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ECONOMIC AND STOCK MARKET REPORT - MARCH

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Global Debt On the Rise...

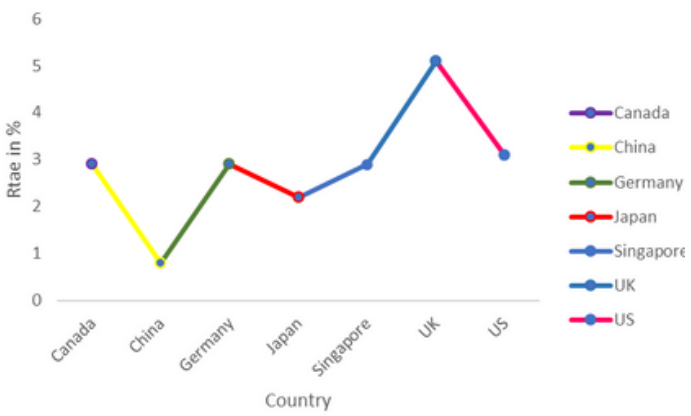
As economies around the world releases their data for the 2023 fiscal year, it was revealed that inflation was on the rise and consequently bringing some advanced economies to experience slow growth, while others plunged into recession. As of September 2023, global debt was put at USD307.4 trillion. This signaled a looming debt crisis which is expected to span 10 years before its impacts wear off. High-income countries alongside emerging markets experienced a substantial rise in their debt piles. This grew by USD100 trillion from a decade ago, fueled in part by the current high interest rate environment. The most recent global debt monitor report by the Institute of International Finance revealed global debt to be at 334 percent as a share of global gross domestic product as at the end of 2022. To meet debt payments, 100 countries are estimated to have to cut spending on critical social infrastructure, including health, education and social protection. Mature markets such as the United States (U.S.), United Kingdom (U.K.), Japan and France were responsible for over 80 percent of the debt build-up in the first half of last year. While in the case of emerging markets, China, India and Brazil saw the most pronounced increase.

Data from the Office for National Statistics revealed that the U.K. gross domestic product shrank by 0.3 percent in the last three months of 2023. This was the second consecutive quarterly decline experienced. The decline led the U.K. economy into a technical recession at the end of 2023. The three main sectors driving the economy all contracted during that same quarter.

Services sector declined by 0.2 percent, Production by 1 percent and construction output by 1.3 percent. Inflation remains the highest barrier to growth. This propelled the Bank of England to keep firm interest rates, which in turn hindered economic growth. Inflation held steady at 4 percent year-on-year in January. This was on the back of reduction of prices for furniture and household goods, food and non-alcoholic beverages.

China's economy experienced its biggest drop in consumer prices in the month of January since the global recession in 2009. Data by the National Bureau of Statistics (NBS) reflected a drop by 0.8 percent year-on-year and marked a four straight month decline. This drop was attributed largely to seasonal factors and downturn from consumers.

Graph 1: Global Inflation Rate (December 2023)



Source: WCL Research

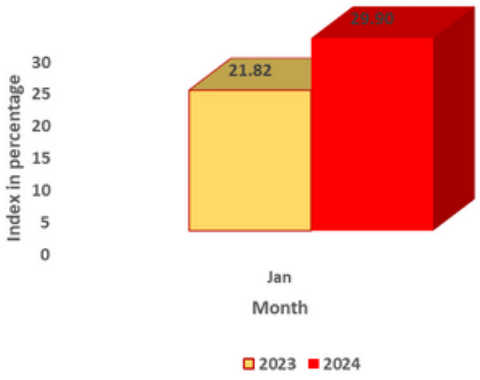
GLOBAL ECONOMY

Domestic Economy

Business activities showed improvement in the month of January as measured by the Stanbic IBTC Purchasing Managers' Index. The index rose to 54.5 points as against 52.7 points recorded in December 2023. This increase is the second consecutive increase since November 2023 and the highest record since December 2022. This further suggests a recovery in the Nigerian private sector with expansion in outputs and increasing new orders. Meanwhile inflation remains elevated on the back of weak currency, high cost of energy products and raw materials. We expect this improvement to translate to a stronger economy as the year advances.

