the country's reputation and leasing market standing.



Financial Challenges for Ground Handlers

High customs duties on imports, rising operational costs, and unsustainable handling rates straining ground handling companies



Infrastructure Challenges

Poor airport infrastructures impede efficiency.

Top Nigerian Airline, Ibom Air, had an on-time performance of 66% in February 2024

LOWER FARES = HIGHER PASSENGER LOAD FACTOR (PLF)

The increased affordability is expected to boost international travellers leading to

- Higher foreign exchange earnings
- Increase in outbound business travels which can stimulate positive business activities
- Increased spending on accommodation, food, and transport by inbound travellers

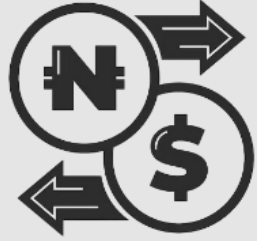
Key factors to maximize the opportunities



Build tourism products, campaigns, and infrastructures to attract tourists

Government and regulatory support to ensure effective functioning of the route

WHAT'S NEXT FOR NIGERIA'S AVIATION



- Higher foreign earnings are favorable to exchange rate stability in the country
- As the bulk of domestic airlines' costs, including maintenance, training, medical assessments, and fuel, are in foreign currency
- A stable exchange rate would aid planning and operations in the sector



- Consolidation or Strangulation depending on the operating environment



- Airport concessioning to attract private investment
- For infrastructure development, competitive services, innovation and technology, revenue generation

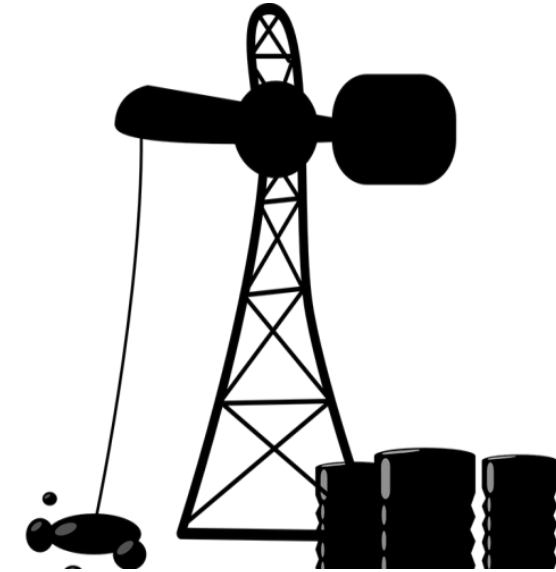
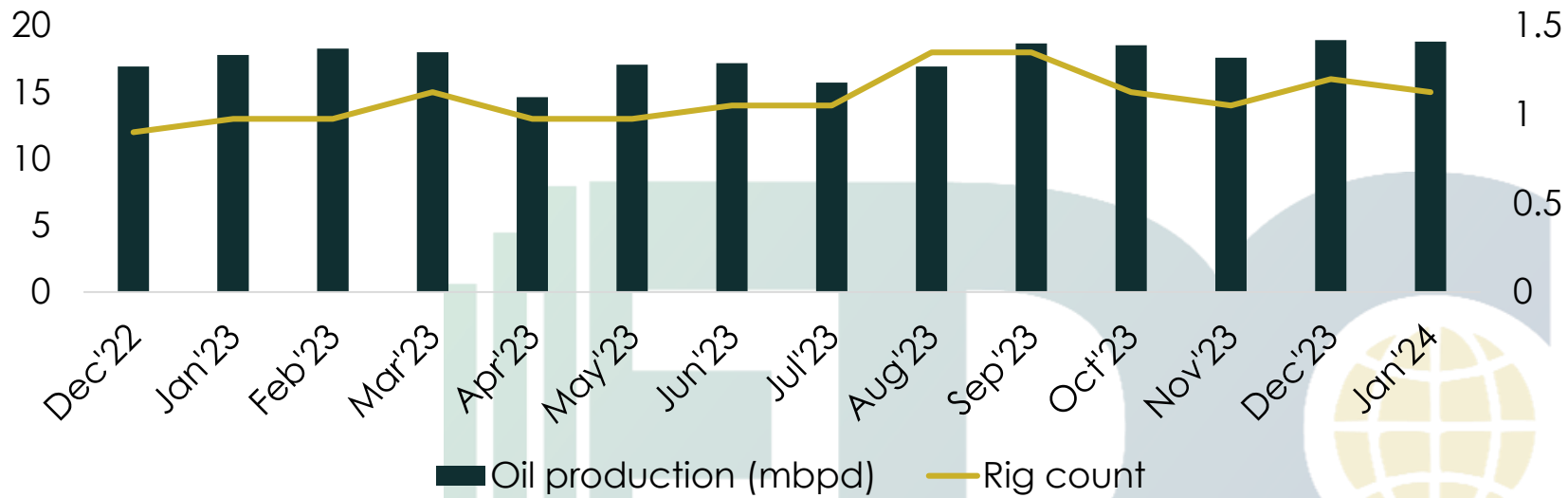


