

NIGERIAN ECONOMIC AND FINANCIAL MARKET REVIEW  
FOR H1:2023 AND H2:2023 OUTLOOK

# POSITIONING FOR A GOVERNMENT-WITH-AN-AGENDA



## Section One



Executive Summary

## Section Two



Global Macroeconomic & Financial Market Review and Outlook

## Section Three



Domestic Macroeconomic Review & Outlook

## Section Four



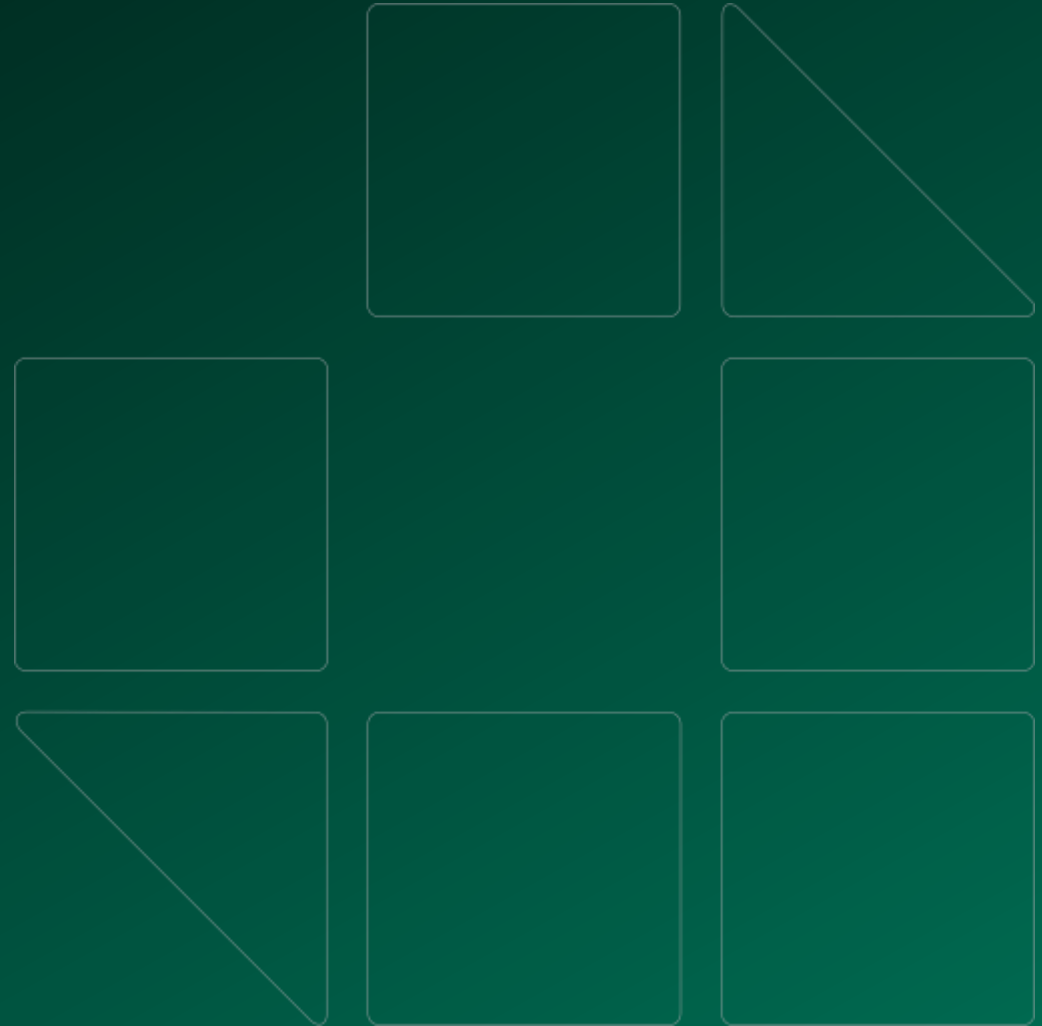
Domestic Equities Market Review, Outlook, and Recommendations

## Section Five



Fixed Income Market Review, Outlook, and Recommendations

# Executive Summary



Despite initial optimism surrounding growth projections for 2023, the first half of the year witnessed significant disruptions to global growth recovery driven by volatility in food and energy prices, the imposition of trade barriers, supply chain disruptions stemming from regional conflicts, and the labour market imbalances leading to slower economic activity. These developments have introduced a heightened sense of uncertainty in the global economic landscape, impacting trade, investment, and consumer confidence. Considering current realities, the IMF in its April 2023 World Economic Outlook (WEO) report downgraded its global growth projection for the year by 60 bps to 2.8% (2022: 3.4%).

On the domestic scene, macroeconomic performance in H1:2023 was largely shaped by the negative fallout of the ill-implemented Naira redesigned policy, election jitters, negative pass-through from the external economy, and lately, the radical reforms of the new government. Against our expectation of a 2.9% y/y GDP growth in Q1, actual growth printed lower at 2.4%, no thanks to the economic disruption caused by the Naira scarcity and pull-back on investment actions by businesses due to pre-election jitters. We estimated a potential output loss of c. ₦6.5tn in this period, which in addition to other pressure points in Q2 have derailed projected growth for H1:2023 by no less than 0.34ppt.

Meanwhile, price pressure worsened in H1:2023 due jointly to the self-inflicted pains of the poor Naira redesign policy implementation, spillover effect of sizeable farm harvest loss in 2022 (NAERLS estimate: ₦700.00bn), counter-intuitive monetary policies, and the asynchronous timing of the PMS subsidy removal and palliative rollouts. Yet, we are optimistic that the bold reform moves of President Bola Ahmed Tinubu – FX unification, roll back of trade barriers, and removal of consumption subsidies – if properly implemented, should set the **nation's** economy on the path to renewed hope. On the balance of analysis, we have revised our base case y/y GDP growth, average inflation, and official exchange rates for 2023 to 3.17%, 25.34%, and ₦673.40/\$1.00, respectively.

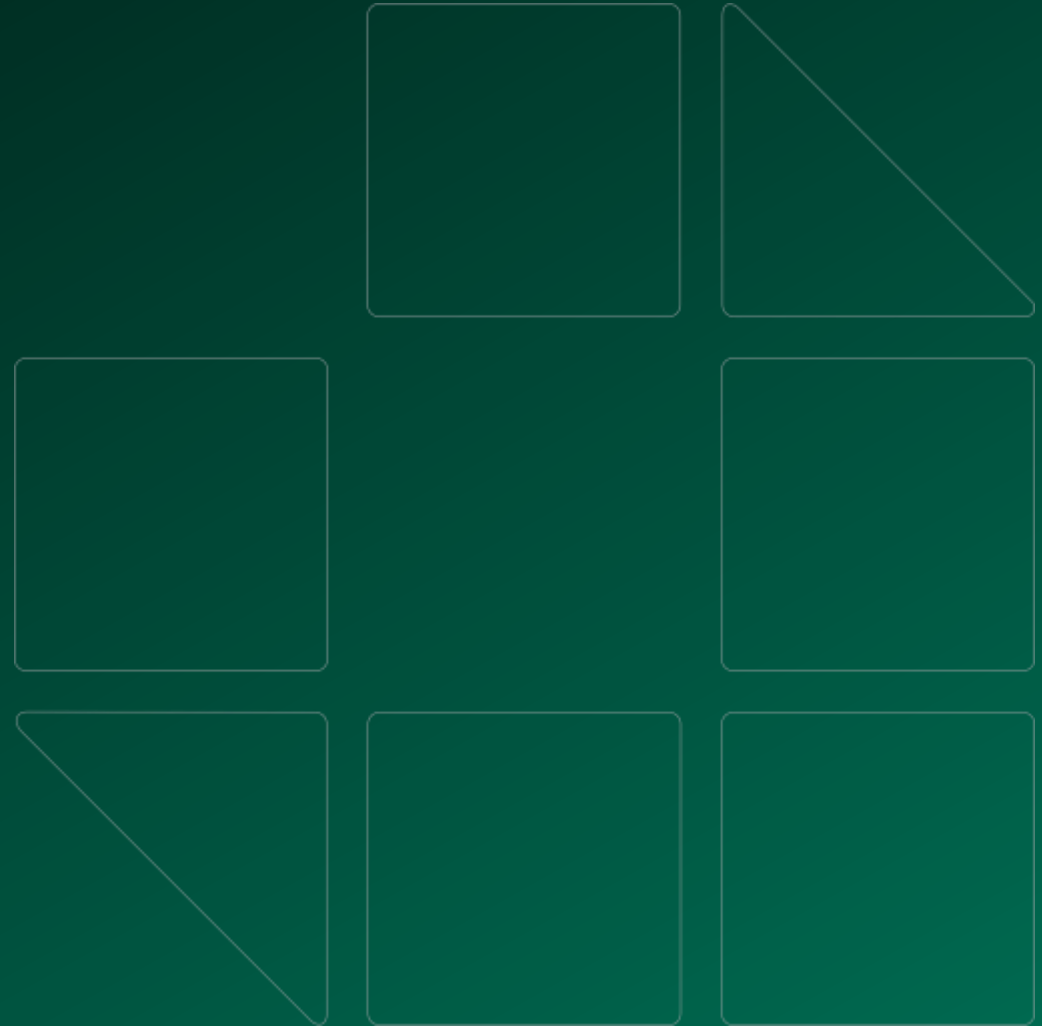
In the equities market, we anticipated a modest return of 7.3% in 2023 to be driven by cautious trading amidst political transition and fiscal & monetary policy reforms. However, at the end of H1:2023, the equities market posted a gain of 19.0%, outperforming by 11.7ppts. The positive H1:2023 performance was inspired by a late market rally in May and June, following positive market reaction to the market reforms of the new administration. Notably, FPI inflows increased by 338.7% to ₦37.2bn (the highest since June 2022) in May 2023. Consequently, we have revised our scenario-based projections for the equities market to reflect current market dynamics. On a base case, we envisage a 37.3% return in 2023.

In the fixed-income market, the first half of the year was marked by bearish pressure on account of hawkish signaling, unabating inflationary pressure, and sizable domestic issuances. Despite these, sparks of fiscal and monetary policy reforms induced a late rally in the FGN bond market, driving prices above 2022 year-end. Against this backdrop, yields on benchmark FGN bonds moderated 15bps to close H1:2023 at an average of 13.2% while benchmark NT-bills rose 92bps to 6.2%. In all, local sovereign bonds gained 14.5% annualized in the period. Going forward, the big question is when or if the financial market would feel the pains of reforms, like the real sector.

Considering worsening macroeconomic indices, especially persistent fiscal imbalances, and price & currency instability, we consider domestic bonds over-valued at current levels. Yet, the FG and the monetary authority seemingly align on goals to expand money supply and force interest rates low. Factually, the economy needs to rein-in inflation, disincentivise dollarization, and lure offshore capital. So, it would make sense for interest rates and the yield environment to stay elevated – or go higher.

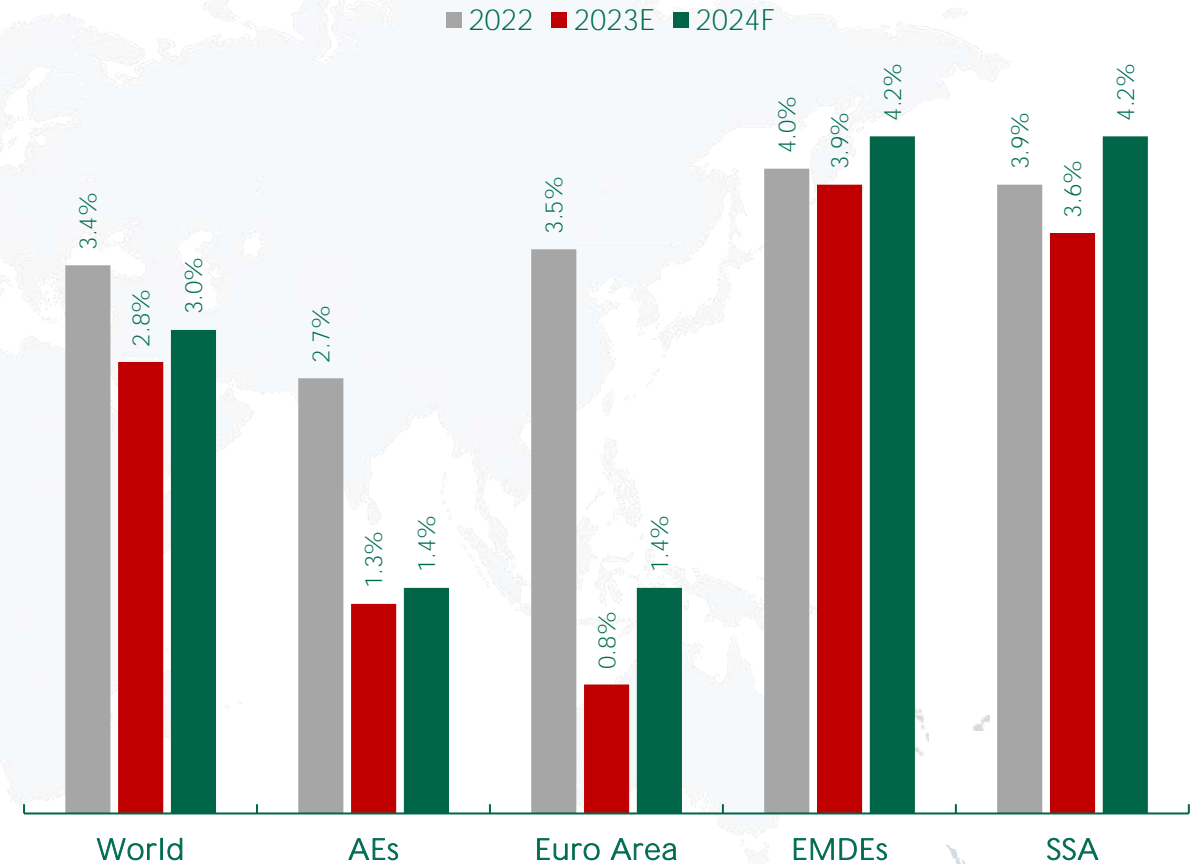
Consequently, the outlook for H2 comes down to whether the **FG's** bias for low-interest rates (which favours its borrowing cost) and **CBN's** playbook can defy economic realities. In our view, there is little reason to believe both fiscal and monetary authorities can hold on to the current path for much longer. Hence our expectation of a bearish market, with the benchmark bond yields and NT-bills to reach 13.3% and 6.4% respectively by year-end.

# Global Economy



- The global economy in H1:2023 was marked by the prolonged effect of 2022 downside risks – spiraling price levels, rising commodity & energy prices, Eastern Europe crisis, extended lockdown in China, growing geo-economic tension - with varying intensities coupled with the effect of monetary measures to allay inflation and fresh financial system turmoil.
- With persistent headwinds, global growth recovery slows to 2.8% in 2023, a 0.6ppt decline from 2022 level.
- Growth in the advanced economies is expected to decline to 1.3% following weak growth expectations majorly from UK (-0.3%) and Euro Area (0.8%).
- EMDEs growth prospects on average are estimated at 3.9%, majorly driven by the expected economic recovery in China following the reopening of economic activity.
- Expected decline in SSA growth reflects the impact of tighter monetary conditions and a negative shift in commodity terms of trade.

### Global GDP Growth Forecast



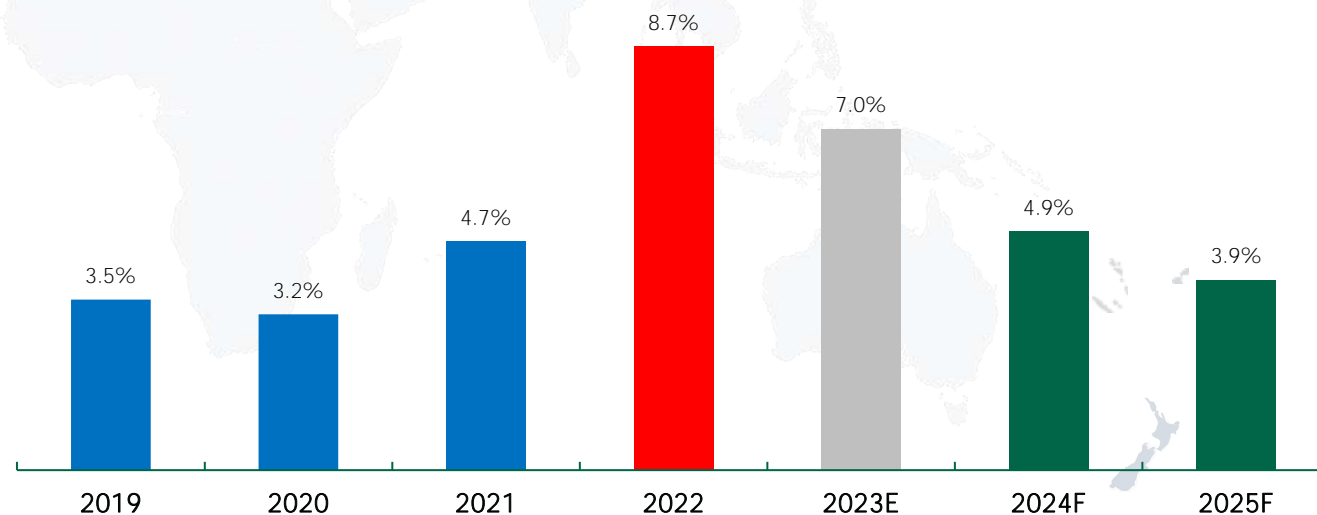
Source: IMF, Afrinvest Research

## Global Inflation Drivers



## Global Inflation Trajectory

- Moderation in demand, energy & food prices, and monetary policy rate hikes have slowed inflation, however underlying pressure points persist.
- Consequently, global inflation is estimated to taper from 8.7% to 7.0% in 2023 due to the expected reversal in energy, food prices and the continued impact of policy rate hikes.
- However, potential upside risks to inflation include food and energy price increase, labour market challenges and faster-than-anticipated economic recovery in China. This is expected to influence further rate hikes though at a slower pace.







Source: IMF, Afrinvest Research










# RESTRICTIVE MONETARY STANCE SUSTAINED TO TACKLE HIGH INFLATION

Although inflation began to decelerate in mid-2022 through H1:2023 in most of the major economies, price level (May 2023) remains above most Central banks' target, justifying sustained hawkish posture this year.