The inconveniences in the macroeconomic environment intensified during the month. This was on the back of sporadic increase in the prices of goods and services. The Consumer Price Index (CPI) which measures the nation's headline inflation increased to 29.90 percent in the month of January 2023. This was revealed from the data obtained from the Nigeria Bureau of Statistics (NBS). The index surged by 0.98 percent year-on-year from 28.92 percent recorded in December 2023. The major factor responsible for this increment was the current weakness in the nation's local currency. The naira became more volatile in the foreign exchange market against the United States (U.S.) dollars. The naira went down by 21 percent in January to reach a low of NGN1,530 against the dollar as demand exceeded supply. This rubbed off on all economic activities thereby leading to increase in the price of energy products, price of food items, inputs for manufacturing companies amongst others. The consuming households remained at the receiving end with eroded income. The resumption of the Central Bank of Nigeria (CBN) bimonthly Monetary Policy Committee (MPC) meeting led to the upward review of the Monetary Policy Rate (MPR) by 400 basis point to print at 22.75 percent. We expect this and other fiscal policies to suppress the effect of inflation in the near term.

Graph 2: Headline Inflation Rate (Jan 2024)

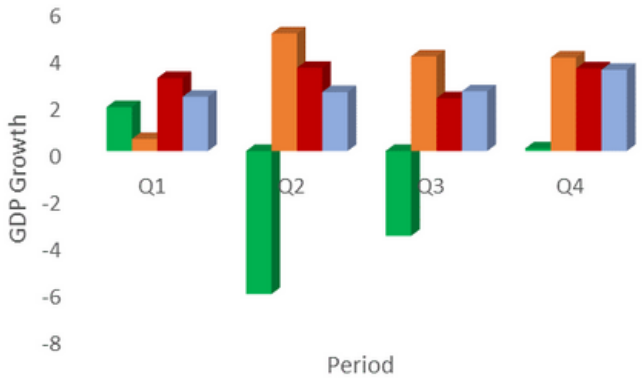


Source: NBS, WCL Research

Data from the Nigerian Bureau of Statistics revealed the nation's Gross Domestic Product (GDP) grew averagely by 2.74 percent in the 2023 fiscal year. This was lower than the 2.9 percent reviewed projection of the International Monetary Fund (IMF) and the 3.10 percent growth recorded in 2022. The economy experienced a 3.46 percent growth year-on-year in real terms in the last quarter of 2023. This is a 0.98 percent increase from 2.54 percent recorded in the preceding quarter of the same. This performance was mainly driven by the services sector with a 56.55 percent contribution to the aggregate GDP.

The Naira depreciated further in the month of February both on the Investors and Exporters (I & E) window and the parallel market. The Naira exchanged as high as NGN2,000 against the United States (U.S.) dollars in the parallel market. This resulted due to scarcity of the U.S. dollars for transactional purposes. This event negatively impacted economic and business activities. Sudden surge in the prices of goods and services is one of the evident impacts. The Central Bank of Nigeria (CBN) put in place several measures to check and stabilize the volatile exchange rate. The CBN gave a sell off directive to commercial banks. The directive entails them to sell all excess foreign exchange holdings and warned against hoarding excess foreign currencies for profit reasons. In response to this, the Deposit Money Banks made frantic efforts to offload their surplus dollar stocks. The swift adherence to this directive led to a rebound of the naira in the parallel market as the level of foreign exchange activities increases. The naira rebounded and appreciated to exchange at NGN1,420 per U.S. dollars in the parallel market during the period under review. We expect more workable policies to be deployed in the interim to further strengthen the naira and ease the economy. The CBN also continued in its bid to clear the foreign exchange backlog. Currently, an approximate amount of USD2.562 billion has been paid to commercial banks and foreign airlines to reduce the government's liabilities.