MARKET PROXIES

ECONOMIC PERFORMANCE

OIL PRODUCTION

Domestic Oil Production (mbpd)



- Domestic oil production fell marginally to 1.41mbpd in January 2024
 - Down 0.7% from 1.42mbpd in the previous month
- As the number of oil rigs reduce to 15 from 16
- Crude oil theft and pipeline vandalism remain persistent
 - Keeping oil production level below the OPEC quota (1.58mbpd) and 2024 budget benchmark (1.78mbpd)



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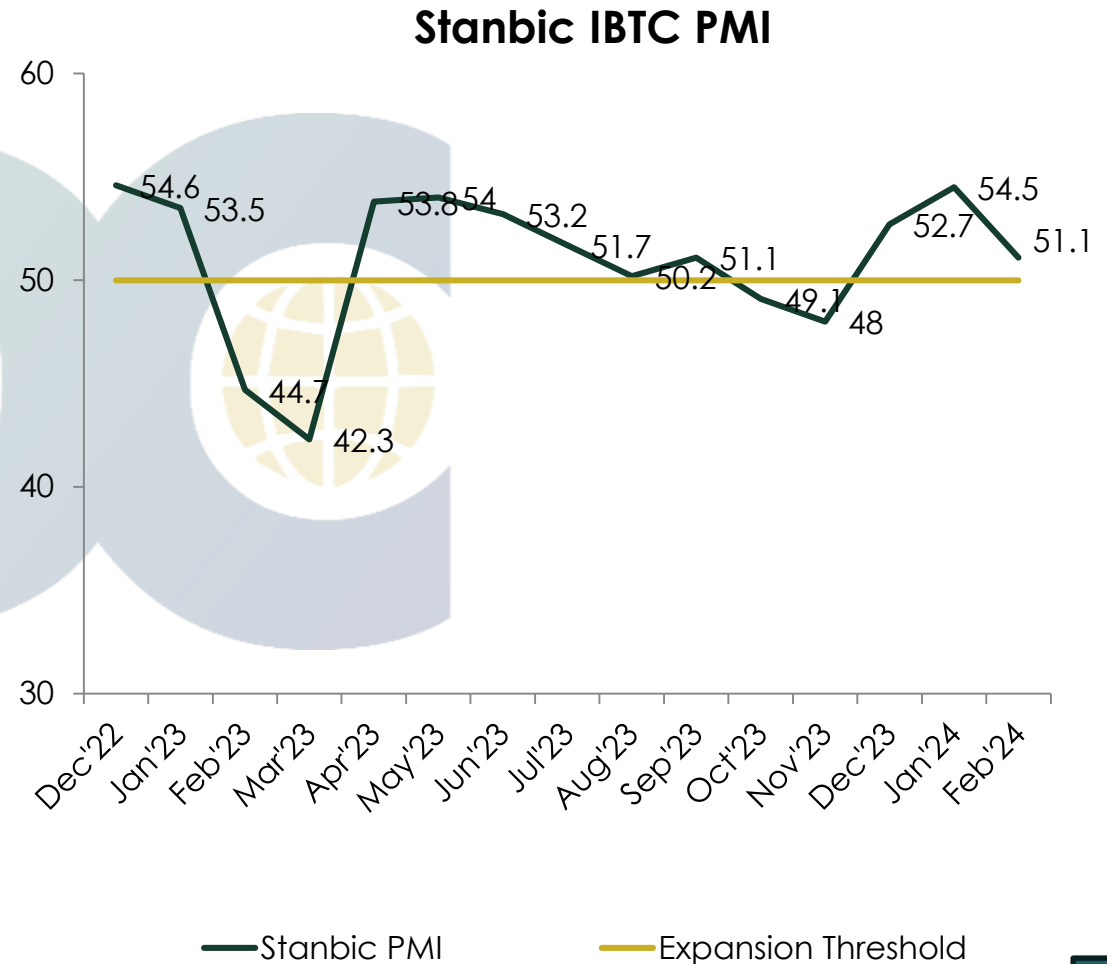
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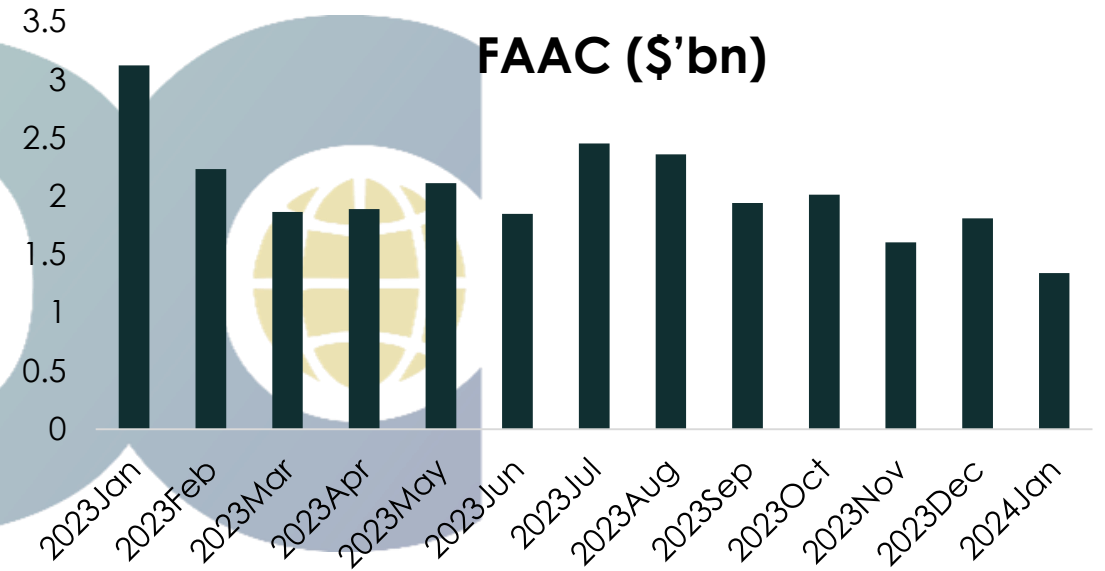
PRICE PRESSURES WEIGH ON PRIVATE SECTOR GROWTH