## Advanced Economies

<p><b>United States</b></p>  <p><b>Policy Rate:</b> rose three times by 75bps to 5.0%- 5.25%. <b>Inflation rate:</b> 4.0%</p>	<p><b>Euro Area</b></p>  <p><b>Policy Rate:</b> advanced four times by 150bps to 5.0%. <b>Inflation rate:</b> 5.5%</p>	<p><b>United Kingdom</b></p>  <p><b>Policy Rate:</b> increased four times by 150bps to 5.0%. <b>Inflation rate:</b> 8.7%</p>	<p><b>Japan</b></p>  <p><b>Policy Rate:</b> remains at -0.1%. <b>Inflation rate:</b> 3.2%</p>
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## Emerging and Developing Economies

<p><b>Brazil</b></p>  <p><b>Policy Rate:</b> unchanged at 13.75%. <b>Inflation rate:</b> 3.9%</p>	<p><b>Russia</b></p>  <p><b>Policy Rate:</b> unchanged at 7.5%. <b>Inflation rate:</b> 2.5%</p>	<p><b>India</b></p>  <p><b>Policy Rate:</b> raised once by 125bps to 6.5%. <b>Inflation rate:</b> 4.4%</p>	<p><b>China</b></p>  <p><b>Policy Rate:</b> remains at 3.65%. <b>Inflation rate:</b> 0.2%</p>	<p><b>Saudi Arabia</b></p>  <p><b>Policy Rate:</b> rose three times by 75bps to 5.75%. <b>Inflation rate:</b> 2.8%</p>
<p><b>Nigeria</b></p>  <p><b>Policy Rate:</b> increased three times by 200bps to 18.5%. <b>Inflation rate:</b> 22.4%</p>	<p><b>Ghana</b></p>  <p><b>Policy Rate:</b> advanced twice by 250bps to 29.5%. <b>Inflation rate:</b> 42.2%</p>	<p><b>Egypt</b></p>  <p><b>Policy Rate:</b> raised once by 200bps to 18.75%. <b>Inflation rate:</b> 35.7%</p>	<p><b>South Africa</b></p>  <p><b>Policy Rate:</b> increased twice by 100bps to 8.25%. <b>Inflation rate:</b> 6.6%</p>	

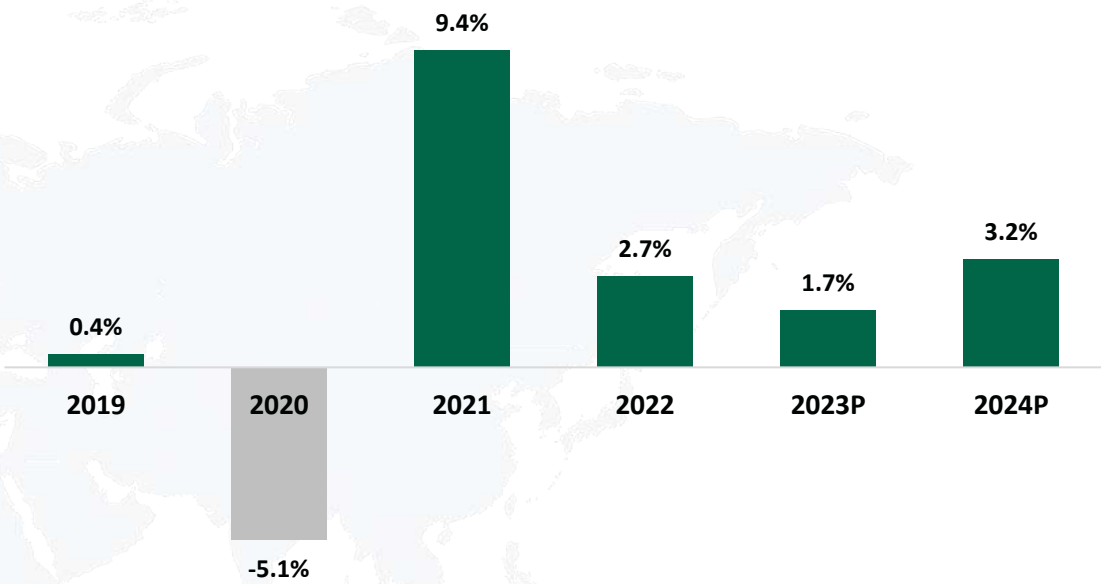
Note: Interest rate increase counts are only for H1:2023

Source: Central Banks Database, Afrinvest Research

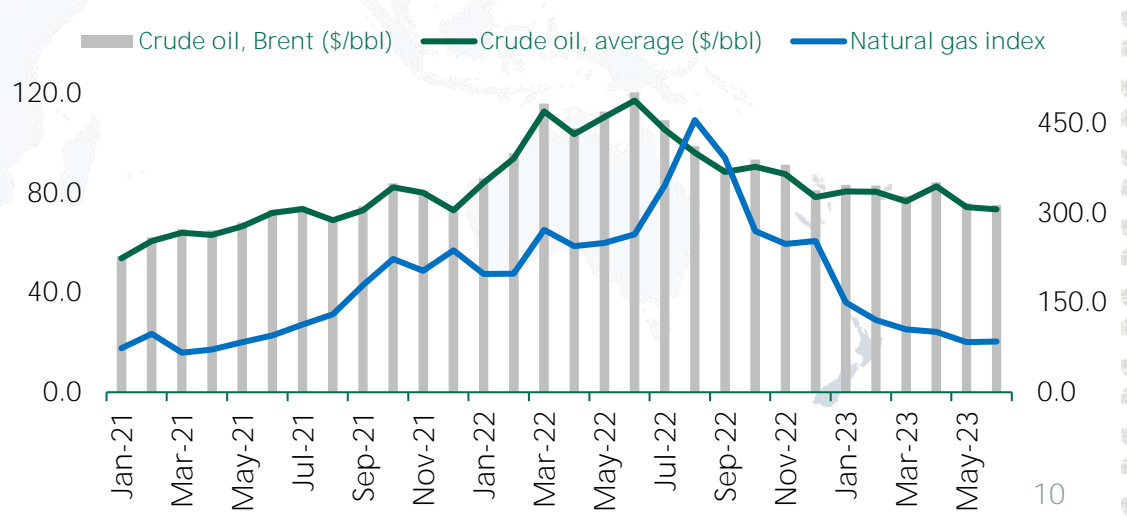
# GLOBAL TRADE VOLUME LAGS ON RISING TRADE BARRIERS

- Rising barriers from the Ukraine war escalation, trade sanctions, lagged effects of the financial sector turmoil and strong dollar weighed on global trade volume.
- Hence, trade volume growth is estimated to decline from 2.7% to 1.7% in 2023.
- Meanwhile, crude oil market volatility caused by frail demand and elevated price level coupled with substantial supply from the US persisted in H1:2023.
- This caused a downtrend in brent crude price by 7.4% to \$74.89/bbl. as of June 2023. For FY:2023, we expect oil price to average \$81.00/bbl. due to weaker oil inventories and production quota.

World Trade Volume Growth



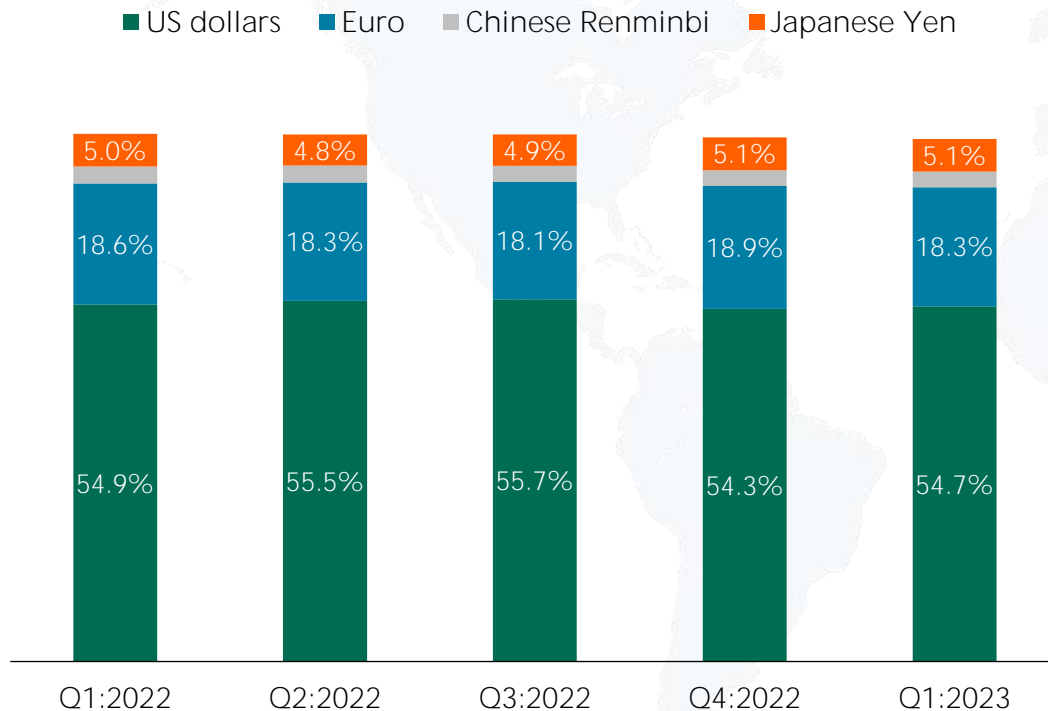
Energy Prices Trajectory



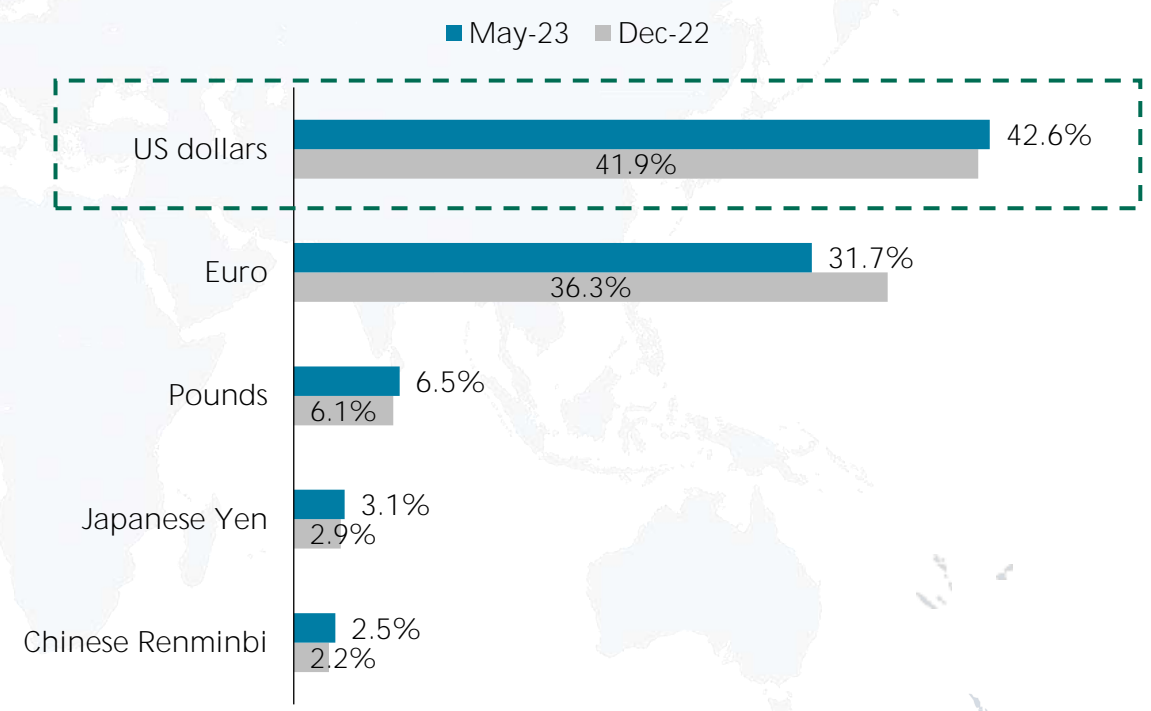
Source: World Bank, WTO, Afrinvest Research

Recent geopolitical tensions propel the “de-dollarisation” agenda, but US dollar dominance is unlikely to wane in the short-to-medium term despite growing BRICS influence.

## Top 4 Countries’ Share of Global Foreign Exchange Reserves



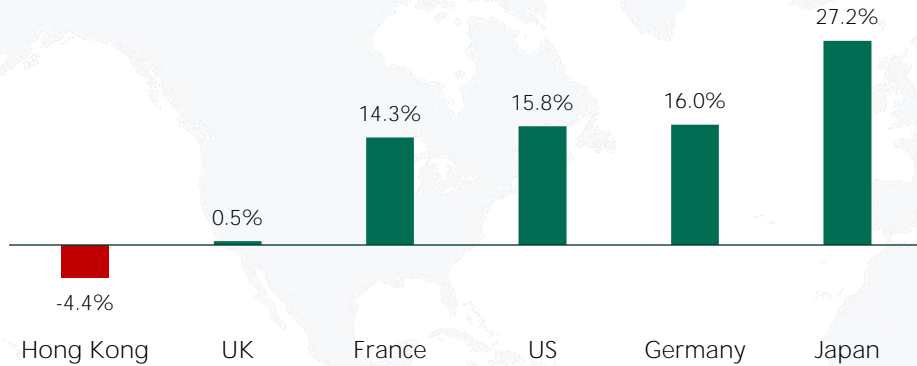
## US\$ Remains Dominant Means of Global Payments



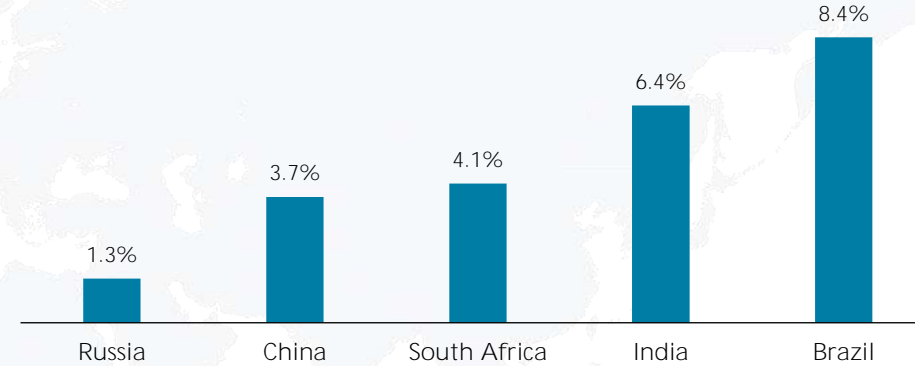
Source: IMF, SWIFT, Afrinvest Research

Against expectations, the MSCI World and Emerging markets indices posted gains of 14.0% and 3.0%, respectively in H1:2023.

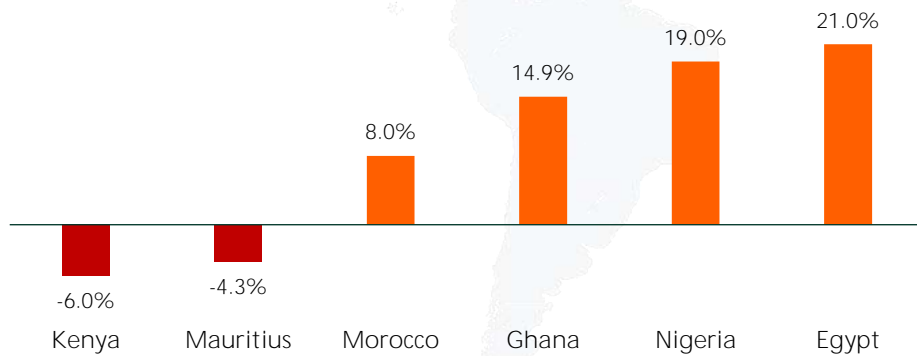
## Developed Markets Performance



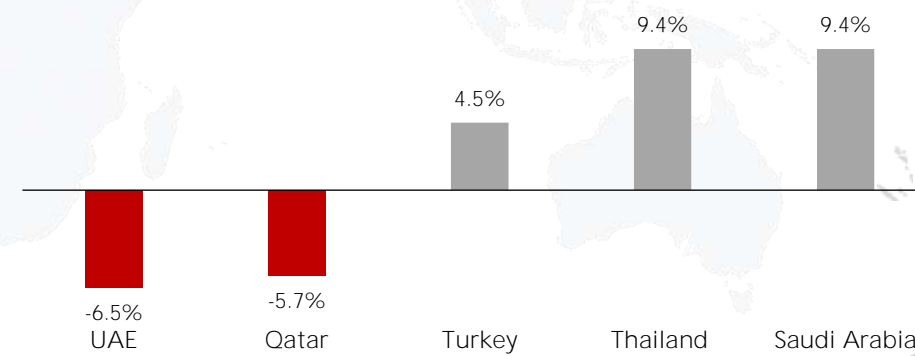
## BRICS Markets Performance



## African Markets Performance



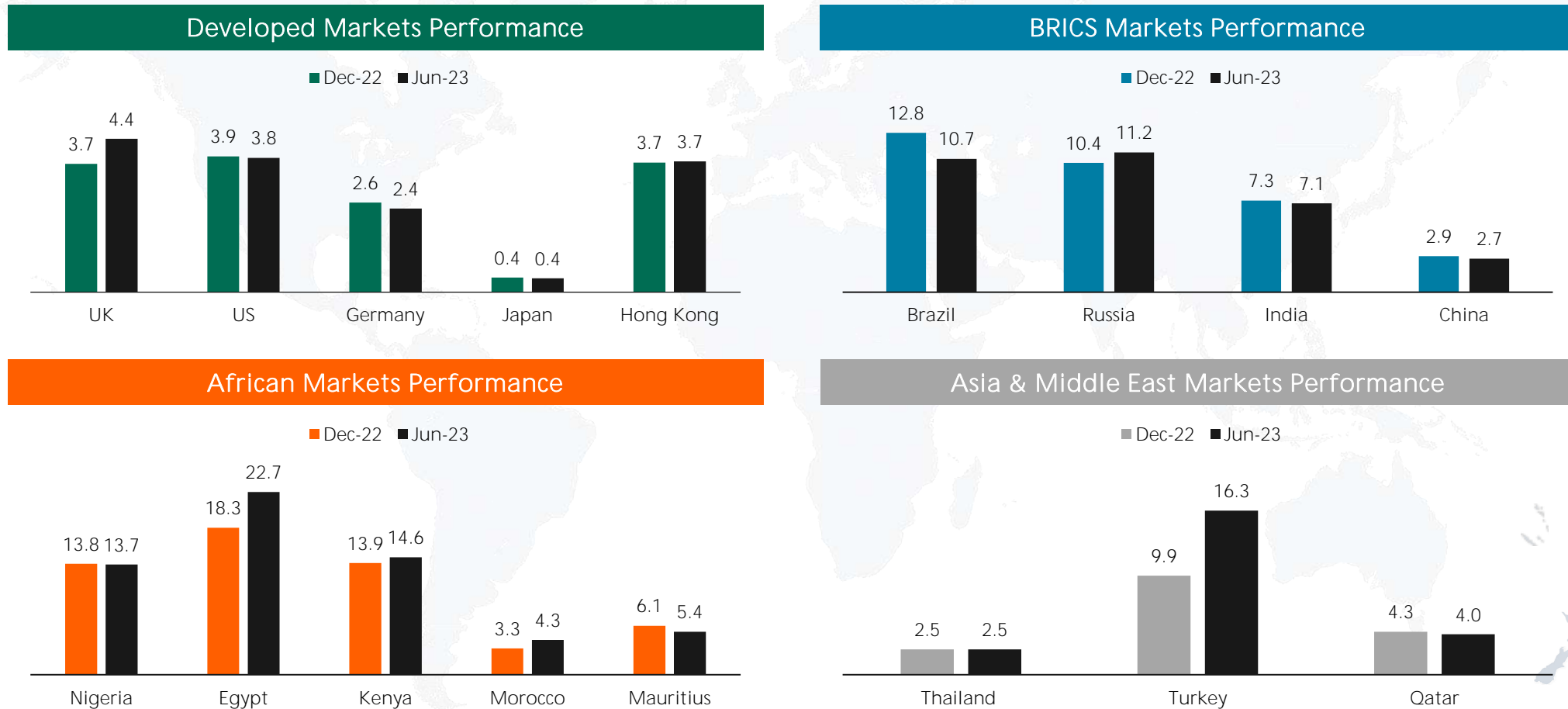
## Asia & Middle East Markets Performance



Source: Bloomberg, Afrinvest Research

Despite mixed performance, sovereign bond yield for emerging markets trended upwards, reflecting inflationary pressures persistence and successive interest rate hikes since 2022.