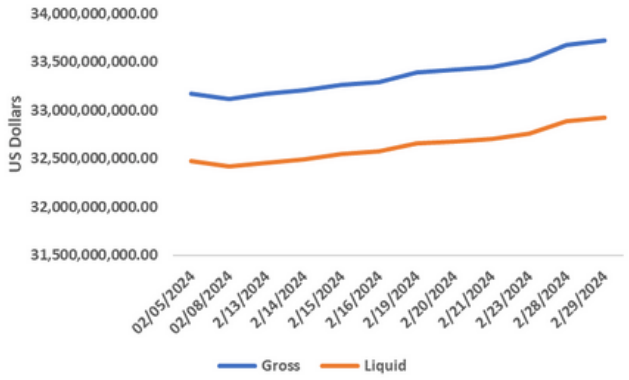
Graph 3: 2023 GDP Quarterly Growth Rate



Source: NBS, WCL Research

Foreign Reserves

Graph 3: Gross And Liquid Movement in March 2024



Source: CBN, WCL Research

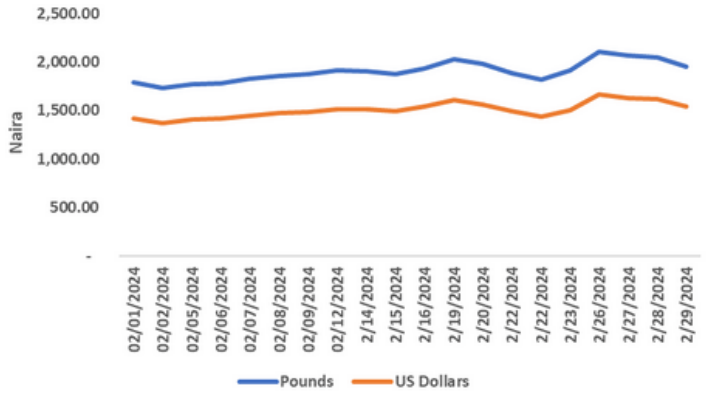
In March, the nation's foreign reserves had a notable appreciation of $364.94 million, reaching $33.718 billion gross, compared to the previous month's position of $441.236 million ($33.353 billion gross). This surge in external reserves, indicative of increased foreign exchange inflow for the month, could be attributed to the rise in global oil prices and forex reforms implemented by the Central Bank of Nigeria. Oil production surged from 1.33 million barrels per day (mbpd) in December 2023 to around 1.547 mbpd by the close of February 2024. Global oil prices experienced an increase from $85.08 per barrel in January to $88.07 as of February ending. Anticipated cuts in oil production by OPEC in the coming months, specifically in the second quarter of 2024, are expected to sustain oil prices worldwide, potentially leading to further upward momentum in prices.

Exchange Rate

In March, the depreciation of the Nigerian naira persisted. The value of the naira at the Investors and Exporters (I&E) window dwindled further (from N958.06 in January to N1,544.00 at the end of February). This was due to the heightened demand for foreign exchange by individuals, inconsistencies between fiscal and monetary policies, foreign exchange backlogs, forex racketeering among financial institutions, and persistent pressure on the Naira.

Additionally, there was an increased scarcity of FX and a surge in demand from investors for business-related purposes. The persistent pressure from travelers and businesses for foreign exchange has contributed to the ongoing strain in the exchange rate. This has made the value of the naira to keep falling as it was exchanged against the US dollars at the I&E window at NGN 1,544/$1 and NGN1,600 /$1 in the parallel market as at February 29th 2024. This suggested that during the period, the index resisted the intervention efforts of the Central Bank, which aimed at addressing the backlog of foreign exchange demands from banks and airline carriers in order to bolster the strength of the naira.

Graph 4: Trend of Exchange Rate in March, 2024 (Pounds and USD to Naira)



Source: CBN,WCL Research

In an effort to combat rising inflation rate and address a weakening domestic currency, the Monetary Policy Committee (MPC), led by the governor of the Central Bank of Nigeria, issued a series of directives and implemented various fiscal and monetary measures. These measures were geared towards bolstering the supply of foreign exchange (FX), including initiatives such as the direct remittance of FX to the CBN from the ministry of finance and Nigerian National Petroleum Corporation Limited (NNPCL) at the onset of the year. Additionally, the Monetary Policy Rate (MPR) was elevated from 18.75 percent to 22.75 percent, with the aim of attracting greater foreign investment and curbing the upsurge in inflation in February.

We anticipate that these measures will yield positive outcome on the economy in the near term. As the next MPC meeting approaches, we look forward to the government coming up with policies that can aid sustainable solution to prevailing economic challenges.

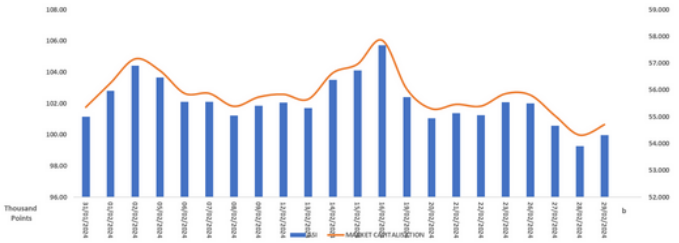
Stock Market Review

The Nigerian equities market ended the month of March Bullish. This Surge was fueled by increased investor sell-off activity following profit-taking in previous months. Investors are rebalancing their portfolio towards financially robust stocks and anticipation of dividend payouts.