- In February, the purchasing manager index (PMI) dropped to 51.1
 - 6.24% lower than 54.5 in January 2024
 - And slightly above the 50-point threshold
- The weak performance was largely due to the surge in input costs
 - Fueled by the naira weakness and rising prices (fuel and food)
- Output and new orders slowed, and firms reduced staffing levels for the first time in 10 months
- Lower PMI signals a slower pace of growth in the Nigerian economy



FAAC - MORE NAIRA, LESS DOLLAR

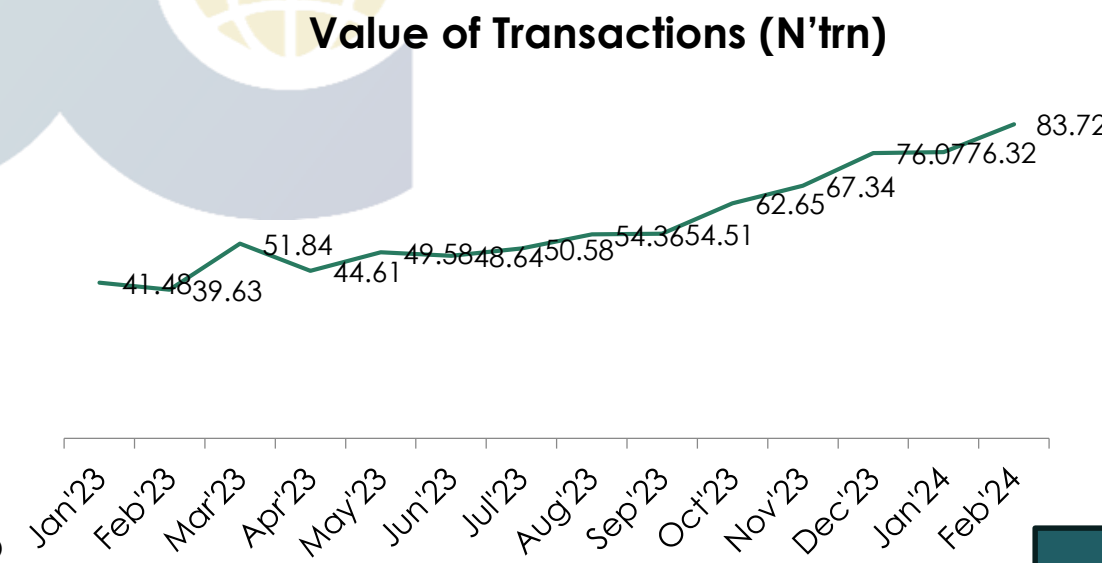
- Average Pre-June FAAC in 2023 was N1.03trn while average post-May FAAC in 2023/24 was N1.61trn
- In dollar terms, FAAC has declined to average of \$1.92bn (during Tinubu) per month from average of \$2.2bn per month (between Jan and May 2023)
- Exchange rate is eroding the revenue gains



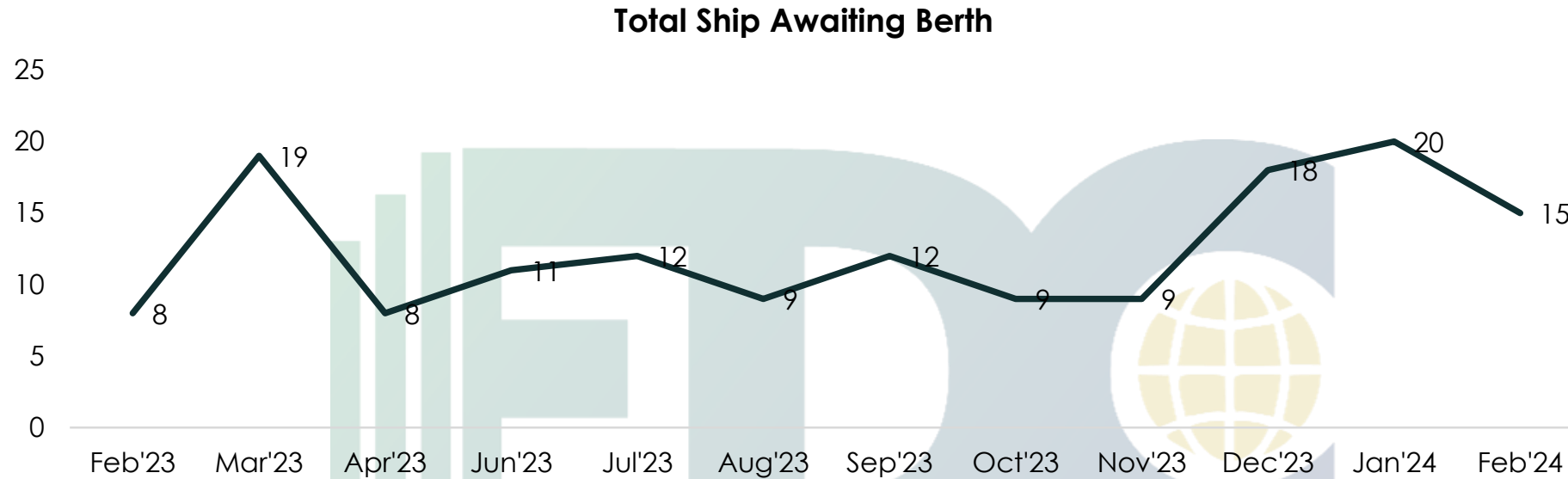
VALUE OF TRANSACTIONS

- The total value of transactions has been increasing steadily since July 2023
 - Reaching a record high of N83.72 trillion in February 2024 as digital adoption expands
- When compared to the value in the previous month, it rose 9.7%
 - Supported by the utilization of electronic platforms (NIP, NEFT, and Cheques) for payment settlements
- POS transactions sustained decline for the second consecutive month
 - Falling 5.3% to N805.05bn in February
 - Due to higher charges via the e-payment platform
- Value of transactions is expected to rise further in March due to increased festive demand (Ramadan & Easter)