## 10-Year Government Bond Yield Performance (%)



Source: Bloomberg, Afrinvest Research



## Growth

The global economy is projected to grow by 2.8% this year and 3.0% in 2024. This outlook is hinged on the absence of any unexpected shock, such as alleviated commodity prices and financial market stress



## Inflation

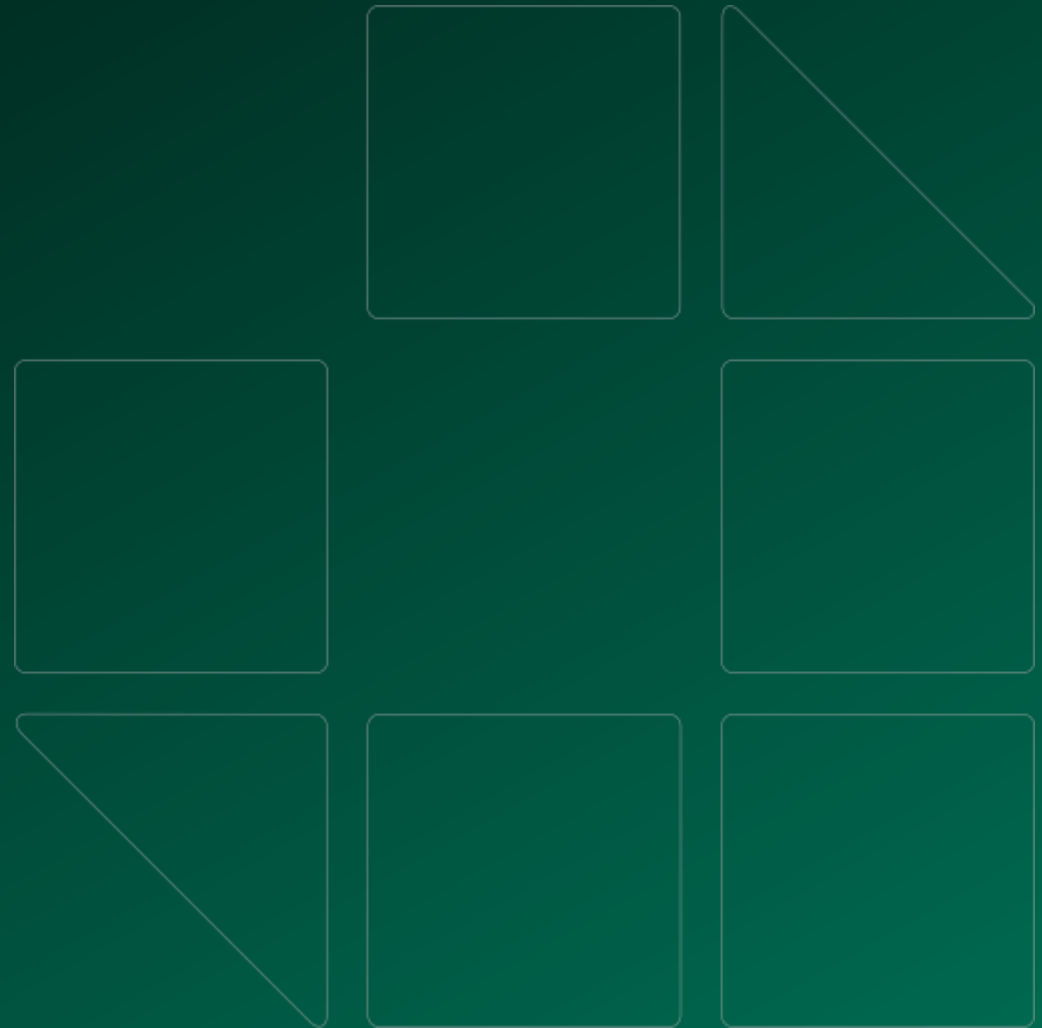
Inflation is expected to extend moderation in H2:2023, supported by the sustained impact of lagged interest rate hikes and decline in commodity prices (food & energy)



## Interest rates

With inflation expected to decelerate in H2:2023, we opine that there is an increasing case for central banks to take a pause in interest rate hikes

# Domestic Macroeconomy



## Indicator

## Projection & Drivers

## H1:2023 Outcome

GDP



**FY'23: 2.96%**  
**H1: 2.75%**

- Modest non-oil sector growth led by the Services sector
- Higher aggregate consumption due to pre-election spending
- Reduced insecurity-related disruption to economic activities

**H1: 2.41%**

- Modest Services sector growth and a disappointing Agric and Industry sector performance
- Negative spill-over effect of the poorly implemented Naira redesign policy and lingering structural & social ills

Average Inflation Rate



**FY'23: 17.7%**  
**H1: 18.1%**

- Positive Agric sector performance translating into relative stability in prices of farm produce
- Soft decline in imported inflation
- High base year effect

**H1: 22.8%**

- Unanticipated shocks from the Naira redesign policy implementation
- Festivity-induced markup in transportation costs (March and April)
- General price adjustment due to PMS subsidy removal in June

Average Exchange Rates



**NAFEX: ₦460.00/\$1.00**  
**Parallel Mkt: ₦710.00/\$1.00**

- Modest improvement in reserves accretion driven by sustained recovery in oil output to c.1.5mbpd level
- Modest recovery in FPI inflows driven by improved alignment in fixed-income yields and the MPR

**NAFEX: ₦488.09/\$1.00**  
**Parallel Mkt: ₦752.47/\$1.00**

- Reversal of the improvement in crude oil production level (Nov 2022 & Feb 2023)
- Weak alignment of fixed-income yield with MPR
- Sustained capital flow reversal due to attractive yields in AEs

Source: 2023-2025 MTEF, NBS, FMDQ, CBN, Afrinvest Research

## Indicator

## Projection & Drivers

## H1:2023 Outcome

### MPR



**FY'23: 18.0%**  
**H1: 17.5%**

- Easing domestic inflation rate
- Slowdown in monetary policy tightening in AEs due to positive inflation anchoring

**H1: 18.5%**

- Marked increase in inflationary pressure worsened by unanticipated currency crises episode in Q1 and dismal farm harvest (Agric sector contracted 0.9% in Q1)
- Naira devaluation pass-through effect and imported inflation

### Capital Importation



**FY'23: \$7.0bn**  
**H1: \$2.7bn**

- Lingering capital control measures, multiple exchange rate regime, and pre-election jitters
- Sustained hawkish tilt in AEs and policy-induced disconnect between domestic fixed-income yield and inflation rate

**H1: \$2.9bn\***

- Renewed market optimism following the rollout of market-friendly policies & the CBN governor suspension
- Steady decline in the pace of policy tightening in major AEs due to marked progress in inflation anchoring

### Trade Balance (Net Goods)



**FY'23: \$6.4bn**  
**H1: \$3.4bn**

- Positive net trade position, driven by higher crude oil prices above \$70.00bbl and continued output recovery
- Improved non-oil export earnings supported by CBN's exports promotion drives amid the supply gap in Europe

**H1: \$3.5bn\***

- Revaluation gains on both oil and non-oil exports due to naira devaluation
- Anticipated modest improvement in crude oil production level in H2 due to the rejig of national security architecture to check oil theft

Note: \* Afrinvest estimate

Source: CBN, NBS, Afrinvest Research

## Indicator

## Projection & Drivers

## H1:2023 Outcome

### Presidential Election



- 40.0 - 45.0% voters' turnout
- A too-close-to-call contest
- Paced implementation of market reforms by the emerging candidate

- **29.0% voters' turnout** - lowest since 1999
- A too-close-to-call contest
- Immediate reform implementation, ranging from PMS subsidy termination, FX unification, power reform bill assent to security Chiefs' overhaul

### Population Census



- Poor timing given proximity to general polls and political transitioning
- Poor sensitisation and inadequate stakeholder engagement
- Sizeable exclusion of eligible citizens in flash-point areas – North-East, North-Central, South-South, and South-East

- Postponed due to the close timing of the general elections and the downbeat mood post-election

### PIA & Commissioning of Dangote Refinery

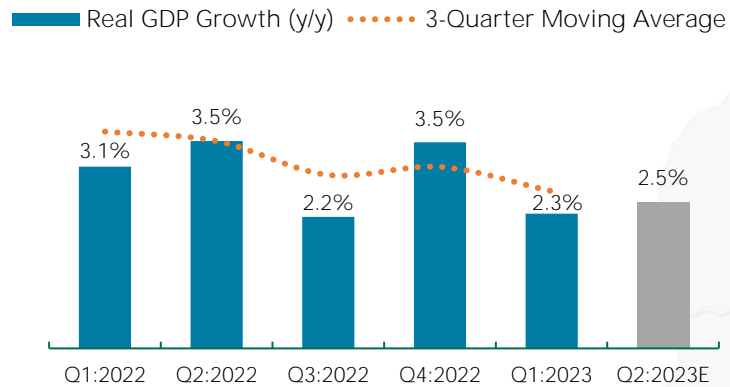


- New administration to fully effect the Petroleum Industry Act (PIA)
- Dangote refinery to be commissioned by mid-year, to gradually meet local demand from Q4

- Full PIA implementation to be driven by the new administration
- Dangote refinery commissioned in May, but production commencement is unclear due to project completion uncertainty

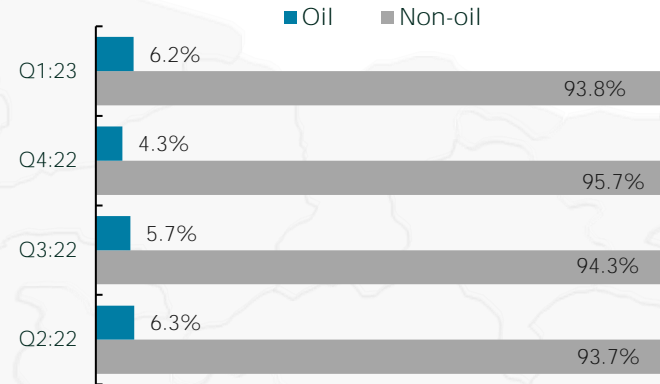
Source: Afrinvest Research

## Growth Trend



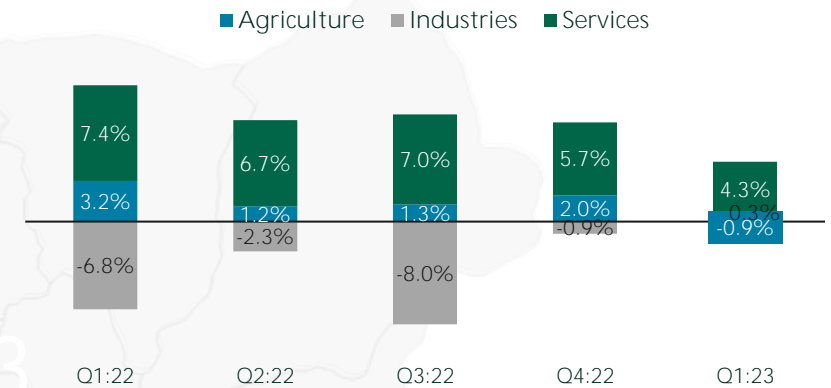
- Positive Q1:2023 GDP growth masks the devastating impact of disruptions to economic activities.
- The cash crunch trailing the ill-implemented Naira redesign policy crippled business activities, especially in the informal sector which represents about 40.0% of total GDP.
- Notwithstanding, we estimate output loss (unrealised GDP) to be c.₦6.5tn.

## GDP Constituents



- The share of oil economy rose by 190bps q/q to 6.2% in Q1:2023, reflecting the increase in production level to 1.51mbpd (Q4'22: 1.34mbpd) and slower non-oil economy growth.
- Nonetheless, the share of the oil economy remains adrift of the **decade's** average of c.8.5% – reflecting 12 quarters of recession.

## Sectoral Performance

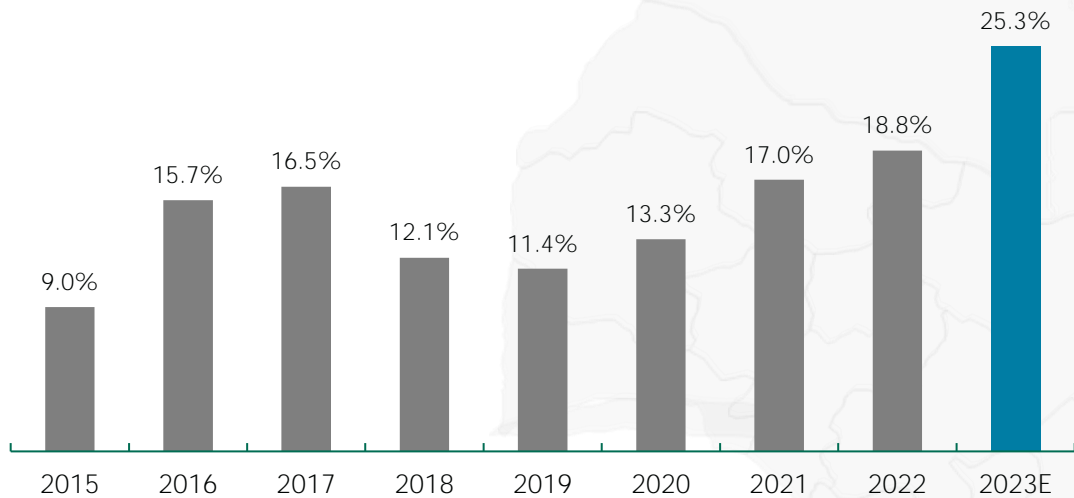


- Agric recorded its first quarterly contraction in over a decade in Q1:2023. Large-scale loss of farm plantations to flooding in 2022 & lingering structural bottlenecks dented performance.
- Slower expansion in major activities such as Trade, ICT, and Finance & Insurance, weighed on Services sector growth relative to the preceding eight quarters.
- Industries sector growth slowed to 0.3% (Q1'22: 3.2%) as weak expansion in Cement and Food, Beverage & Tobacco activities reinforced the negative effect of the extended contraction of Oil refining activity.

Source: NBS, Afrinvest Research

- Inflation misery reached a new high in H1:2023 vs our projection of a moderation predicated on slower m/m increases and high base year impact.
- Self-inflicted pains caused by the Naira scarcity in Q1:2023 and the massive loss of farm harvests to flooding in 2022 (NAERLS estimate: ₦700.0bn) following negligence to several warnings by NiMet, topped factors that drove increased price pressure.
- Based on the reforms by the new administration – the devaluation of the Naira, PMS subsidy removal, and the introduction of new fiscal measures – we have revised our 2023 average inflation projection upwards by 760bps to 25.3% in a blue-sky scenario.

Historical Annual Average Inflation Rate



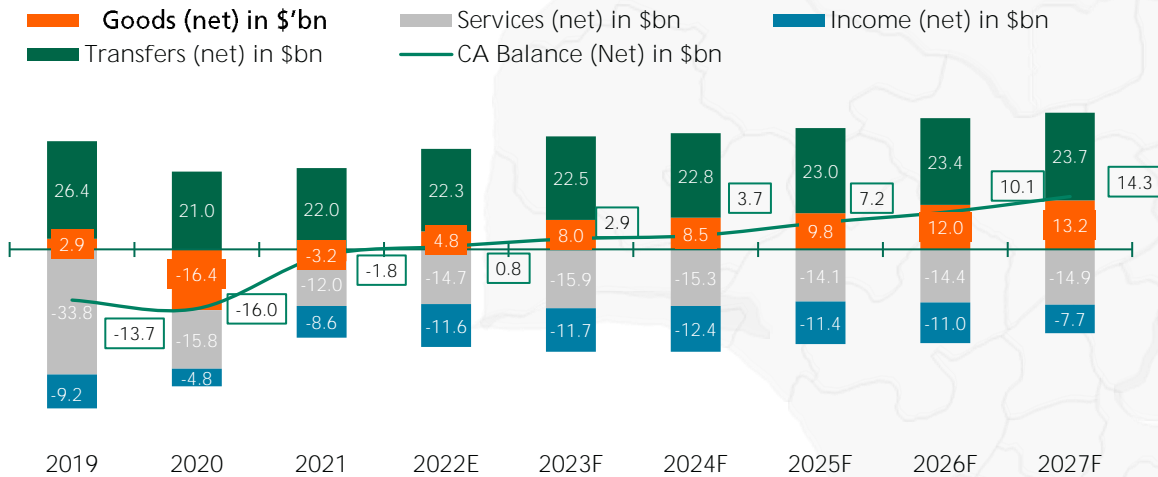
Source: NBS, Afrinvest Research

Scenarios: Revised Average Inflation Projection for 2023 and Drivers

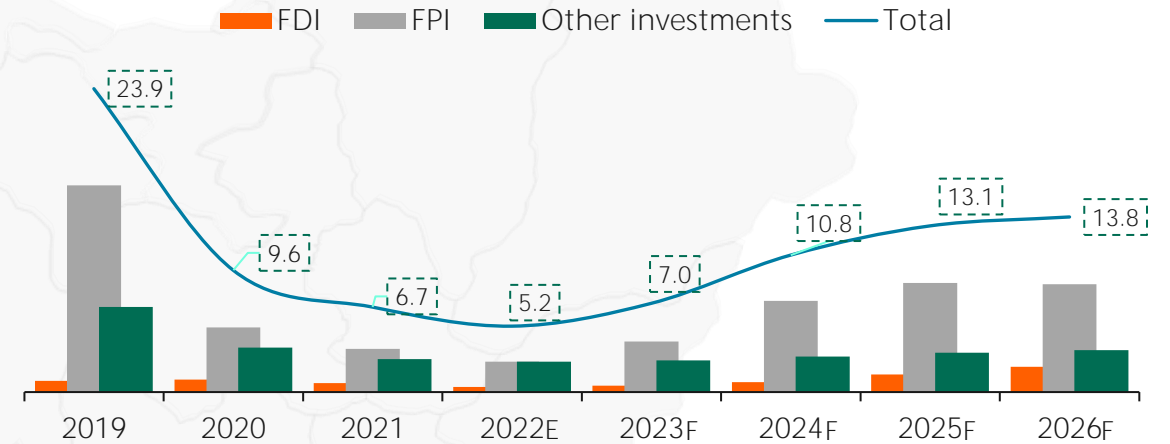
<b>23.7%</b> Best case	<ul style="list-style-type: none"> <li>• Marked pickup in farm harvest &amp; Manufacturing output</li> <li>• Timely appreciation of the Naira value</li> <li>• Re-introduction of price-peg on energy goods</li> </ul>
<b>25.3%</b> Base case	<ul style="list-style-type: none"> <li>• Weak recovery in Agric and Manufacturing sector</li> <li>• Delayed implementation of the new informal sector tax policy</li> <li>• Modest increase in the minimum wage (cap: 50.0% of current)</li> </ul>
<b>26.9%</b> Worst case	<ul style="list-style-type: none"> <li>• Sustained disruption of farming activities and adverse climate condition</li> <li>• Radical implementation of new informal sector tax regime</li> <li>• Aggressive increase in the minimum wage</li> </ul>

- Current Account (CA) balance is estimated to record mild improvement in 2022. This performance is expected to be sustained in 2023, supported by improved net goods account position (aided by relatively higher oil output and favourable oil prices) and transfers (mostly remittances).
- Renewed traction in remittances due to FX reforms, growing number of Nigerian diaspora, and the relative improvement in the macroeconomic environment of AEs is anticipated to aid higher current transfer inflows.

## BoP Statistics








## Capital Importation (\$'bn)



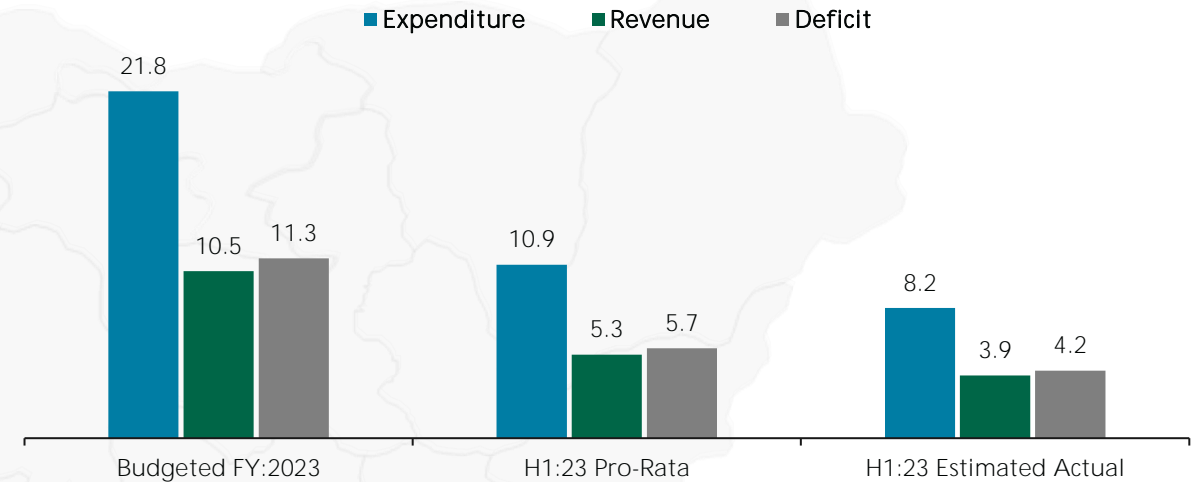
- The re-introduction of a managed float exchange rate system and unification of the FX windows alongside other market-oriented policies are expected to lift investor confidence and stimulate better inflows.