This waning optimism was reflected in investor sentiment and purchasing patterns, leading to a decline in the All-Share Index. The index concluded February below the 100,000 mark, settling at 99,980.30 index points. This marked a notable 1.16 percent decrease from January's closing point of 101,154.45.

Likewise, market capitalization depreciated by 1.18 percent, closing at N54.707 trillion, lower than the previous month's close of N55.357 trillion.

Graph 5: ASI vs Market Capitalization



Source: NGX, WCL Research

During the month;, the Nigerian stock market witnessed a significant decline in trading activities compared to the previous month. Specifically, the total volume of shares traded amounted to 6.249 billion, with a total value of N134.425 billion across 127,784 deals. This stands in contrast to the robust activity observed in January, where 19.288 billion shares, valued at N325.77 billion, changed hands through 318,786 deals. Furthermore, the market exhibited a negative breadth, with only 25 stocks recording gains, while 82 stocks incurred losses, and 47 remained unchanged.

Table 1: Some Sector Performance

Index	Close	Change	% Change
NGX Oil & Gas	1302.99	51.77	4.14
NGX Consumer Goods	1623.40	229.35	16.45
NGX Banking	849.49	-17.44	-2.01
NGX Industrial	4886.13	-751.70	-192.06
NGX Insurance	367.57	-23.81	-0.42

Source: NGX, WCL Research

Table 2: Top Price Gainers

STOCK SYMBOL	PREVIOUS MONTH CLOSE (₦) 29/02/24	MONTH CLOSE (₦) 28/03/24	CHANGE IN PRICE (₦)	CHANGE IN PRICE (%)
JULI	0.64	3.41	2.77	432.81
GEREGU	568.00	977.00	409.00	72.01
MEYER	3.56	5.60	2.04	57.30
BUA	271.80	379.90	108.10	39.77
CORNEST	1.61	2.10	0.49	30.43

Source: NGX, WCL Research

Table 3: Top Price Losers

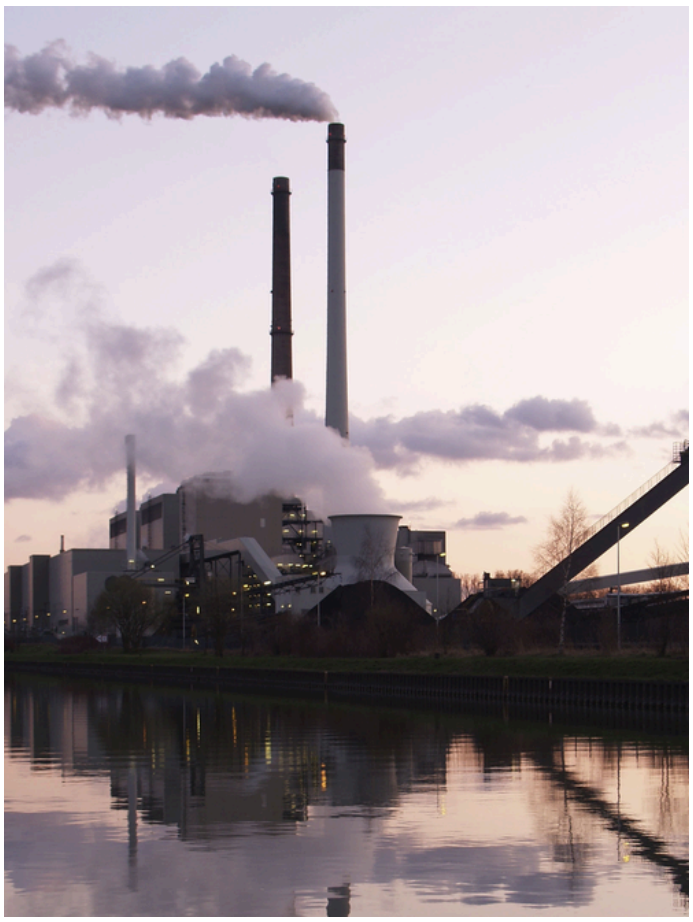
STOCK SYMBOL	PREVIOUS MONTH CLOSE (₦) 29/02/24	MONTH CLOSE (₦) 28/03/24	CHANGE IN PRICE (₦)	CHANGE IN PRICE (%)
MORISON	3.38	1.51	1.87	55.33
LINKASSURE	1.17	0.73	0.44	37.61
ETERNA	21.95	14.25	7.70	35.08
RTBRISCOE	0.71	0.49	0.22	30.99
UPL	3.69	2.59	1.10	29.81

