Welcome

Nigeria's Economic Pulse: Key Insights and Trends from Q3 2024

As Nigeria navigates a volatile macroeconomic environment in Q3 2024, resilience emerged amidst inflationary pressures, fluctuating oil production, and evolving investor sentiment. In this edition, we explore the latest developments in inflation, foreign trade, oil production, and the performance of both stock and fixed-income markets, offering insights into trends that will likely shape the economic landscape in the coming quarter.

Inflation

The National Bureau of Statistics (NBS) reported that Nigeria's inflation rate eased for the second consecutive month, dropping by 125bps to 32.15% YoY in August 2024, from 33.40% in July 2024. This decline was largely attributed to a reduction in food inflation, which fell to 37.52% YoY (from 39.53% in July). The ongoing harvest season improved food supply, leading to lower prices for staples such as yams, tomatoes, and maize. Likewise in the same period, core inflation edged up by 11bps to 27.58% YoY (from 27.47% in July), driven by increased transport costs due to fuel scarcity and higher fuel prices during the period. By September, the deceleration of inflation was reversed, with a rise driven primarily by higher food prices (+25bps to 37.77% YoY) due to below-average harvest cycles and escalating transportation costs. Surprisingly, core inflation decelerated for the first time in ten months, dropping by 15bps to 27.43% YoY, although still elevated due to a combination of factors: (1) the significant hike in the PMS price (+50.5% to NGN855.00/litre), (2) increased naira volatility, and (3) continued rise in transportation expenses. Looking ahead to October, we anticipate a higher inflation rate as PMS prices surged again, rising from NGN855.00/litre to NGN998.00/litre (+16.7%), a cost increase likely to be transmitted across food prices and transportation.

Foreign Trade

According to the NBS, Nigeria's total trade surged by 150.39% YoY to NGN31.89trn in Q2:2024, up from NGN12.74trn in Q2:2023, despite a slight 3.76% QoQ decline. This growth was driven by significant increases in both exports and imports. Exports jumped 201.76% YoY to NGN19.42trn (+1.31% QoQ), while imports rose 97.93% YoY to NGN12.47trn (-10.71% QoQ). This resulted in a substantial trade surplus of NGN6.95trn, a +5114.99% YoY increase (compared to NGN133.18bn in Q2:2023). The rise in exports was driven by the naira's depreciation, which made Nigerian goods cheaper to foreign buyers, alongside improved crude oil production. Imports grew primarily due to the naira's depreciation, which increased the cost of imported goods. Crude oil remained the main driver of exports, contributing 74.98% of total exports, though slightly below 77.79% in Q2:2023. Manufactured goods made up the largest share of imports at 44.71%, compared to 47.92% in the same period last year. Looking ahead, we expect the trade surplus to persist, driven by further improvements in oil production and a tempered rise in imports, likely due to reduced petroleum imports as domestic refining activities increase.

Oil Production

The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) reported a slight increase in crude oil production, reaching 1.35 million barrels per day (mbpd) in August, compared to 1.31 mbpd in July. This growth was supported by higher output from key terminals such as Bonny (4.89 mbpd vs 4.58 mbpd), Brass (0.72 mbpd vs 0.66 mbpd), and Forcados (8.13 mbpd vs 6.81 mbpd), though other terminals like Qua Iboe and Escravos saw declines.

Ahead, we expect continued improvements in oil production, supported by key developments such as the Frontier Basin Exploration Fund, aimed at boosting exploration in underexplored regions. Additionally, the recent auctioning of new oil blocks and government efforts to curb oil theft and pipeline vandalism are expected to enhance Nigeria's oil production capacity in the near term.

Stock Market

The Nigerian stock market saw a bullish rebound in September, with the NGX-ASI posting a 2.10% MoM gain to close at 98,987.42 points. This marked a recovery from previous months' negative returns, pushing the YTD performance to 32.38% (vs. 29.01% in August). The upward movement was primarily driven by major shareholders' buy-ins on key stocks like FBNH (+34.09% Mtd), UBA (+17.58% Mtd), and SEPLAT (+10.00% Mtd).

Looking ahead, we anticipate a mixed market sentiment. Banking stocks are expected to continue performing well, with potential recoveries in other sectors likely to drive gains in the short term. Additionally, Q3 earnings reports may bolster positive market sentiment. However, rising treasury yields following the recent 50bps interest rate hike could sway some investors toward fixed-income assets. Overall, our outlook for October is tilted toward a cautious bearish sentiment.