Source: CBN, Afrinvest Research

## Key Budget Assumptions

1		1.69mbpd Average crude oil production
2		US\$75.00/bbl. Benchmark crude oil price
3		₦435.57/US\$1.00 Exchange Rate
4		17.2% Average inflation rate
5		3.8% GDP growth rate

## Estimated Performance of the 2023 Budget (₦'tn)

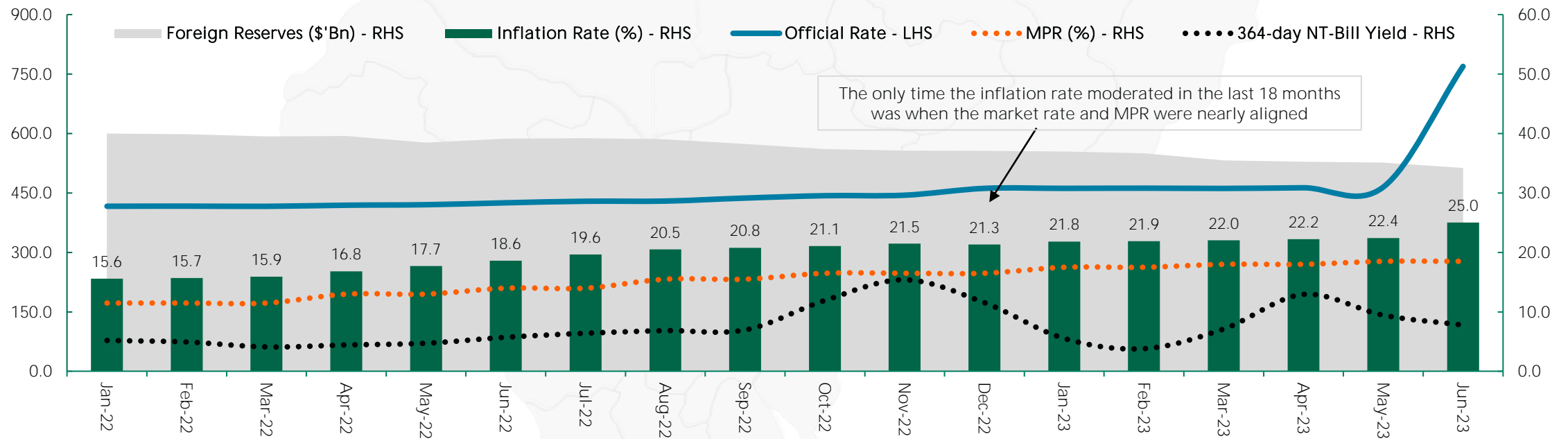


- Due to the delay to the Finance Act (FA) 2023 assent, the implementation of the capital expenditure budget stalled till April.
- While the recurrent (₦8.5tn) and debt servicing (₦6.3tn) components of the budget would be fully met or even surpassed (due to devaluation effect), we are less optimistic of a 60.0% CAPEX implementation rate given limited scope to achieving the revenue target (₦10.5tn).
- Also, we maintain that actual deficit would surpass the budgeted ₦11.3tn, despite the newly introduced fiscal measures - 10.0% tax on disposal of digital assets; 0.5% tariff on import value outside Africa; and 50bps increase in Education Tax to 3.0% - pillared by the new FA.

Source: MFBNP, Afrinvest Research

- Despite the CBN hiking the benchmark rate (MPR) seven times in the last twelve months to June 2023, inflation continues to set new highs.
- We attribute this to the lack of synergy between fiscal & monetary policy strategies, disconnect between the market and the anchor rate, persistent structural challenges, negative externalities, and more recently, the knock-on effect of FX reform.
- Although we expect pressure on the external reserves to wane in H2 due to FX subsidy elimination, we do not anticipate sizeable improvement organically as major inflows – crude oil sales proceed, diaspora remittance, and foreign investments – are likely to underperform outflows from pending FX obligations and regular monthly import bills.

## Key Monetary Indicators



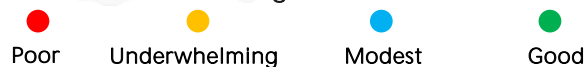
Source: CBN, Afrinvest Research

# “POST-MORTEM” REVIEW OF PMB’S FISCAL POLICIES: THE GREAT MISALIGNMENT

H1:2023 Review & H2:2023 Outlook

S/N	Policy	Key Objective(s)	Year of Commencement	Performance Assessment
1	Treasury Single Account (TSA)	<ul style="list-style-type: none"> <li>• Ensure complete and timely information on FG’s cash resources</li> <li>• Improve operational control during budget executions</li> </ul>	2015	● – Lacks mechanism to check looting by treasury managers
2	Import Restriction	<ul style="list-style-type: none"> <li>• Check against turning Nigeria to an “economic dump site”</li> <li>• Encourage large scale manufacturing activities</li> </ul>	2015	● – Inadequate funding of infrastructure and programmes to enhance the capacity of local producers
3	Whistle Blower	<ul style="list-style-type: none"> <li>• Encourage the reporting of fraudulent activities in the public sector</li> <li>• Instil discipline and discourage involvement in fiscal sabotage</li> </ul>	2016	● – Inadequate protection of whistle blowers and delayed compensation
4	N-Power Scheme and National Home-Grown School Feeding Programme (HGSFP)	<ul style="list-style-type: none"> <li>• Address youth unemployment &amp; increase social development</li> <li>• Eradicate malnutrition in school-age children, especially from poor homes</li> </ul>	2016	● – Lack of transparency in the beneficiary selection criteria; shrouded implementation of the HGSFP
5	Diaspora Bond	<ul style="list-style-type: none"> <li>• Encourage Nigerians in diaspora to contribute to national growth by funding value-enhancing projects</li> </ul>	2017	● – Successfully redeemed (in 2022) the \$300.0bn diaspora bond raised in 2017
6	Road Infrastructure Development & Refurbishment Investment Tax Credit Scheme	<ul style="list-style-type: none"> <li>• Encourage private sector participation in road development</li> </ul>	2019	● – Dangote, MTNN, and NNPC have begun investing in major roads
7	Border Closure & Trade Policies	<ul style="list-style-type: none"> <li>• Curtail smuggling of goods from neighbouring countries and uphold existing regional trade rules</li> </ul>	2019	● – Absence of complementary efforts to boost local production stoked inflationary pressure
8	National Tax Identification Number (TIN) Reg. System	<ul style="list-style-type: none"> <li>• Drive increased tax compliance by citizens and businesses</li> <li>• Attract additional taxable activities to boost tax revenue</li> </ul>	2019	● – Weak enforcement especially on politically exposed individuals
9	Conditional Cash Transfers Programme	<ul style="list-style-type: none"> <li>• Aid most vulnerable households to meet their basic needs</li> <li>• Support capacity development initiative</li> </ul>	2020	● – Lack of objectivity in the beneficiary selection criteria and weak checks & balances
10	Petroleum Industry Bill (PIB)	<ul style="list-style-type: none"> <li>• Increase the attraction of Nigeria’s large hydrocarbon resources to global investors</li> <li>• Optimise government revenue from oil exploration while supporting host community development</li> </ul>	2021	● – Provisions were not fully implemented

Legend:



Source: NASS, Afrinvest Research

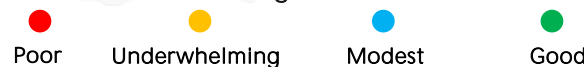
# “POST-MORTEM” REVIEW OF EMEFIELE’S POLICIES: COST OF UNORTHODOXY LINGERS

H1:2023 Review & H2:2023 Outlook

S/N	Policy	Key Objective(s)	Year of Commencement	Performance Assessment
1	Development Finance Initiatives	<ul style="list-style-type: none"> <li>Fund MSMEs to drive job creation &amp; economic development</li> <li>Foster sustainable business growth</li> </ul>	2014	● – Poor monitoring mechanism, inadequate understanding of targeted sector value chain, and moral hazard
2	Anchor Borrowers Programme (ABP)	<ul style="list-style-type: none"> <li>Optimise domestic capacity for improved local production of staple foods</li> <li>Grow Agric sector exports volume, value, and FX earnings</li> </ul>	2015	● – Weak tracking & recovery mechanism for loans issued
3	Blacklisting of 41 Selected Goods & Services from the Official FX Window (2 new items added in 2020)	<ul style="list-style-type: none"> <li>Stimulate local production of affected goods &amp; services</li> <li>Conserve FX reserves</li> </ul>	2015	● – Inflation skyrocketed due to supply shortages and widened official-parallel FX divergence
4	Suspension of FX Sales to BDCs (re-imposed in 2021)	<ul style="list-style-type: none"> <li>Curb rent-seeking, currency speculation, and financing of unauthorised transactions</li> </ul>	2016	● – Multiplicity of FX rates & low supplies at the official window undermined the policy
5	Establishment of the Investors & Exporters (I&E) FX Window	<ul style="list-style-type: none"> <li>Boost liquidity in the FX market and ensure timely execution &amp; settlement of eligible transactions</li> </ul>	2017	● – Considerable gains until 2020 when FX demand-supply imbalance worsened
6	Prohibited Banks and OFIs from dealing and facilitating payments for cryptocurrency	<ul style="list-style-type: none"> <li>Checkmate money laundering and terrorism financing activities</li> <li>Guide against ignorant exposure to volatile and unregulated investment instruments</li> </ul>	2021	● – Lack of infrastructural capacity to enforce compliance; Focus ought to be on optimising blockchain technology
7	Launched the e-Naira	<ul style="list-style-type: none"> <li>Advance the boundaries of payment systems</li> <li>Foster financial inclusion and reduce usage of fiat</li> </ul>	2021	● – Poor stakeholder engagement, conflict of interest, and limited flexibility for users affected the acceptance rate
8	Introduction of Rebate Incentive on Remittance (Naira-4-dollar scheme) and non-oil Exports (RT-200 FX)	<ul style="list-style-type: none"> <li>Lure diaspora to use the official window for remittance facilitation</li> <li>Encourage non-oil exporters to repatriate FX through the I&amp;E window</li> </ul>	2021; 2022	● – Incentives significantly lower than parallel market premium; structural challenges continue to plague the non-oil sector
9	Naira Redesign Policy	<ul style="list-style-type: none"> <li>Remove unfit notes &amp; curb counterfeiting</li> <li>Check excess liquidity-induced inflation</li> </ul>	2022	● – Ill timing and poor execution negatively impacted the economy

Source: CBN, Afrinvest Research

Legend:



# MACROECONOMY SCORECARD: A CONVULSIVE EXPERIENCE!

H1:2023 Review & H2:2023 Outlook



**Olusegun Obasanjo**  
May 1999 – May 2007



**Umaru Musa Yar'Adua**  
May 2007 – May 2010



**Dr. Goodluck Jonathan**  
May 2010 – May 2015



**Muhammadu Buhari**  
May 2015 – May 2023

Remark on the Last 8  
Years' Performance  
Relative to  
Predecessors

	Olusegun Obasanjo May 1999 – May 2007	Umaru Musa Yar'Adua May 2007 – May 2010	Dr. Goodluck Jonathan May 2010 – May 2015	Muhammadu Buhari May 2015 – May 2023	Remark on the Last 8 Years' Performance Relative to Predecessors
Average Real GDP Growth	6.9%	7.6%	5.0%	1.4%	Underperform
Average Inflation Rate	13.1%	11.1%	10.2%	14.9%	Underperform
Unemployment Rate	12.5%	5.1%	8.2%	33.3%*	Underperform
Poverty Rate	64.2%	62.6%	N/A	62.9%	Underperform
Global Corruption Perception Index	147/180	143/178	136/180	150/180	Underperform
GDP per Capita	\$1,874	\$2,280	\$3,201	\$2,065	Underperform
Average Official Exchange Rate	₦131.63/\$	₦125.80/\$	₦161.52/\$	₦332.80/\$	Underperform
Average External Reserves	\$39.95bn	\$50.79bn	\$38.28bn	\$36.09bn	Underperform
Average FG Revenue Growth Rate	16.6%	12.4%	5.0%	7.1%	Weak Improvement
Average FG Expenditure Growth Rate	11.6%	19.8%	2.3%	13.8%	Neutral
Debt Profile	₦3.9tn	₦4.5tn	₦11.9tn	₦75.4tn**	Underperform

\*Data quoted is of Q4:2020

\*\* Value includes the recently securitised Ways & Means liabilities to CBN

Since the current administration's inauguration, there has been laudable fiscal and monetary policy reforms, which if properly implemented, should set the economy on the path of renewed hope. Considering this, the following reforms (some of which have commenced) must be fully implemented in the first 12 months of the administration.

## Key Imperatives for the New Administration



### Fiscal Imperatives

- **Curb oil theft** – Improve oil export earnings & FG's fiscal capability, and close the infrastructure gap
- **Reduce the cost of governance** – Cut down the budget deficit
- **End all forms of consumption subsidy** – Although it may fuel inflation in the short term, long-term gains include downsized FG's expenditure and support positive current account balance
- **Deepen tax system** – Collections by FIRS and Nigeria Customs Service have seen traction lately, however, more actions need to be taken to lift revenue mobilisation



### Monetary Imperatives

- **Sustain FX rates alignment** – This may pressure prices in the short term due to import dependence, it can **unlock growth, boost FX supply, improve FDIs'** confidence, enhance trade and capital flow over time
- **Desist from anchoring development finance and interventions that are pro-fiscal in nature** – This would **enhance CBN's objectivity on policy decisions** and de-risk sectors for private capital
- **Limit deficit financing to the prudentially approved ceiling** – Benefits include enhanced integrity of the Apex bank and healthy balance sheet
- **Align Market yield with MPR** – Improve the efficacy of the monetary policy transmission mechanism

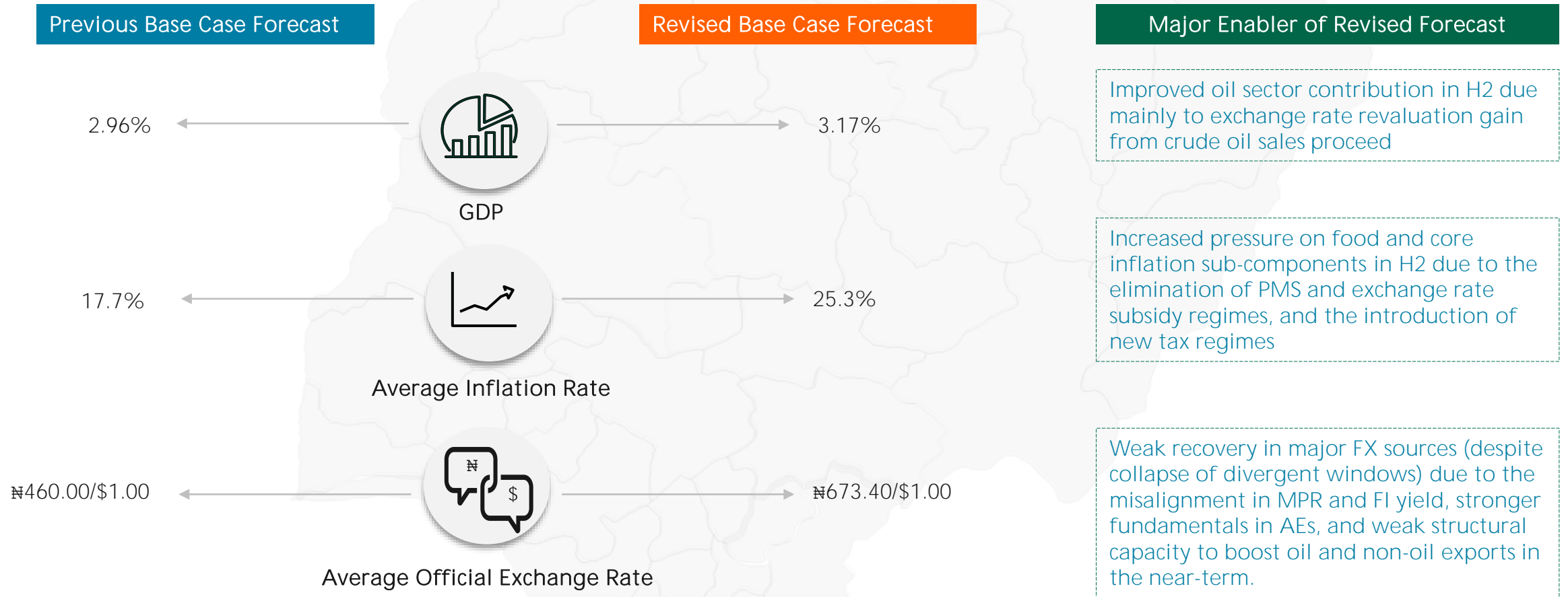
NB: Considerations for new CBN Management



### External Imperatives

- **Improve the competitiveness of trade policy** – In the long term, impacts include increased export opportunities and renewed FPI interest.
- **Pursue balance import substitution policy** – To enjoy the potential gains from AfCTA, Nigeria needs to gradually liberalise trade, and encourage competitiveness through domestic reforms, and investment in infrastructure & logistics.

On the balance of analysis between the negative shocks that weighed on the economy in H1, expected near-term gains from the ongoing market reforms, and structural gaps to optimising potential, we have revised our base case projection for Nigeria's key macroeconomic indices for 2023