Mode of Payment	Jan'24 (N'bn)	Feb'24 (N'bn)	Change (%)
NIP	72,114.28	79,327.04	10
POS	850.09	805.05	-5.3
NEFT	3,063.90	3,283.79	7.18
CHEQUES	288.75	304.14	5.33
Total	76,317.02	83,720.02	9.7



SHIPS AWAITING BERTH



- The total ships awaiting berth at the seven major ports in Nigeria reduced to 15 in February 2024
 - Down from 20 in the previous month
- Due to increased efforts to enhance port operations and efficiency
 - Especially in Lagos ports (Apapa and Tincan)



OUTLOOK FOR THE MONTH

MARCH 2024

OUTLOOK- BEWARE OF THE IDEAS OF MARCH

- Food shortage and sporadic protests will continue in March/April 2024
- Headline inflation will cross 31.5% level with food inflation above 37%
- The interbank interest rate will spike to above 25%p.a.
- Effective lending rate to corporates will average 30%p.a.
- Raising the default rate probability on loans and impairments
- Many end users will suspend commodity purchases e.g Olam and Premier Feeds in the maize and sorghum market
- Asking price will decline by as much as 20% of the range
- The CBN will attempt to clear the forex commitments and reduce the pressure on the naira temporarily

OUTLOOK- BEWARE OF THE IDEAS OF MARCH

- An open auction system in the open market, like the T/bill market could commence in April
- The naira will oscillate between N1500 and N1350 throughout the month of March
- Airline fares will fall by 15-20%, especially the Lagos-London rate
- We expect temporary commodity imports to fill the demand gap and soothe the price
- Minimum wage negotiations will stall before settling at the naira equivalent of \$80 (N100,000)

Corporate Humour

A committee is a group of people who individually can do nothing but together decide that nothing can be done.

– *Fred Allen*



A homeless musician is one without a girlfriend

– *Dave Barry*

“Nice party” – I see a lot of familiar face lifts

– *Lt. Frank Drebin*

Corporate Humour

What do Christmas trees and a priest have in common? Their balls are just for decoration

– *Graham Norton*

Show me a man who is a good loser and I will show you a man playing golf with his boss.

– *Jim Murray*

Corporate Humour

Accomplishing the impossible means only that the boss will add it to your regular duties

– *Doug Larson*



The reward for hard work is more work with the less pay.

– *Anonymous*

Corporate Humour

Be nice to people on your way up, because you will meet them on the way down

– *Wilson Mizner*

If you think nobody cares if you are alive or dead, try missing a couple of loan repayments

– *Flip Wilson*

I think the expression it's a small world is really a euphemism for I keep running into people I can't stand

– *Brock Cohen*

Corporate Humour

Everybody can write. Writers cannot do anything else.