Fixed Income

In the final month of Q3, the fixed-income market opened on a bullish note, with nominal yields averaging 18.91%, down from 20.17% at the last August auction. The month saw four primary market auctions (three T-bills and one domestic bond) as well as three Open Market Operations (OMO) auctions. Yields rose in response to the Central Bank's decision to hike the monetary policy rate by 50bps to 27.25% and increase the cash reserve ratio for commercial banks by 500bps to 50%. In the secondary market, T-bill yields rose to 21.91% (up from 21.21% in August), while average bond yields fell to 18.77% (down from 18.96% in August). These mixed movements reflected shifting system liquidity and investor positioning in response to higher yields. Ahead, we anticipate a moderate rise in yields as liquidity tightens due to the Central Bank's hawkish stance on absorbing excess liquidity. Despite the government's reduced borrowing needs, yields are expected to rise to maintain investor interest.

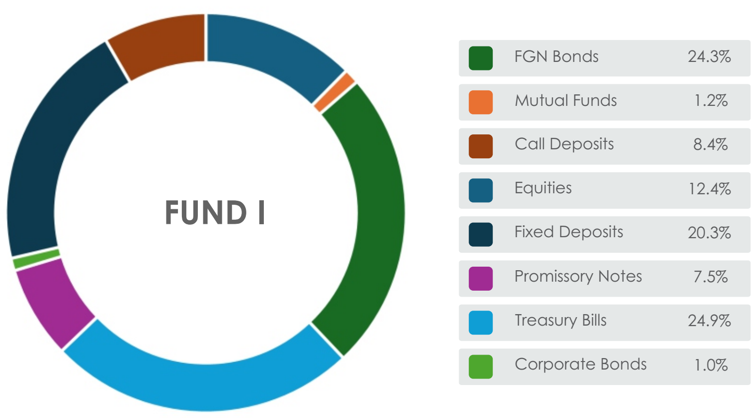
Outlook for Q4: Navigating Challenges and Seizing Opportunities

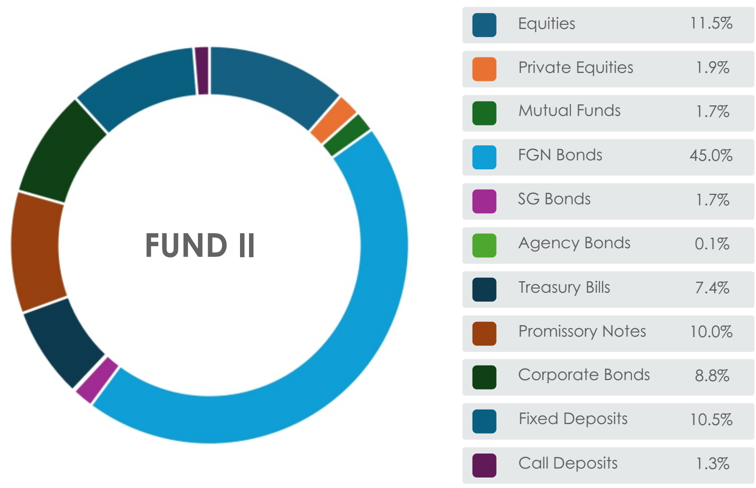
The third quarter of 2024 showcased a blend of optimism and caution across Nigeria's macroeconomic sectors. While inflation showed temporary relief, foreign trade experienced significant growth, and the stock market maintained bullish momentum. However, as we step into the final quarter of 2024, businesses and investors must stay agile, adapting their strategies to manage ongoing inflationary pressures and fuel price volatility, while capitalizing on emerging opportunities in oil and foreign trade. Rising fuel prices, persistent inflationary pressures, and global economic uncertainties will continue to shape the macroeconomic environment. Vigilance and adaptability will be key in navigating these challenges while seizing growth opportunities in the coming months.