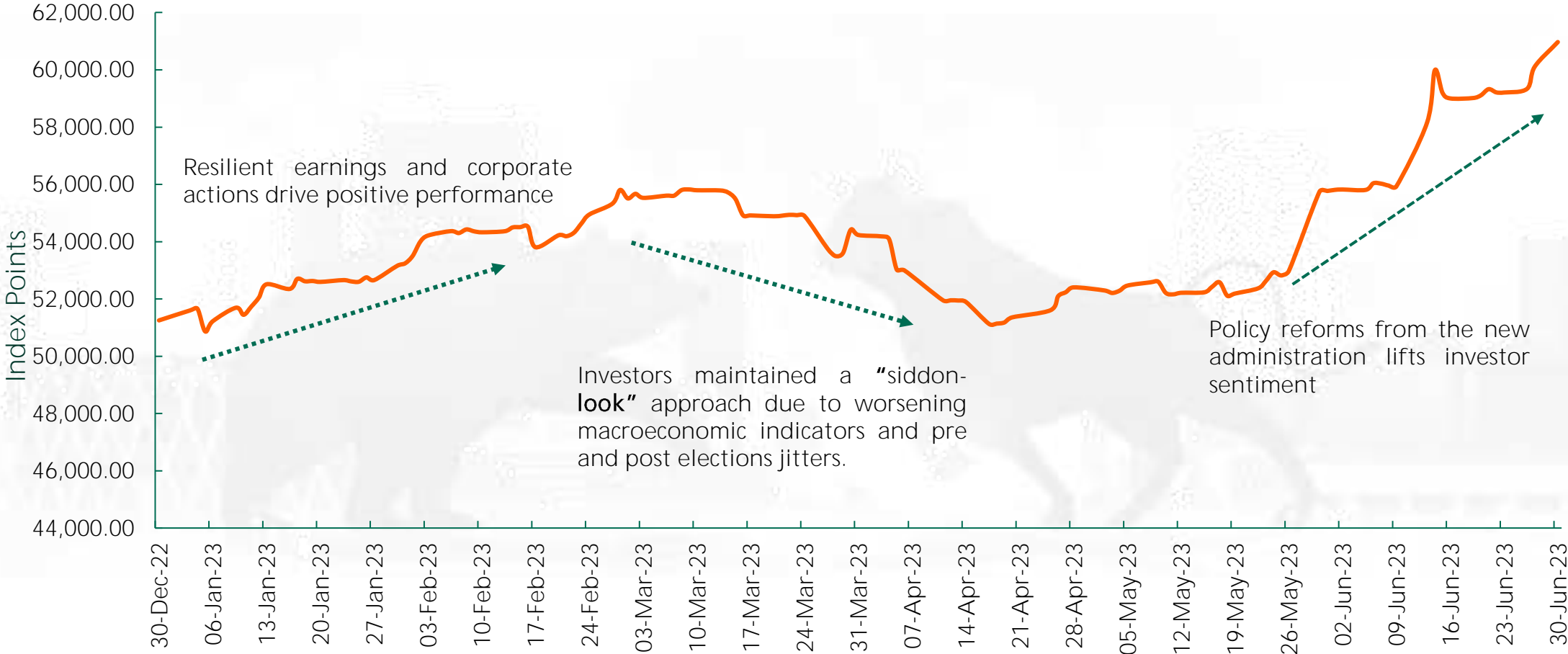


Source: NBS, FMDQ, Afrinvest Research

# Equities

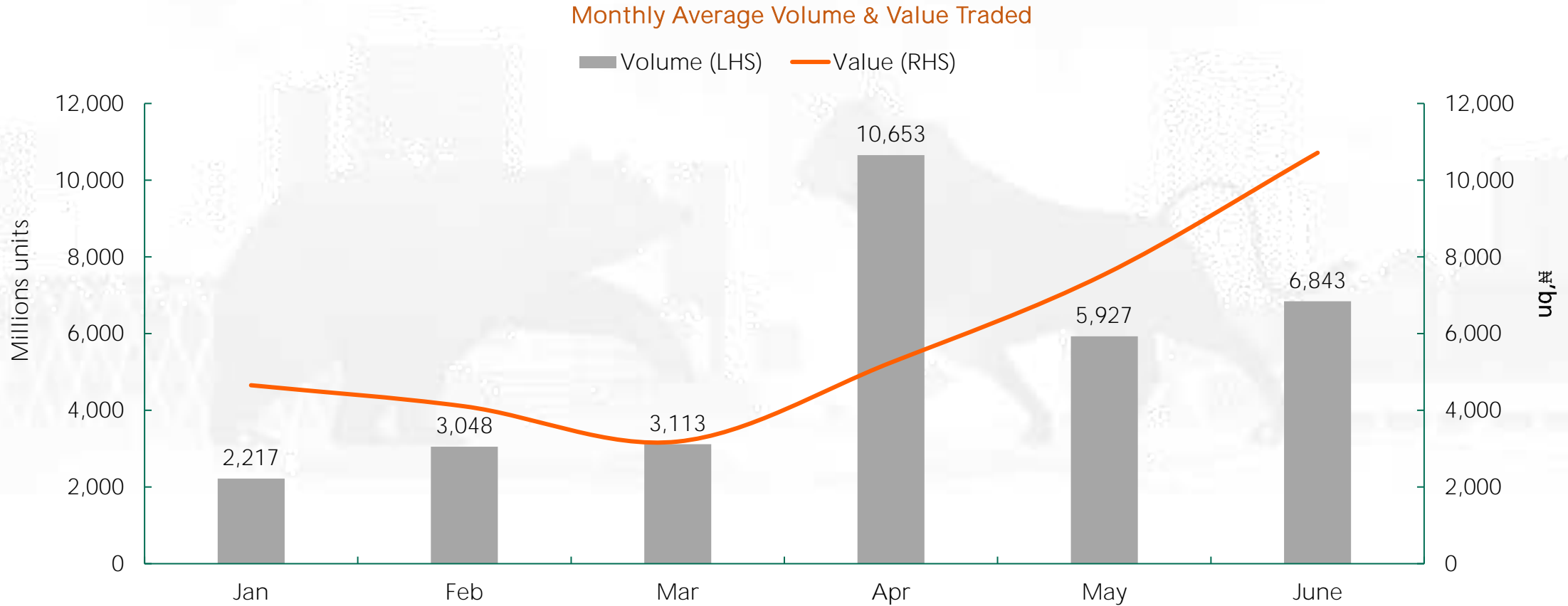


### H1:2023 NGX-ASI Trajectory



Source: NGX, Afrinvest Research

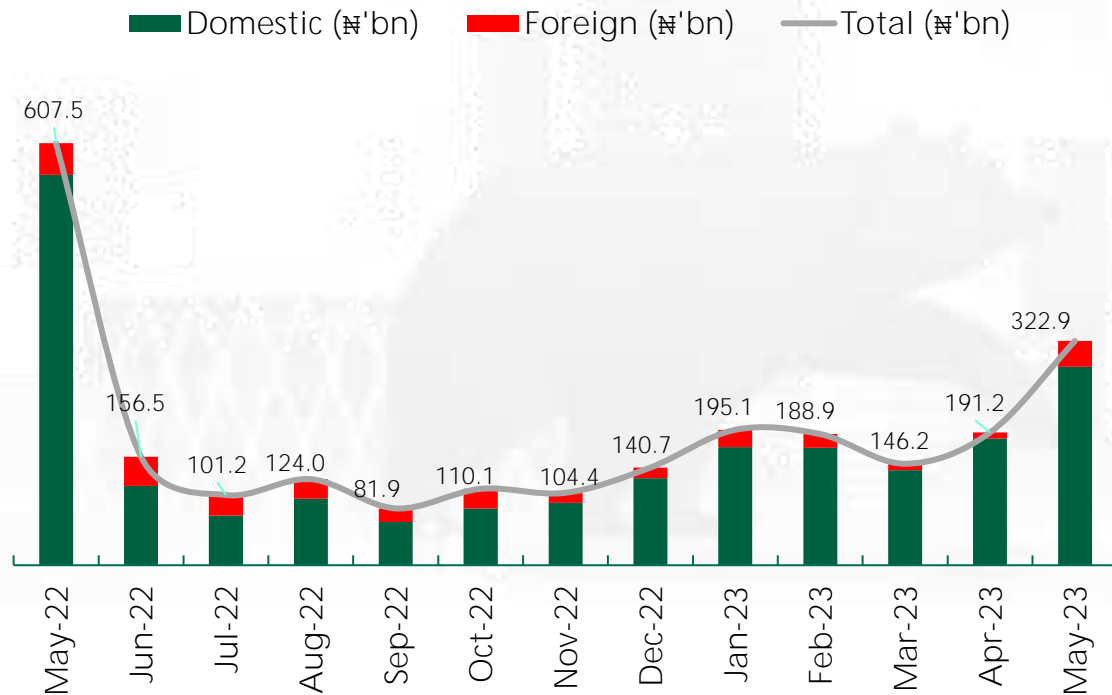
- Activity level improved as average volume and value traded rose 47.4% and 18.2% to 503.4m units and ₦5.8bn, respectively.
- On a monthly basis, June recorded the highest trade by value on average. This was supported by the average monthly performance of BUACEMENT (₦65.7bn), AIRTELAF (₦46.4bn), and GTCO (₦30.0bn).



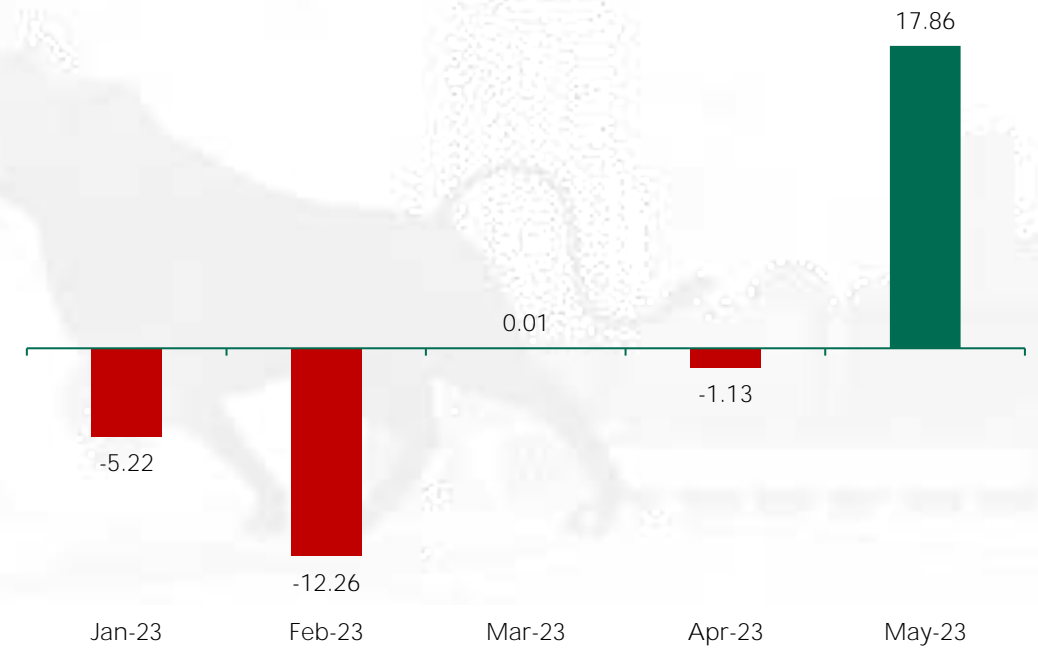
Source: NGX, Afrinvest Research

- At the end of May 2023, total transaction stood at ₦1.0tn with domestic investors share of portfolio investment at 90.5% (₦945.0bn) against 9.5% (₦99.3bn) for foreign participants.
- Although foreign transactions declined 50.6% y/y to ₦99.3bn, it rose 338.7% m/m in May 2023.

Breakdown of Portfolio Investment



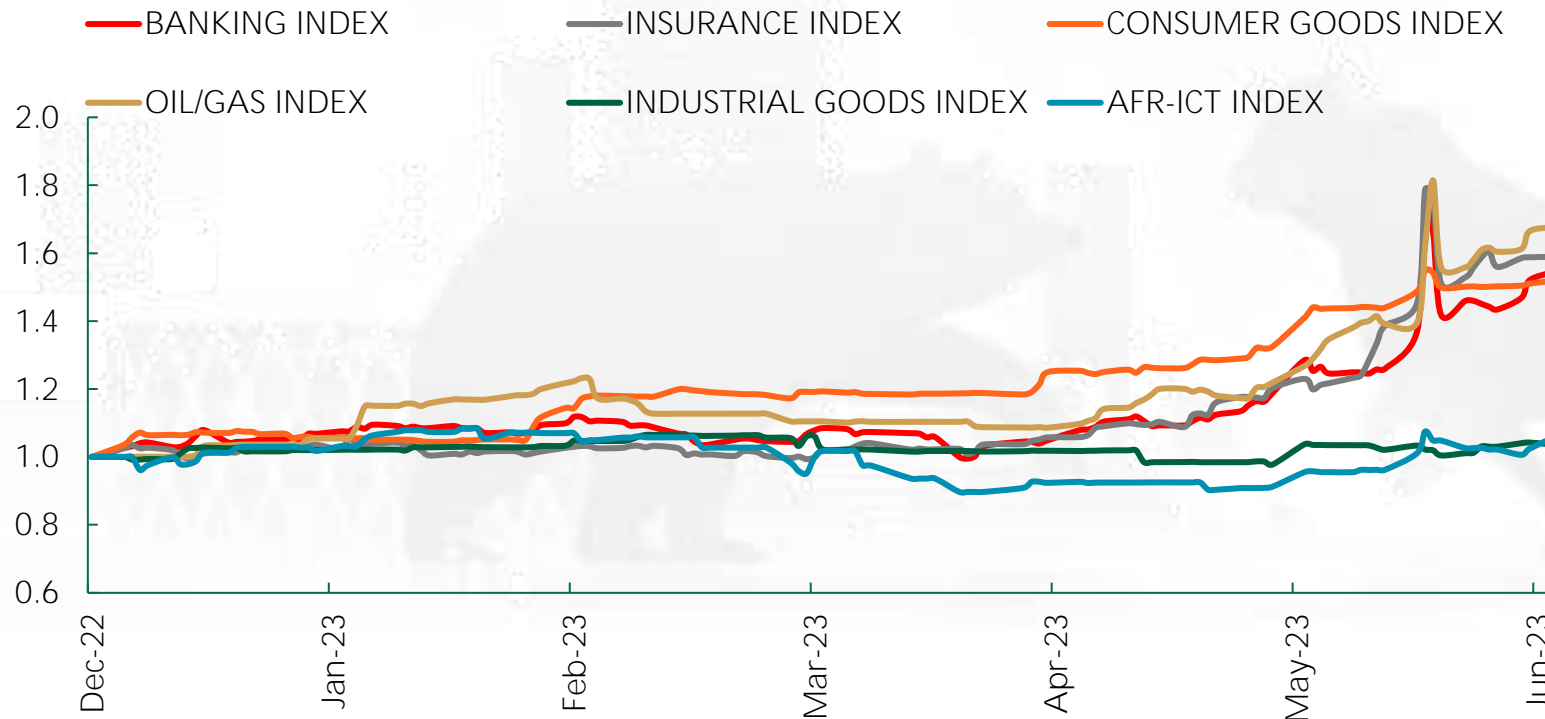
Net Foreign Investor Inflows (₦'bn)



Source: NGX, Afrinvest Research

Sector Performance was bullish as all indices booked gains. The **Oil & Gas** and **Insurance** indices were the top performing sectors due to the gains in SEPLAT (+27.2%), TOTAL (+81.3%), MANSARD (+97.5%) and WAPIC (+107.5%).

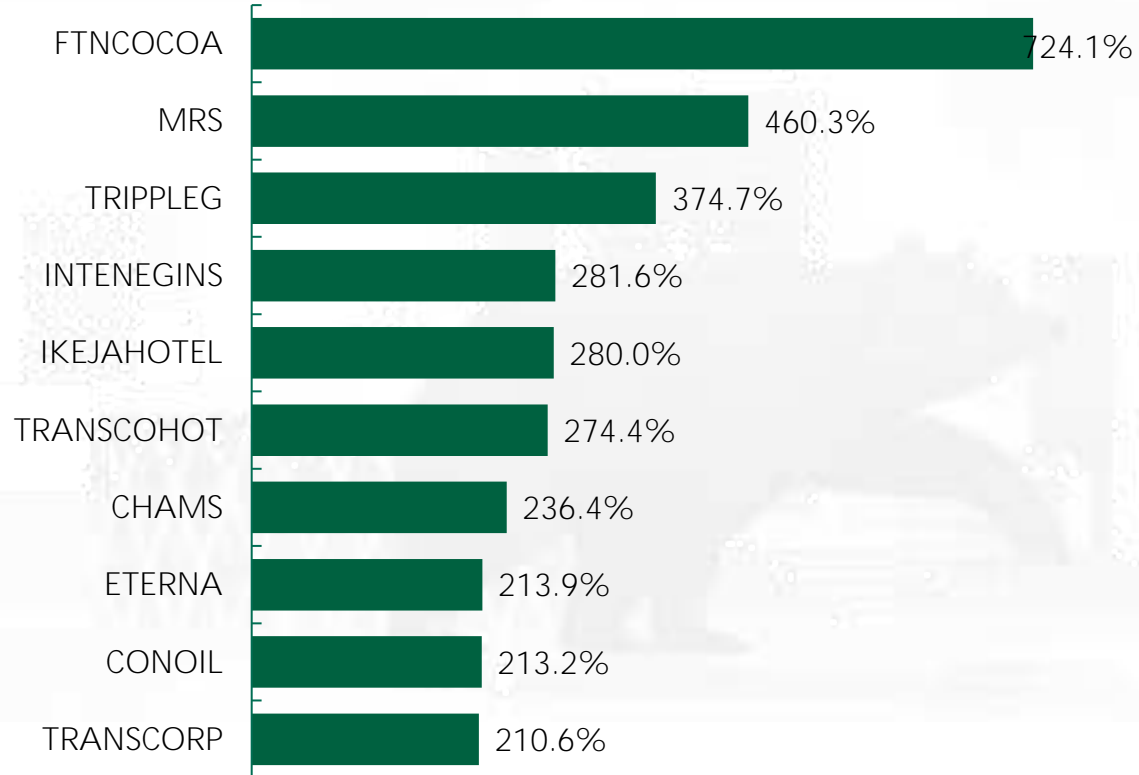
Rebased Market Performance



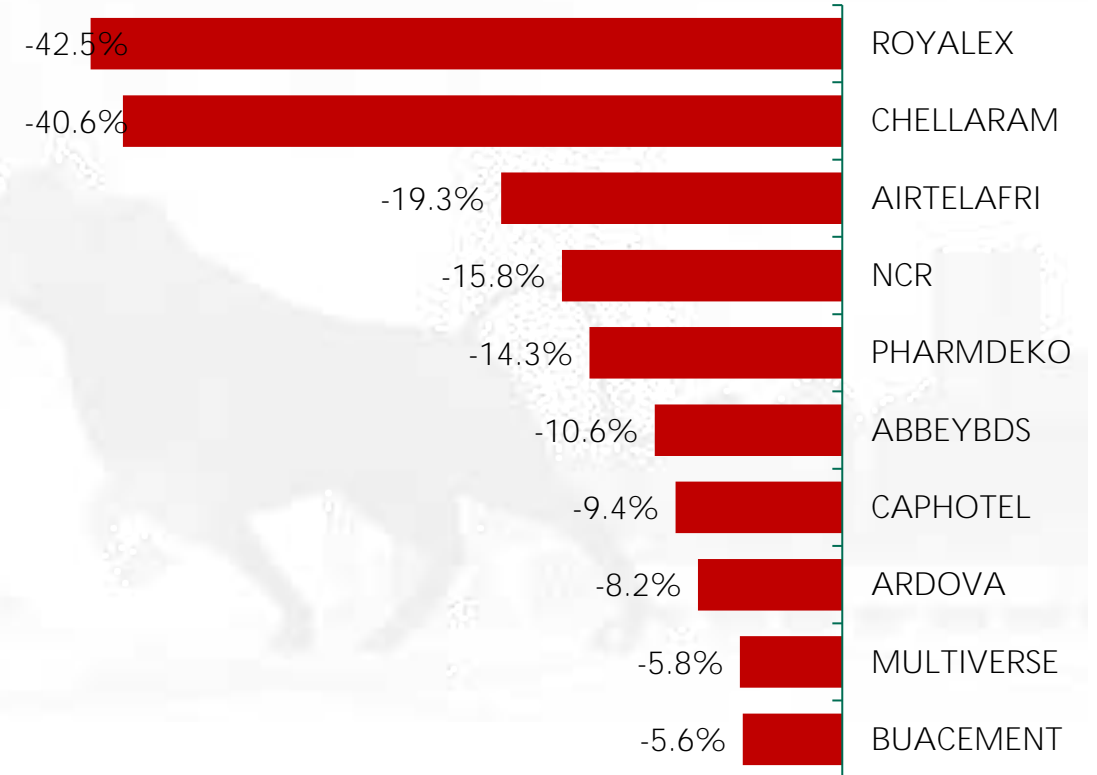
Indices	H1:2023
NGX All-Share Index	19.0%
Oil & Gas Index	67.8%
Insurance Index	58.9%
Banking Index	54.6%
Consumer Goods Index	51.9%
AFR-ICT Index	5.7%
Industrial Goods Index	3.7%

Source: NGX, Afrinvest Research

## Top 10 Best-Performing Stocks



## Top 10 Worst-Performing Stocks

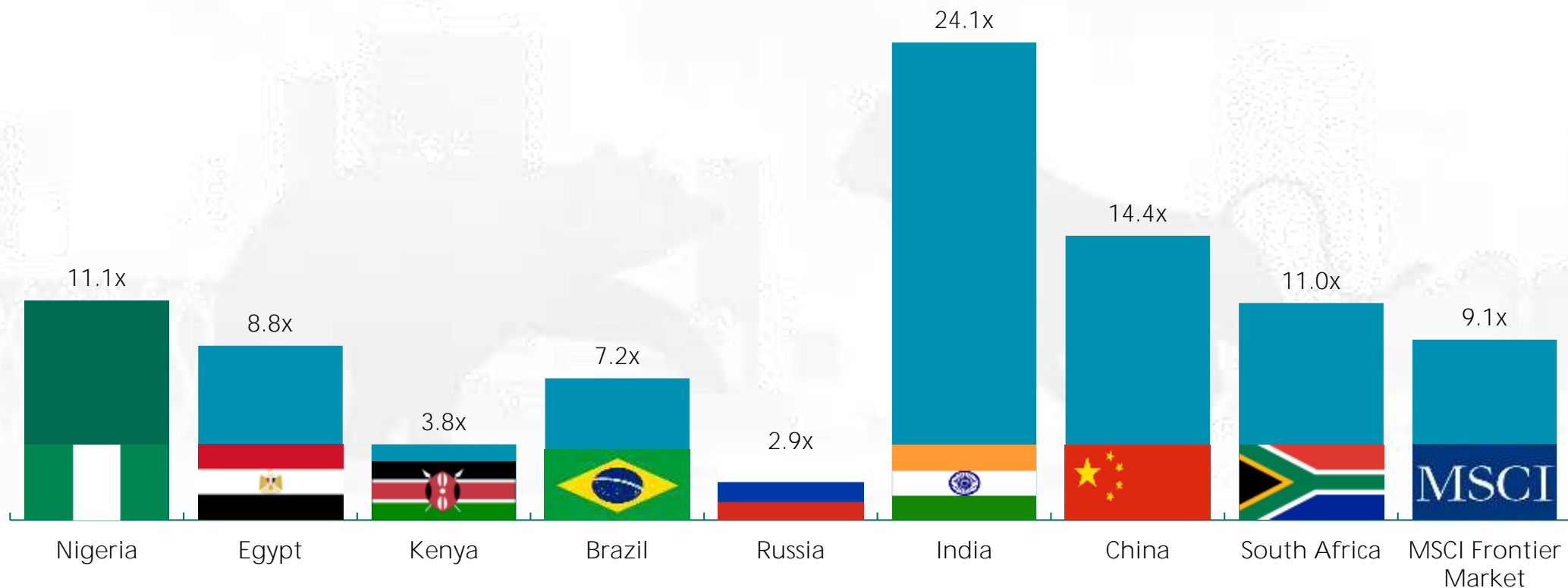


Source: NGX, Afrinvest Research

# P/E COMPARISON OF NIGERIA'S EQUITIES MARKET WITH SELECTED PEERS

H1:2023 Review & H2:2023 Outlook

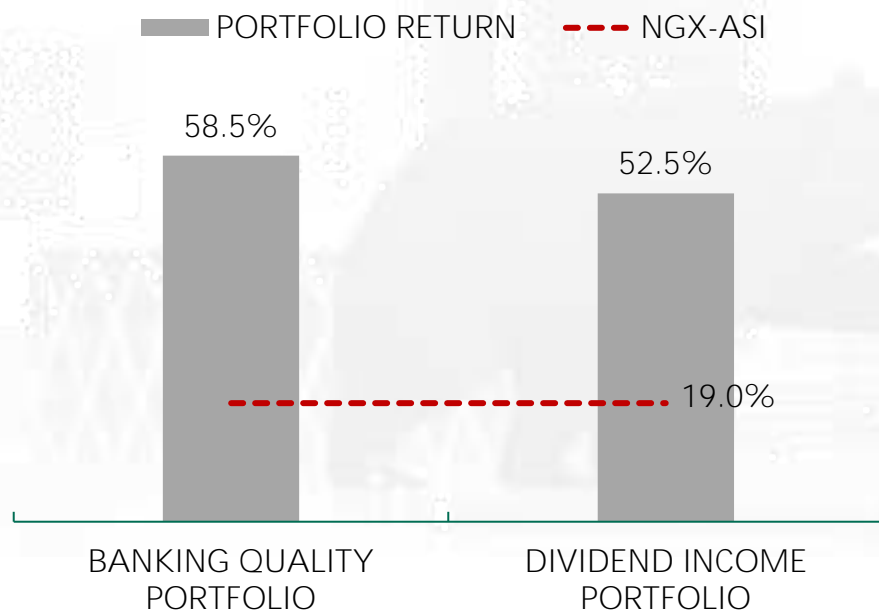
Nigeria equities valuation remains competitive with P/E ratio of 11.1x, compared to peers.