– *Mignon MCLaughlin*

A synonym is a word you use when you cannot spell the word you first thought of

– *Burt Bacharach*

The difference between light and hard is that you can sleep with a light on

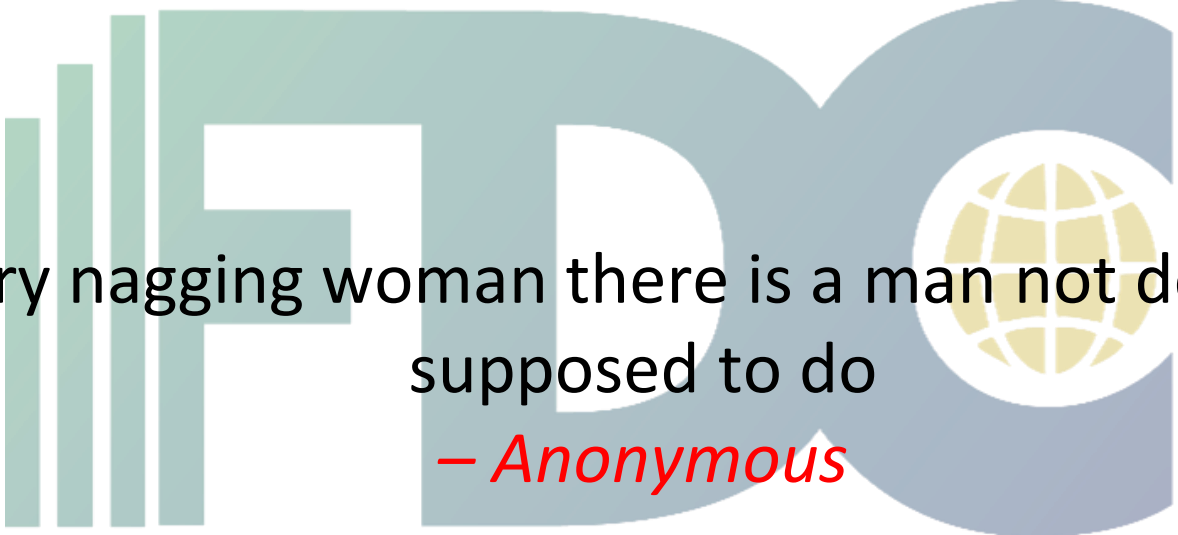
– *Anonymous*



Corporate Humour

There are no stupid questions but there are lots of inquisitive idiots.

– *Anonymous*



Behind every nagging woman there is a man not doing what he is supposed to do

– *Anonymous*

A secret is something you tell everybody to tell nobody

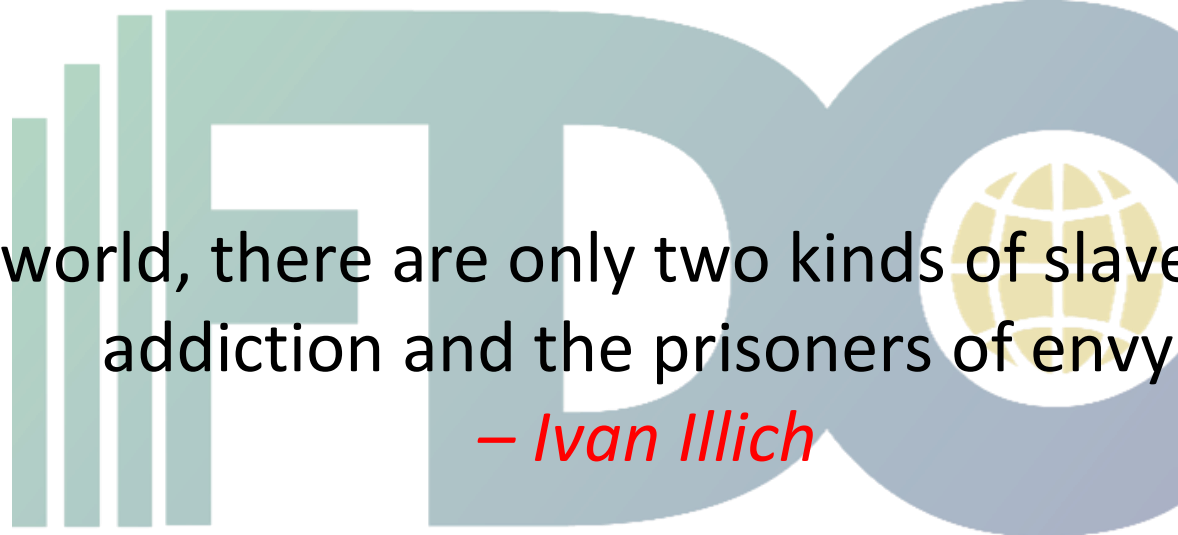
– *Anonymous*



Corporate Humour

Whoever is trying to bring you down is already below you.

– *Anonymous*



In a consumer world, there are only two kinds of slaves, the prisoners of addiction and the prisoners of envy.

– *Ivan Illich*

You can calculate the worth of a man by the number of his enemies.

– *Anonymous*



Corporate Humour

Relations are made by fate, friends by choice.

– *Abbe Delille*



At 20 the will reigns, at 30 the wit and at 40 the judgement.

– *Benjamin Franklin*



Corporate Humour

Age appears to be the best in four things – old wood best to burn, old wine to drink, old friends to trust and old authors to read

– *Francis Bacon*



The wisest mind has something yet to learn

– *George Santayana*

Work saves us from three great evils : boredom, vice and need

– *Voltaire*



**THANK
YOU**

Bismarck J. Rewane, MD/CEO
Financial Derivatives Company Ltd.
Lagos, Nigeria
08148894309