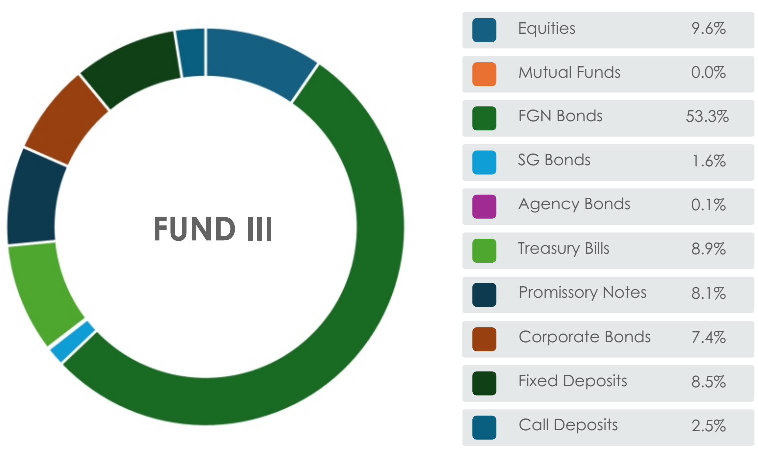
Q3 2024 Portfolio Performance and Asset Allocation

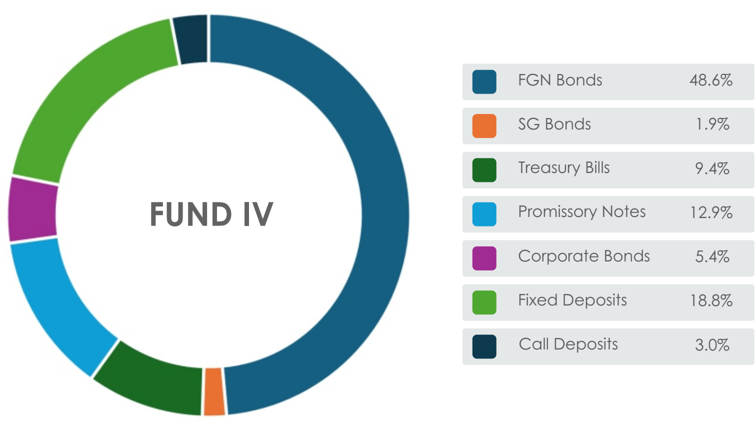
Driven by positive trends across the equity and debt markets, our flagship RSA portfolios achieved strong performance this month, showcasing the resilience and diversity of our investment strategy.

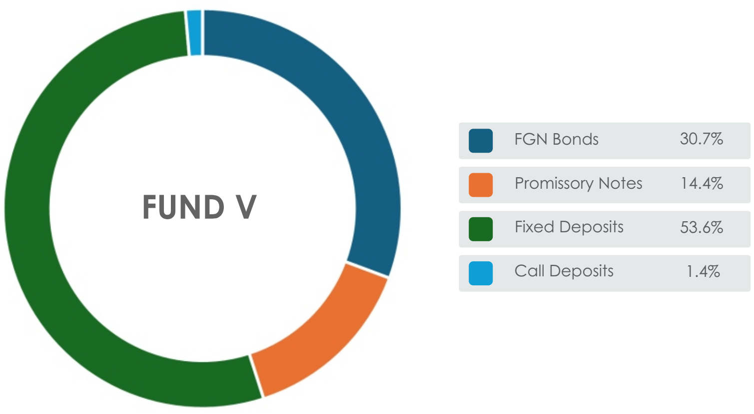
	UNIT PRICE				INVESTMENT RETURNS			
	DEC 23	MAR 24	JUNE 24	SEP 24	Q1 2024	Q2 2024	Q3 2024	SEP 24
FUND I	1.6816	1.7654	1.8061	1.8805	4.98%	2.31%	4.12%	11.83%
FUND II	4.9562	5.2679	5.3890	5.6167	6.29%	2.30%	4.23%	13.33%
FUND III	1.9790	2.0964	2.1523	2.2357	5.93%	2.67%	3.87%	12.97%
FUND IV	5.0146	5.1500	5.3126	5.5120	2.70%	3.16%	3.75%	9.92%
FUND V	1.4249	1.4680	1.5307	1.5983	3.02%	4.27%	4.42%	12.17%
ACTIVE FUND	1.2559	1.2969	1.3473	1.4058	3.26%	3.89%	4.34%	11.94%