Source: Bloomberg, Afrinvest Research

- Relative to the broad market (NGX-ASI: 19.0%), our Afrinvest Banking Value and High Dividend Yield Indices outperformed by 39.5ppts and 33.5ppts respectively.
- Based on our expectations, we recommend a diversified investment approach across vibrant sectors and defensive stocks.

## Review of H1:2023 Investment Portfolios



Source: NGX, Afrinvest Research

## Selected Stocks in Afrinvest Banking Value & High Dividend Yield Indices

Stocks	Target Price	Current Price	Upside (%)	Dividend Yield (%)
GTCO	40.77	35.00	16.5%	8.9%
ZENITHBANK	40.04	34.25	16.9%	9.3%
ACCESSCORP	20.72	16.60	24.8%	9.6%
UBA	19.10	12.25	55.9%	9.0%
STANBIC	66.01	54.00	22.2%	6.5%

Stocks	Target Price	Current Price	Upside (%)	Dividend Yield (%)
GTCO	40.77	35.00	16.5%	8.9%
ZENITHBANK	40.04	34.25	16.9%	9.3%
DANGCEM	338.50	285.00	18.8%	7.0%
UBA	19.10	12.25	55.9%	9.0%

# AFRINVEST EQUITY MARKET PROJECTION FOR H2:2023 (DRIVERS)

H1:2023 Review & H2:2023 Outlook

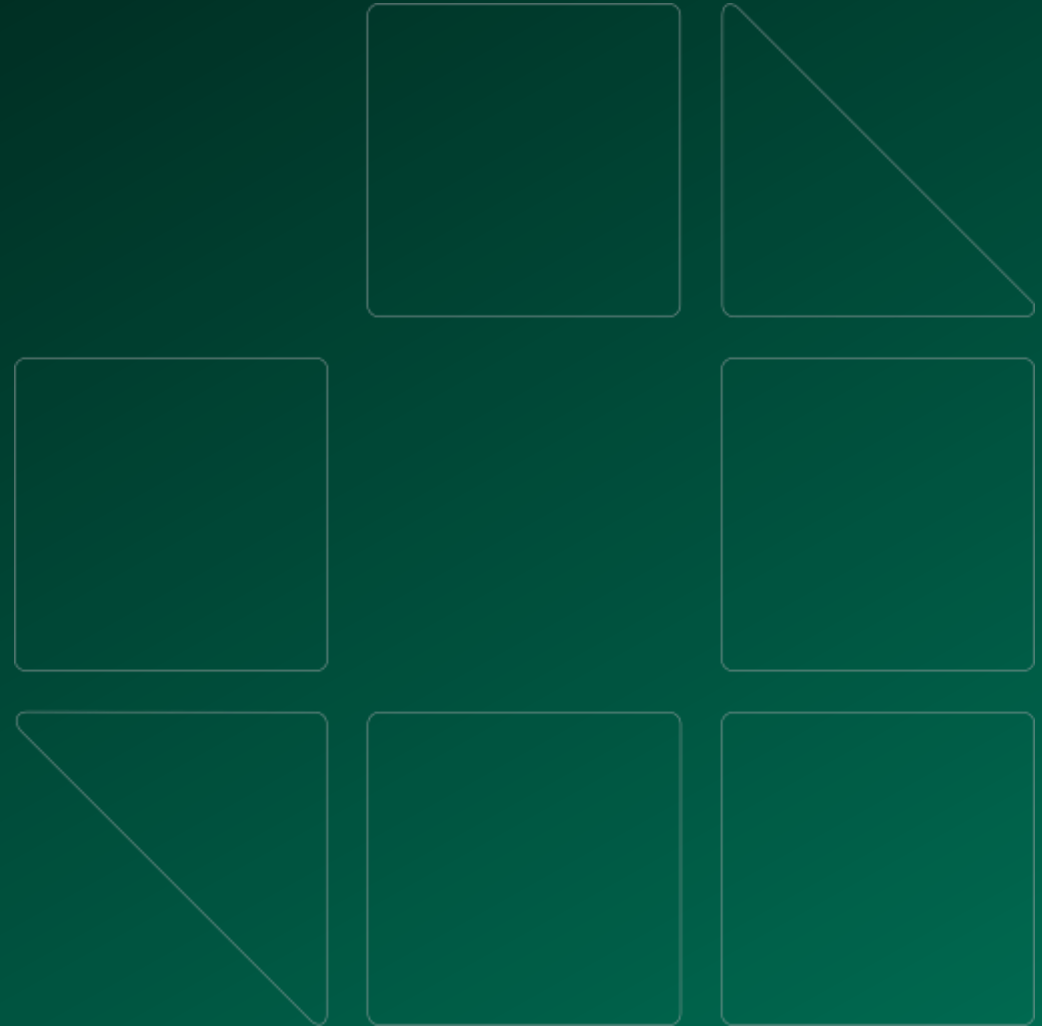
FACTORS	PESSIMISTIC CASE	BASE CASE	OPTIMISTIC CASE
Interest Rate Direction of Global Banks	Aggressive hikes trigger outflow into developed markets.	Modest tightening may trigger marginal outflow.	Softer inflation triggers a hold on rate hike to discourage rotation out of the equities.
Corporate Earnings	Lackluster earnings performance due to higher OPEX and weaker demand would dampen investor confidence.	Substantial earnings growth would sustain market performance.	Strong and resilient earnings performance especially from banking stocks and export driven companies would spur investor confidence.
Domestic Interest Rate Policy	Further interest rate hikes due to spiraling inflation would significantly raise borrowing costs.	Muted posture would trigger resilient company earnings.	Dovish posture would improve <b>companies' profitability.</b>
FI Yield Environment	Significant increase in fixed-income yields could prompt a shift away from equities as investors seek higher returns in less risky asset.	Increase in interest rate but yield remains below inflation rate.	Depressed yield environment would shift investors interest into equities.
FX Dynamics	New FX regime causes uncertainties and discourages FPIs participation.	Stabilized FX market devoid of uncertainties could aid market performance.	Improved clarity and transparency in the FX market would encourage greater FPI participation.

At the start of the year, we anticipated a mild gain of around 7.3%. However, we have revised our scenario-based projection for the equities market to reflect current market dynamics.

INDICATORS	PESSIMISTIC CASE	BASE CASE	OPTIMISTIC CASE
EPS Growth Forecast	12.0%	15.0%	17.0%
EPS Forecast 2023	6,171.94	6,337.26	6,447.48
P/E Ratio Forecast	9.1	11.1	13.1
NGX-ASI in 2022	51,251.06	51,251.06	51,251.06
NGX-ASI Forecast	56,164.69	70,343.63	84,461.96
Expected YTD Return	9.6%	37.3%	64.8%
Probability of Occurrence	5.0%	65.0%	30.0%

Source: Bloomberg, Afrinvest Research

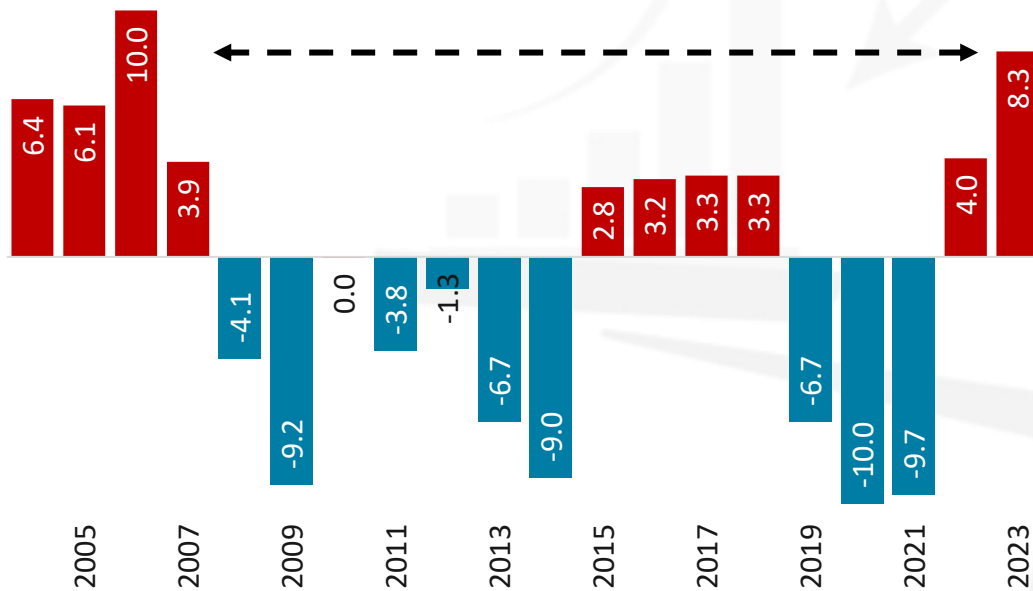
# Fixed Income



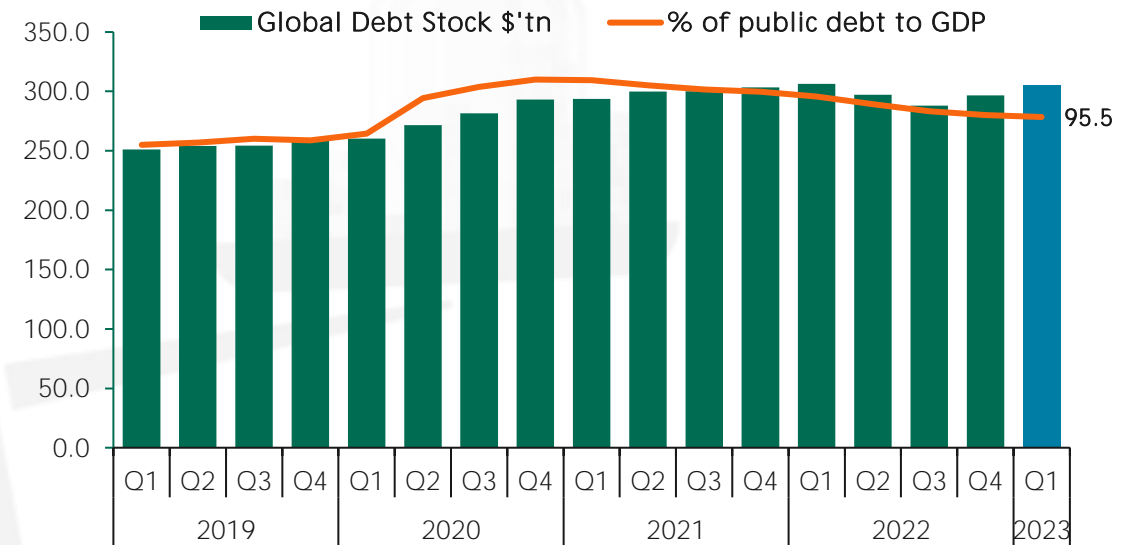
# GLOBAL DEBT EXPANDS AMID MONETARY TIGHTENING

- Historic tightening by inflation-combating central banks stoked interest rate environment to highest level in 17 years.
- Global debt build-up by \$8.3tn to \$304.9tn in Q1:2023 (\$1.4tn lower than the record-high \$306.3tn in Q1:2022).
- EMs led the way with a \$1.2tn increase to \$100.7tn (vs \$2.6tn reduction in Mature Markets debt to \$206.8tn).
- Sovereign issues to close fiscal deficits and Non-corporate issuances in EMs were tailwinds.
- Global debt-to-GDP ratio has witnessed steady quarterly drop since Q2:2022

Global Monetary Tightest Since 2006



Global Debt Build-up Intensifies



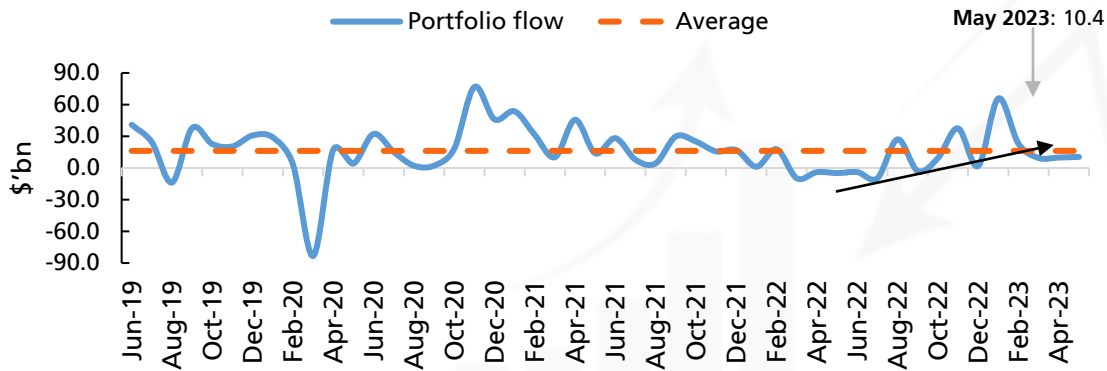
NB: The index points below zero represent easing of interest rates while those above zero connote tightening. Values are as of July for respective years.

Source: IIF, CFR, Afrinvest Research

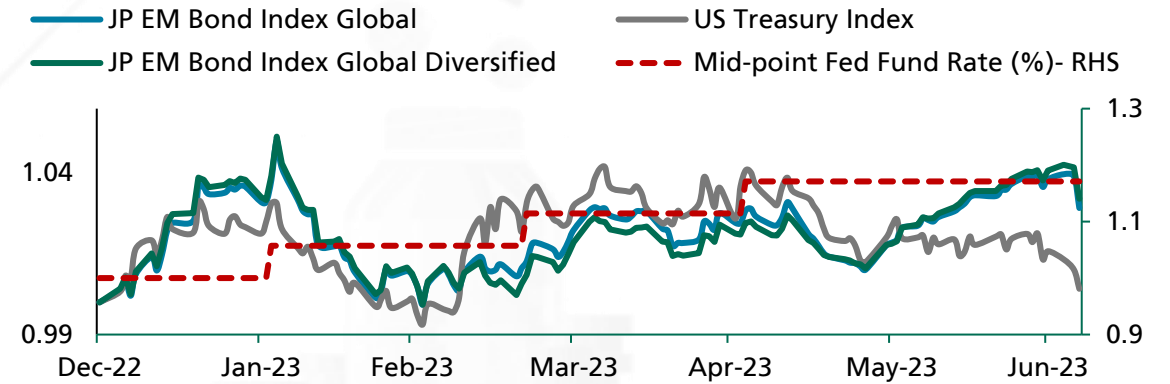
# EMs SHOW RESILIENCE AS BONDS GAIN

- Capital flow improved from 2022 levels owing to rebound in flows to EMs excluding China
- Carry trade, currency movements, and relatively better fiscal positions supported the EMs momentum

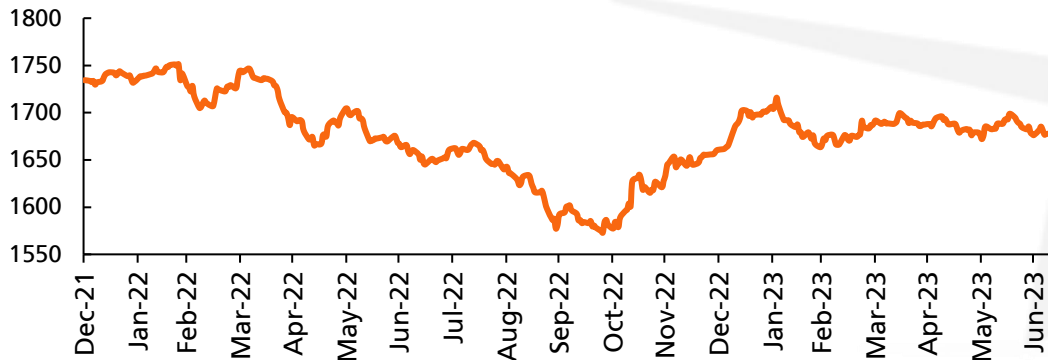
Capital Flow into EMs Slowly Rebounds in 2023



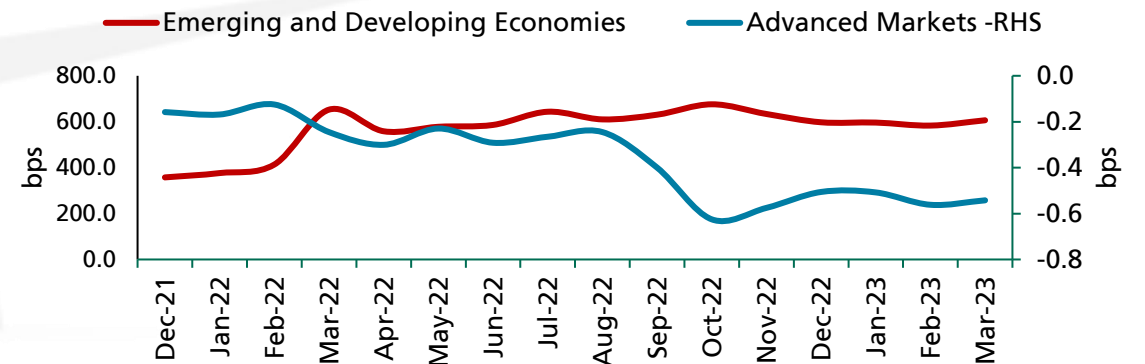
Risk-on Sentiment Still Prevalent... Favours EMs Bonds