Source: NGX, WCL Research

The shift in trading patterns reflected investors' reactions to prevailing market conditions, as they seek to optimize returns amidst evolving economic landscapes. This strategic maneuvering underscores the significance of dividend yields as a key factor influencing investment decisions, highlighting investors' forward-looking approach in navigating market fluctuations. Other market activities that occurred in February was the final delisting of the shares of Glaxo SmithKline Consumer Nigeria Plc on the Nigerian Exchange Group. This was sequel to the approval of the company's application to delist its entire issued share capital from the Exchange.

We anticipate the market to trend downwards in the market in the month of March. Nonetheless, stocks boasting robust financials and dividend releases have the potential to sway the market positively. Government policies are also poised to pique investor interest, alleviate foreign exchange pressures, and ease macroeconomic tensions.

Nigeria's Crude Oil Production Went Southwards...



During the month of February, the Port Harcourt Refinery got a supply of 475,000 barrels of crude oil from Shell Petroleum Development Company. The supply kickstarted the operations of the refinery. This was the first supply it will be getting in the past few years. Operations in the Refinery had previously been stalled due to the poor state of the plant. However, it was rehabilitated and tested to ensure its position for sustainable operations. This milestone is expected to support the government's aspiration of achieving steady supply of petroleum products to the downstream market alongside generate revenue which is beneficial to the Nigerian economy.

The nation recorded 1.43 million barrel per day (mbpd) output of crude oil in January 2024 against the 1.34 mbpd recorded in December 2023, This indicated a 6.9 percent month-on-month increase in the volume of output. This is lower than set target of 1.78 mbpd for the 2024 fiscal year budget and also the current 1.5 mbpd Organisation of Petroleum Exporting Countries (OPEC) quota. This increase indicates the country's success in fighting oil theft. This performance made Nigeria the current highest African producer.

The nation experienced scarcity of premium motor spirit (PMS) and intense irregularities in the distribution and supply of electricity during the month. This left significant stress on the workings of the economy. The power Distribution Companies (DisCos) decided to hike electricity tariff. This increment was to settle the indebtedness of the power sector to electricity-Generating Companies (GenCos) and gas companies (GasCos) which had risen to over NGN3 trillion. This proposition was rejected alongside electricity subsidy removal. This was as a result of the economic hardships in the country currently.

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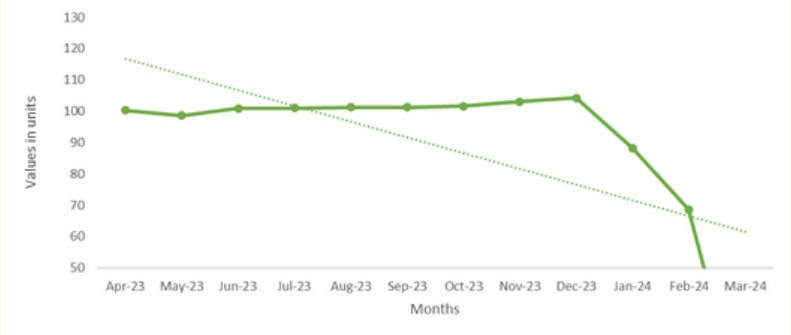
February 2024 Economic Outlook

The Watershed Research Leading Economic Indicator (WR-LEI) is a statistical tool used to forecast the economic outlook. The graph demonstrates that given all macroeconomic parameters in consideration, the economy will continue in its declining state for the month of March. The recent supply of Naira by the Central Bank of Nigeria is expected to support the availability and appreciation of the Naira. This is also expected to ease economic activities as pressure on manufacturers and consumers begins to whittle down. We expect the stakeholders and bodies concerned to intensify their efforts to come up with sustainable and effective action plans to relieve the economy thereby leading to an improvement in the near term.

Chart 5: WR-Leading Economic Indicator (March 2024)



Source: NGX, CBN, NBS & WCL Research

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