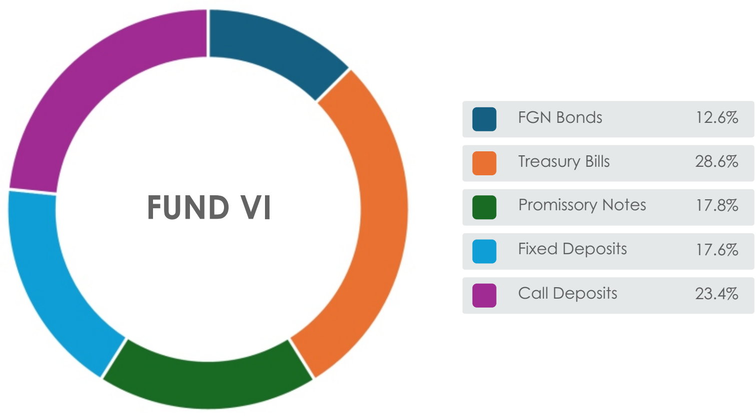












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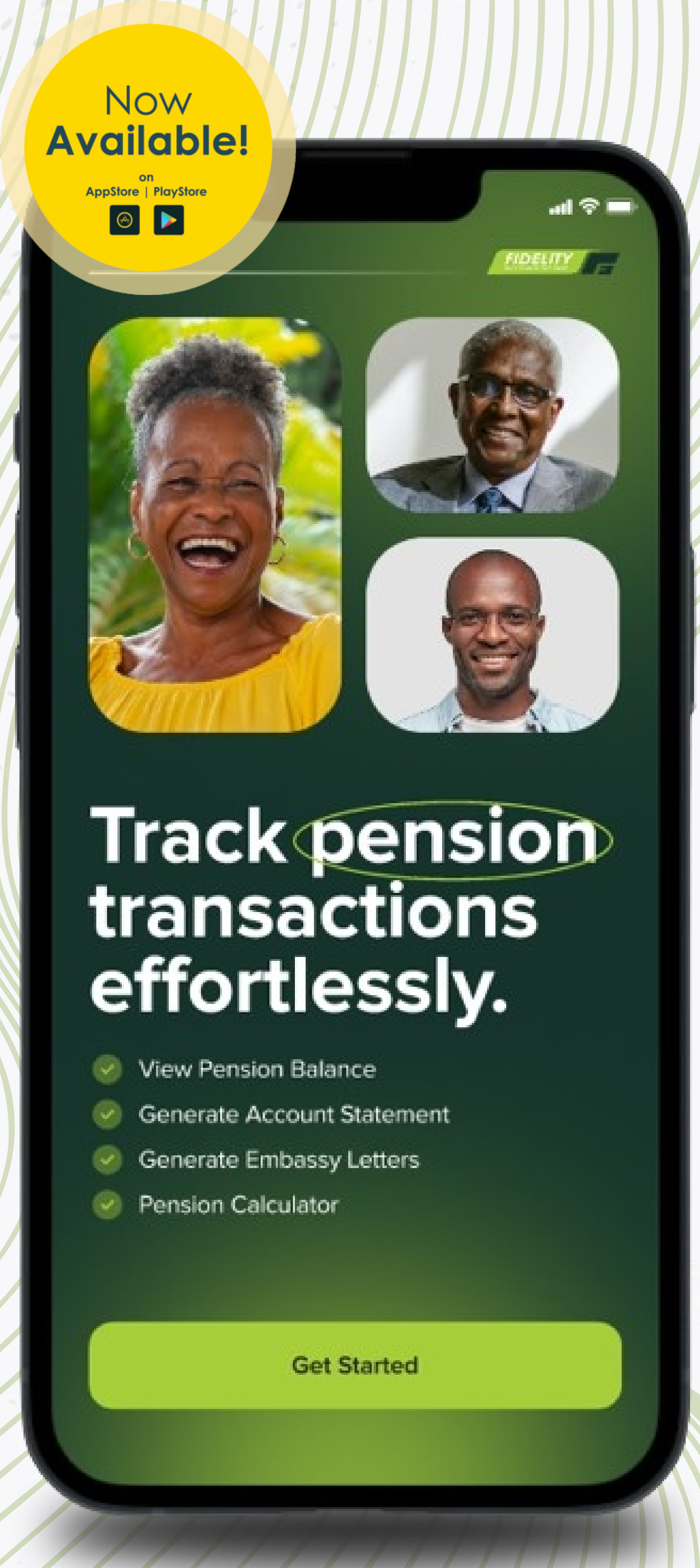

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