MSCI EMs Currency Index Shows Recovery in 2023



Sovereign Spreads by Income Group

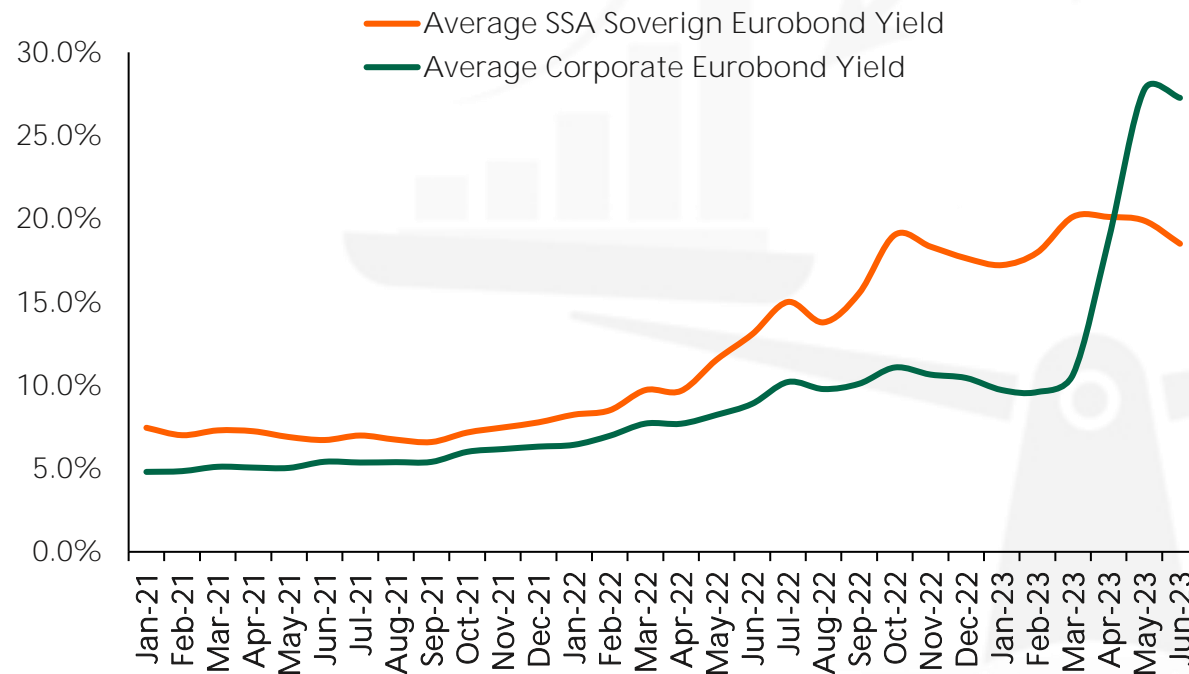


Source: Bloomberg, IIF, IMF, Afrinvest Research

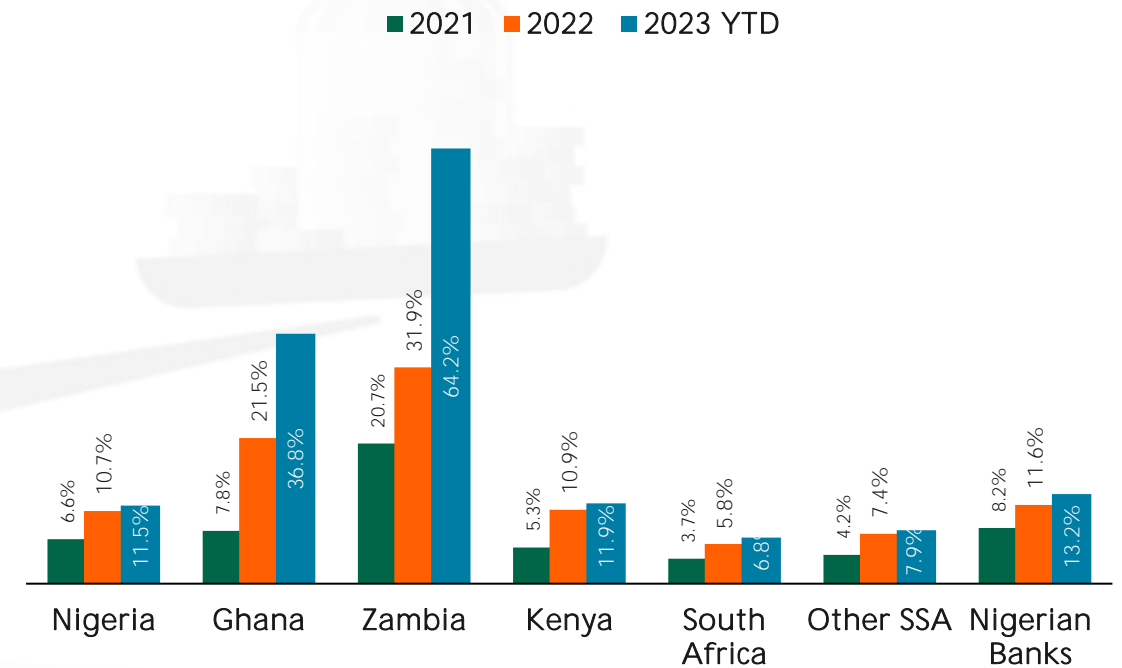
# SSA AVERAGE YIELD TRENDS HIGHER AS DEBT CRISIS WORSENS

- The bonds market in H1:2023 was driven by rate hikes in AEs and debt repayment crises that hit countries like Ghana and Zambia, inducing market volatility.
- The performance of SSA Sovereign Eurobond markets under our coverage was weak as average yield rose sharply by c.6ppts to 19.0% in H1:2023 (FY 2022: 13.3%).
- The weak performance also extended to the corporate Eurobond market as average yield expanded from 9.0% in FY:2022 to 17.3%

Bearish Sentiment Pervades SSA Market



Selected Sub-Saharan Eurobond Market Fixed Income Yield



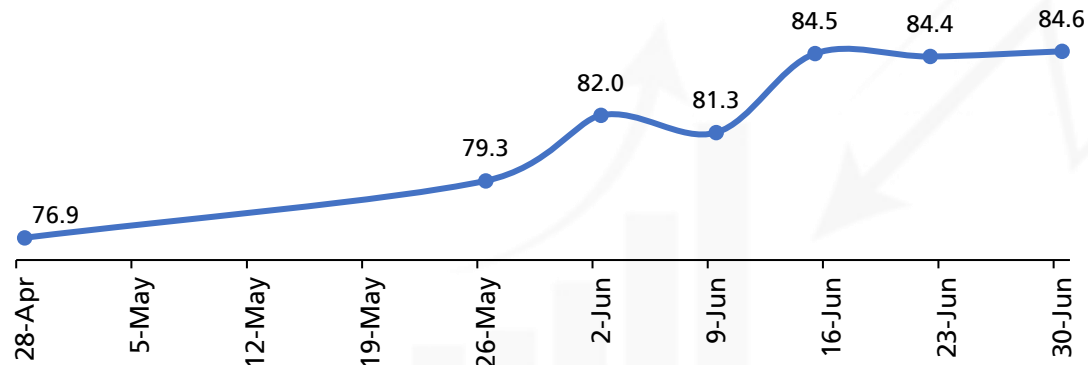
Notwithstanding common outcome, drivers diverged across select markets

	Countries	Foreign Reserve \$'bn	Interest rate %	Inflation	Risk premium	Currency change Jan-23 to Jun-23 (\$/LCY)	Developments to Watch
Nigeria		34.1	18.50%	22.4%	7.4%	66.9%	PMS subsidy removal, FX liberalization and broad fiscal reforms
Ghana		5.2	29.50%	42.2%	n/a	9.0%	Expected debt restructuring and firm commodities trade
Angola		14.1	17.0%	10.2%	8.4%	63.9%	PMS Subsidy reduction, economic diversification plan
South Africa		61.5	8.25%	6.3%	8.7%	10.9%	Energy reforms, fiscal consolidation measures
Kenya		11.5	9.50%	7.9%	6.8%	13.8%	Fiscal consolidation efforts to access fresh syndicate finance, and structural reforms
Zambia		2.9	9.50%	9.8%	n/a	-2.3%	Delayed debt restructuring
Egypt		34.8	19.25%	36.8%	12.5%	24.9%	Incomplete transition to flexible exchange rate, weak external buffers

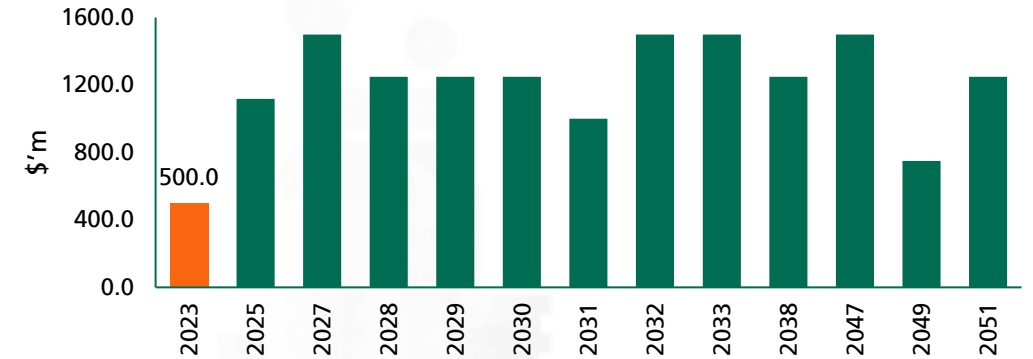
Source: Bloomberg, Fitch Rating , Statista, National sources, Afrinvest Research

- Nigerian Eurobonds price rose 7.6% in H1:2023, with a late rally in Q2 driven by optimism of fiscal and monetary reforms.
- Persisting low dollar liquidity and dwindling reserve can pose headwind to Eurobond performance as spread on Nigerian yields versus US comparable thins (making Nigerian Eurobonds less attractive).

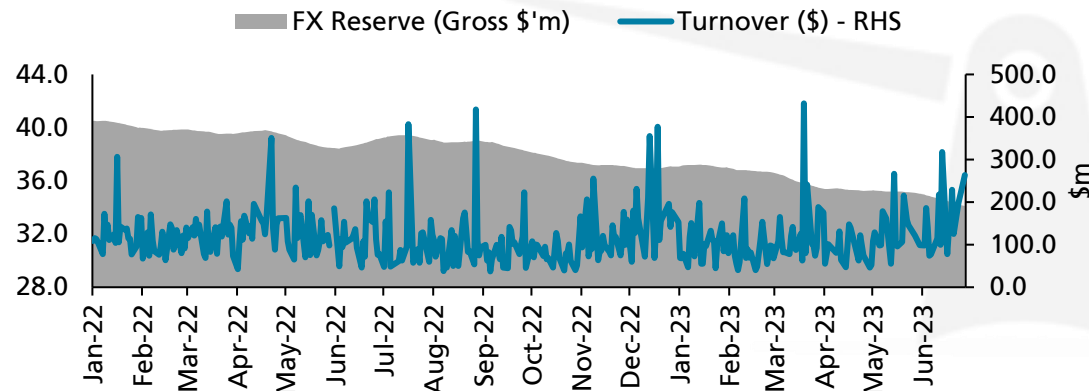
### Reforms Spark Interest in Nigerian Eurobonds (\$)



### Eurobonds Maturity Due July



### Dwindling Reserves Highlights Need for FX Inflows



NB: Turnover data excludes June 2, 2022 (outlier) and dates for which FX reserve data were unavailable

### Market Yield Comparison on Benchmark (%)

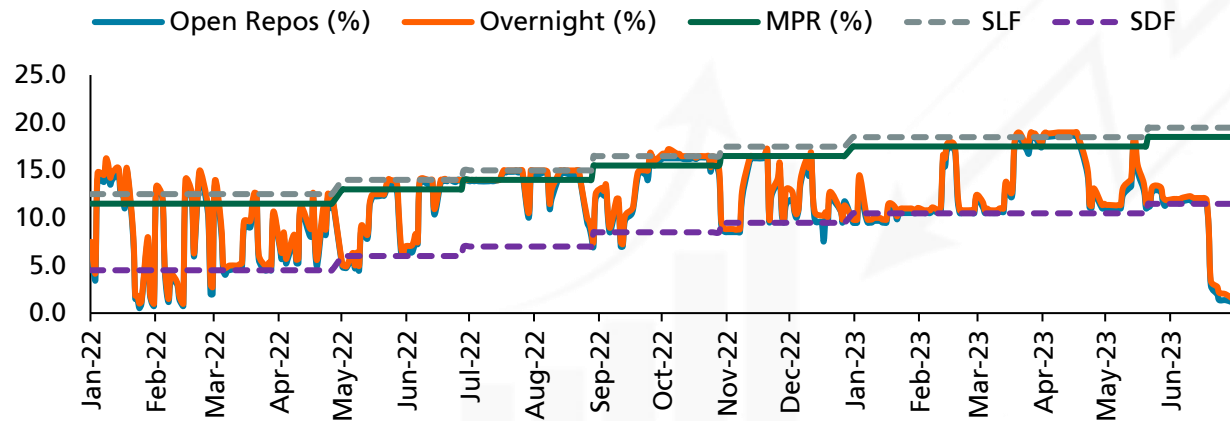
Eurobond Tenor (10-year)	Jul-22	Jul-23
US	1.9	4.0
Nigeria	13.4	11.0
<b>Spread</b>	<b>11.5</b>	<b>7.0</b>

Source: FMDQ, CBN, Trading Economics, Afrinvest Research

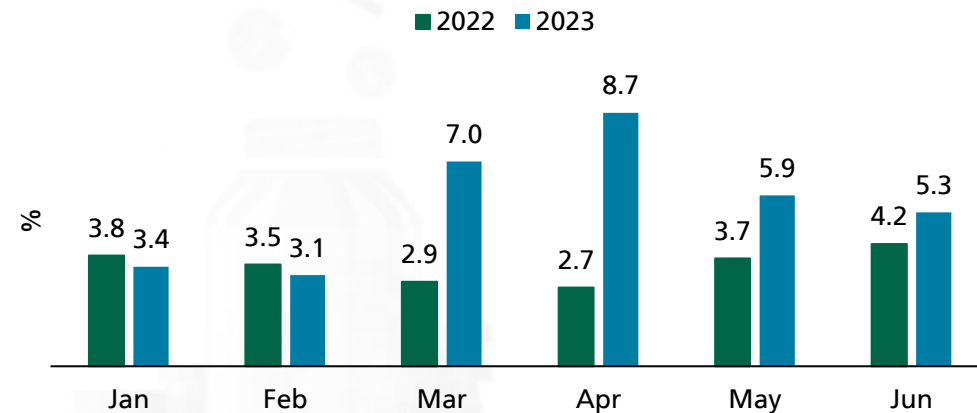
# MPR HIKE, SOARING INFLATION DRIVES NT-BILLS YIELDS NORTH

- Despite CBN's Hawkish signaling, average system liquidity (₦473.4bn) was 2.5x higher in H1:2023 compared to H1:2022 due to weak MPR transmissions through credit market and impact of Naira redesign
- Nonetheless, T-bills yields repriced higher to reflect the hawkish MPR tilt and to help market cope with soaring inflation

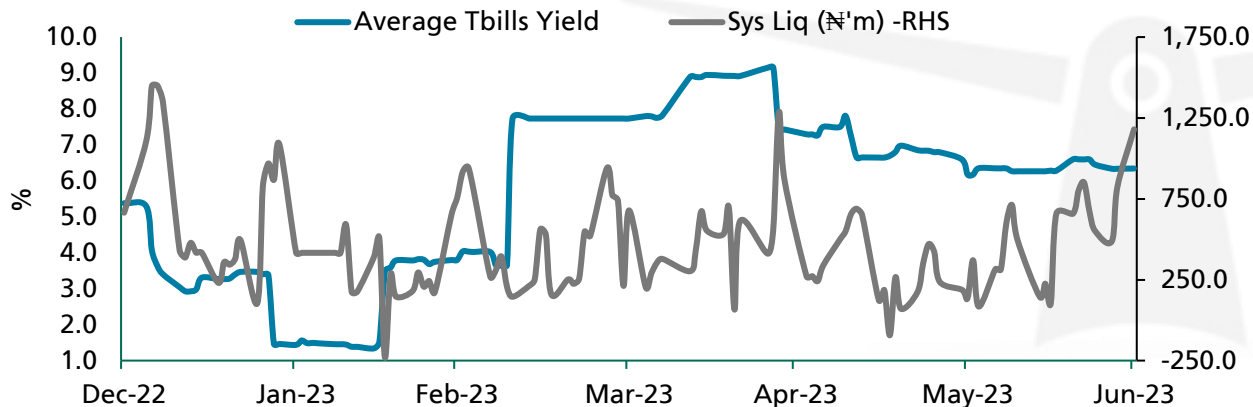
Interbank Lending Rates Oscillated within MPR Corridors in H1



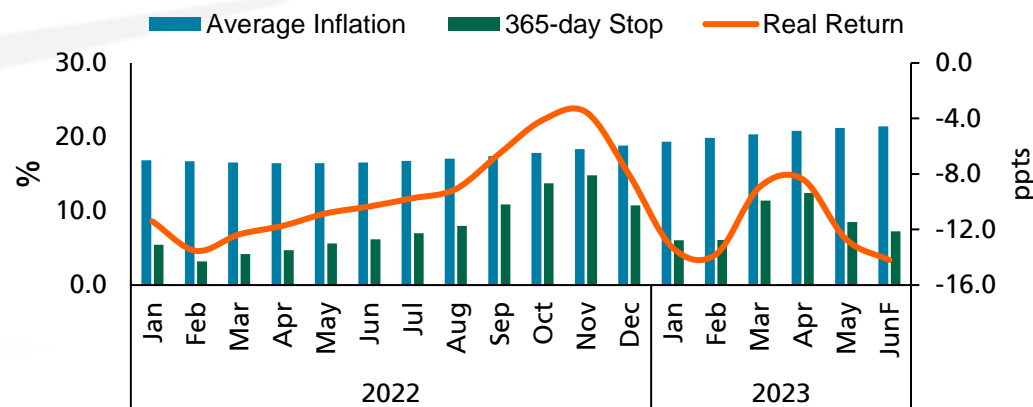
PMA Participants Negotiated Higher Stop Rates vs H1-2022



Average NT-bills Stop Rates Improve at PMA



Negative Return Deepens Due to Untamed Inflation

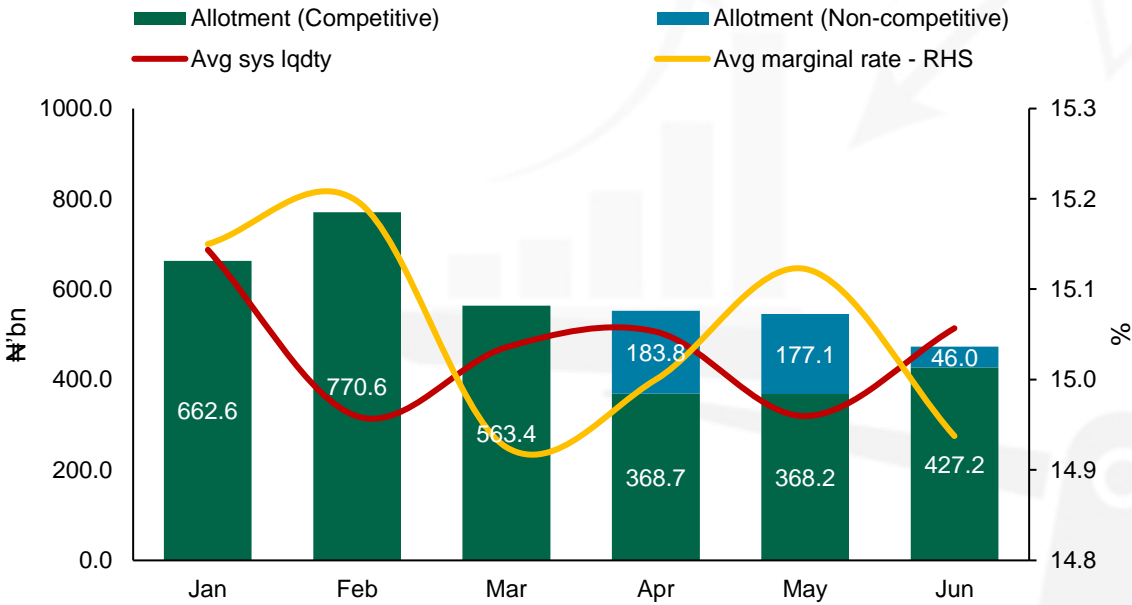


Source: FMDQ, CBN, NBS Afrinvest Research

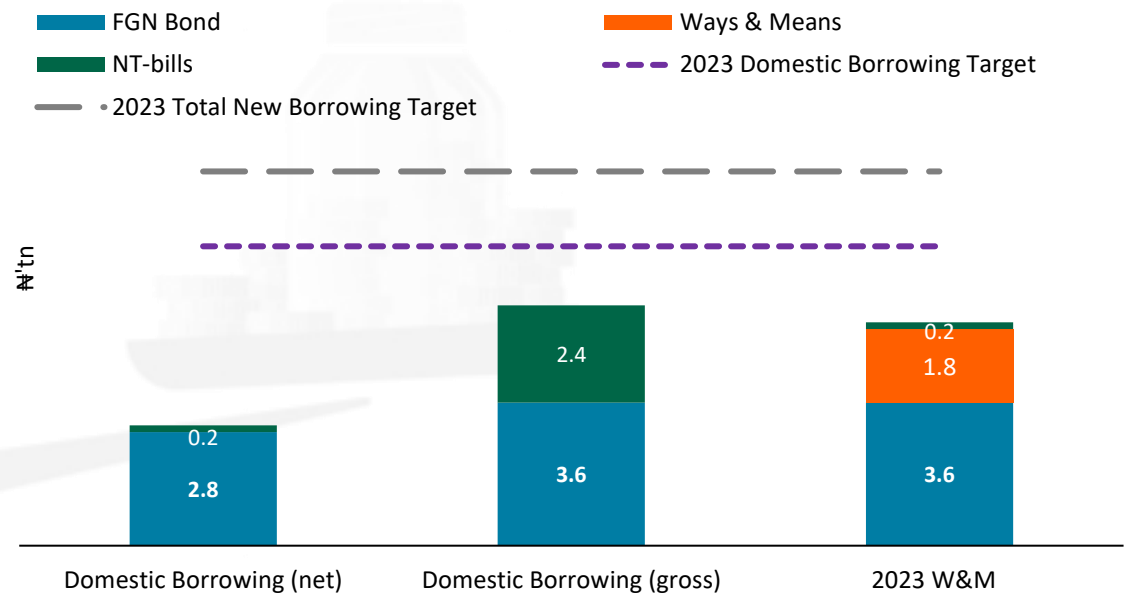
# DOMESTIC BORROWINGS ON TRACK BUT CHASMS AHEAD

- Net of maturities, FG has raised 40.2% of its ₦7.5tn domestic borrowing target under the “Subsidy Reform” scenario despite the political transition
- The low probability of W&M financing under the B.A.T administration (₦22.7tn Securitised) and Eurobonds issuance (due to high cost) would create a budget chasm in H2 that would require the local debt market to bridge

FGN Bond Sales and Marginal Rate Trend in H1-2023



Actual Domestic Borrowing vs Targets & 2022 W&M



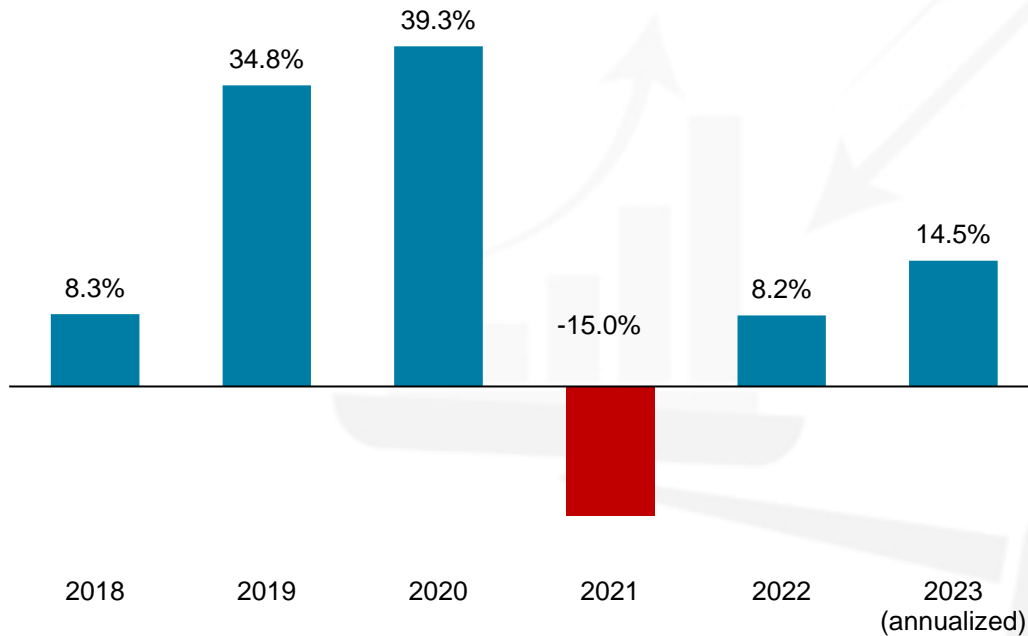
NB: Data excludes promissory notes, Savings bond and other (minor) instruments for government financing  
 2023 W&M column includes gross bond and net NT-bills issuances  
 Ways & Means are the additional advances from CBN between December 2022 and March 2023

Source: FMDQ, DMO, CBN, NBS Afrinvest Research

# FGN BOND YIELDS CLOSE MARGINALLY LOWER

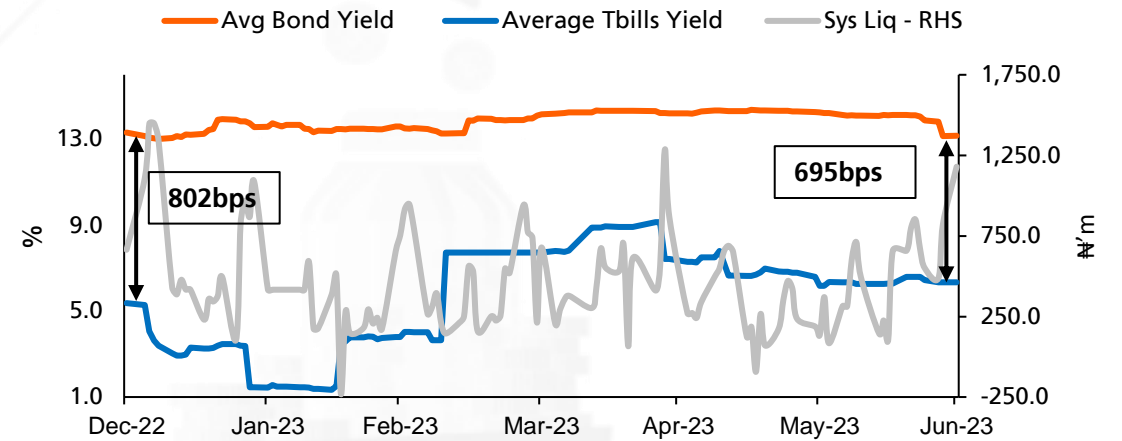
- Yields on benchmark FGN bonds moderated 15bps to close H1:2023 at an average of 13.2% (Benchmark NT-bills rose 92bps to 6.2%)
- Market bucked a bearish trend in response to the relatively peaceful political transition, fiscal reforms and CBN's accommodative posture (seemingly in alignment with FG's bias for a lower interest rate environment)

## Local Sovereign Bond Returns 7.0% in Naira Terms for H1-2023

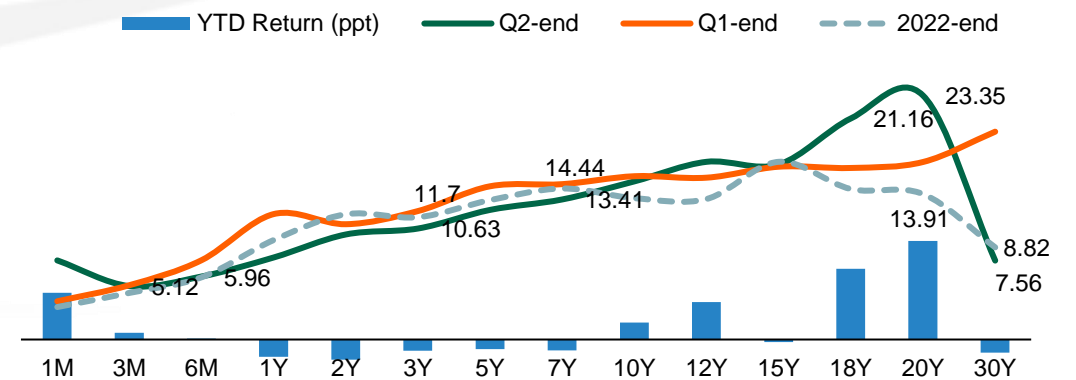


NB: S&P calculates the total return by aggregating the interest return (reflecting the return due to paid and accrued interest) and price return (reflecting the gains or losses due to changes in the end-of-day price and principal repayments)

## Divergent Outcomes in FGN Bonds & NT-bills Markets in H1



## FGN Bond Yield Curve Evolution in 2023



- The number of issuances stayed flat y/y while amount raised rose 1.1% amidst a 3.0 ppts jump in coupon rate.
- Election and macroeconomic uncertainties alongside the interest environment partly explain market trends.
- The average yield on corporate bonds rose to 12.5% by June-end against 11.3% in the comparable 2022 period.

## Corporate Bond Issuance in H1-2023

Issuer	Rating/Agency	Issue Date	Outstanding Value (₦'bn)	Coupon (%)
NIGER DELTA EXPLORATION & PRODUCTION PLC	A+/GCR	13/01/2023	10.3	17.0
FCMB GROUP PLC	BBB-/GCR; BBB/DataPro	16/02/2023	20.7	16.0
LFZC FUNDING SPV PLC	AAA/GCR	29/03/2023	17.5	15.3

## Issuance Costlier Than Year-ago

Issuer	H1:2023	H1:2022
New Issue Amount (₦'bn)	48.5	48.0
No of Issuances	3.0	2.0
Average Coupon Rate of New Issuances (%)	16.1	13.0

Source: FMDQ, Afrinvest Research

- The number of issuances and amount raised increased by 89.1% and 57.8% respectively amidst a 3.7 ppts jump in the average discount rate.
- There were 61 maturities in the period.
- The short-dated nature of CPs provided comfort for issuers to refinance and raise new capital while navigating uncertainty in the period.

## Top CP Issuance in H1-2023

Issuers	Amount (₦bn)	No of Issues	Percentage of Amount raised
DANGOTE CEMENT PLC	138.0	4.0	17.5%
MTN NIGERIA COMMUNICATIONS PLC	125.0	2.0	15.9%
FLOUR MILLS OF NIGERIA PLC	65.0	2.0	8.3%
NIGERIAN BREWERIES PLC	49.2	3.0	6.3%
STERLING BANK PLC	47.9	2.0	6.1%
STANBIC IBTC BANK PLC	37.1	2.0	4.7%
JULIUS BERGER NIGERIA PLC	30.0	2.0	3.8%
DUFIL PRIMA FOODS PLC	30.0	2.0	3.8%
FBN QUEST MERCHANT BANK	28.7	8.0	3.6%
RAND MERCHANT BANK NIGERIA LIMITED	28.1	2.0	3.6%

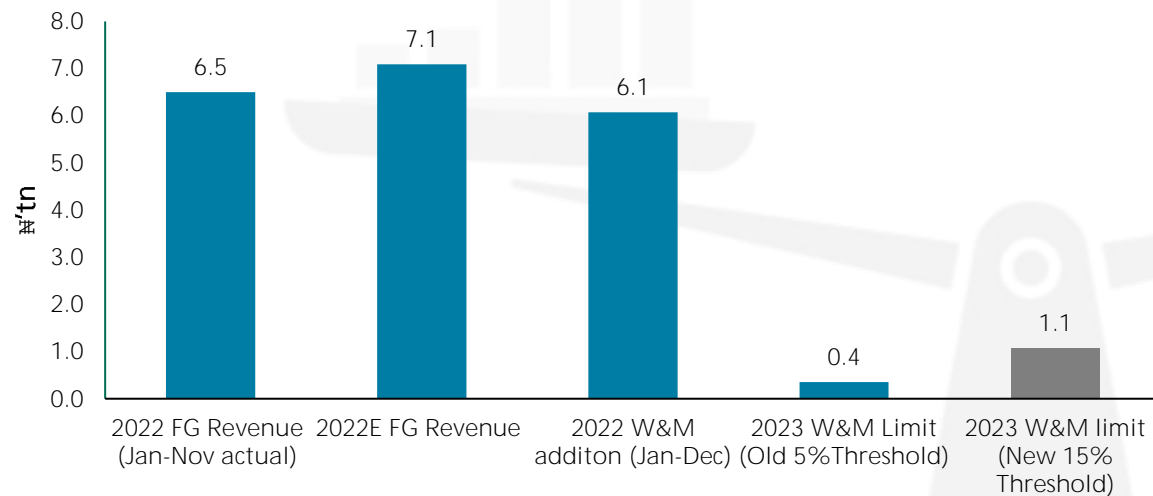
## Issuance Costlier Than Year-ago

Issuer	H1:2023	H1:2022
New Issue Amount (₦'bn)	786.8	498.5
No of Issuances	104.0	55.0
Average Discount Rate (%)	15.3	11.5

Source: FMDQ, AfrInvest Research

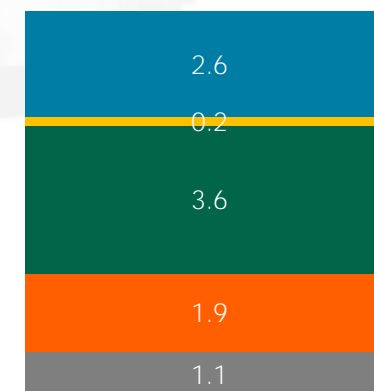
- Under the Buhari administration, an additional ₦1.8tn W&M was drawn from CBN in Q1:2023.
- This coincides with an extension of the 2022 capital budget (₦1.0tn 9M 2022 variance) into the 2023 fiscal year.
- Jan-Nov 2022 revenue performance of ₦6.5tn (Annual run rate: ₦7.1tn) **implies President Tinubu's FG can borrow ₦1.1tn maximum** given the 15.0% W&M threshold.
- The legislative backing to raise W&M limit suggests FG might go by the books going forward. Therefore, provisions requiring payment of outstanding W&M before new borrowing could limit the FG.
- W&M drawdown increases fiscal vulnerability and could affect Eurobond outing negatively. Hence FG might face a trade-off.

W&M Possibility Given New Threshold



Scenario Should Odds Favour FG

- W&M
- Eurobonds
- FGN Bond issuance H1
- Net NT-bills sales H1
- Domestic Need (H2)

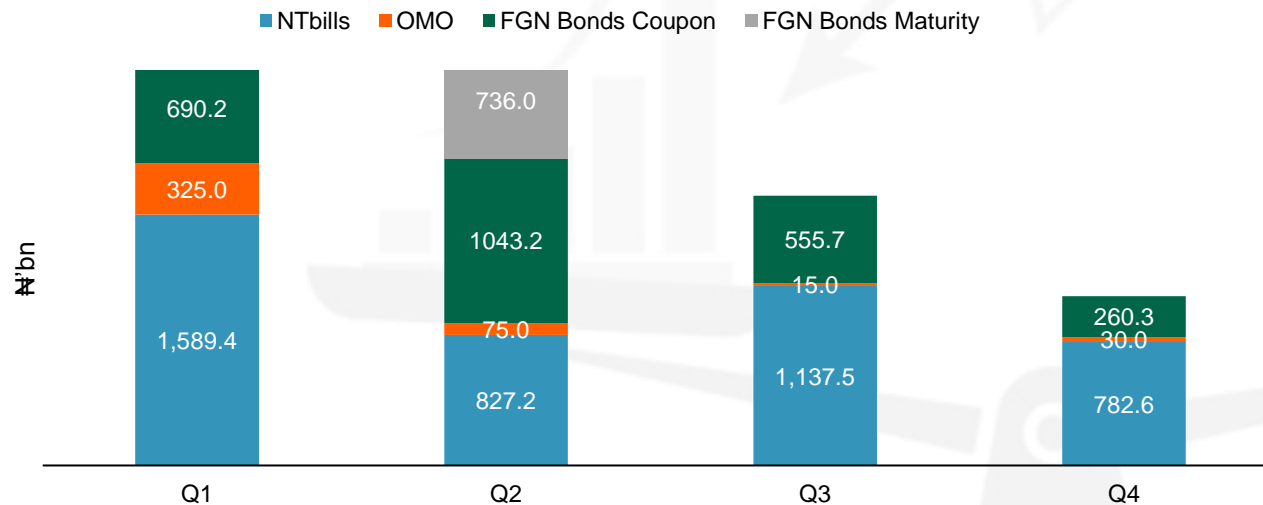


- H1 Bond issuances are on gross basis
- W&M refers to new borrowings under B.A.T administration
- Domestic Need refers to domestic paper supply in H2

Source: FMDQ, Budget Office, CBN, Afrinvest Research

- The sums of ₦7.5tn and ₦1.9tn have been earmarked for domestic and foreign borrowings for 2023 (Subsidy Reform scenario) to plug the ₦11.3tn budget deficit.
- In our view, the foreign bond market would likely be too expensive for issuances in H2-2023 given historic levels of global interest rates. This, combined with the low probability of W&M financing under PBAT administration should translate to higher domestic borrowing and raise H2 paper supply to c.₦6.0tn.

**Breakdown of Expected Maturities and Coupon Payments in 2023**



**Gross vs Net Liquidity Outlook for 2023**

	NT Bills	OMO Bills	Coupon Payments	FGN Bond Maturities	Total	Total Less Outflows
Q1	1,589.4	325.0	690.2	-	2,604.6	(679.6)
Q2	827.2	75.0	1,043.2	736.0	2,681.3	190.9
Q3	1,137.5	15.0	555.7	-	1,708.1	(1,374.8)
Q4	782.6	30.0	260.3	-	1,072.9	(1,655.1)
<b>Total</b>	<b>4,336.6</b>	<b>445.0</b>	<b>2,549.4</b>	<b>736.0</b>	<b>8,066.9</b>	<b>(3,518.6)</b>

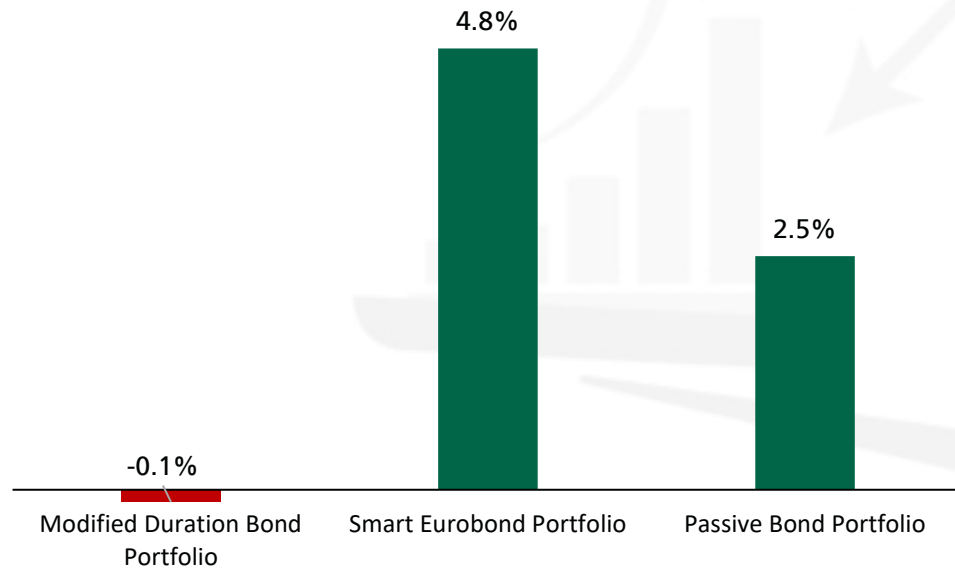
**Assumptions for outflows**

- NTBills are rolled over
- No OMO Auction
- Remaining domestic bond target ( based on gross amount raised in H1) are evenly spread for rest of year
- This data set does not include a scenario where foreign borrowings are channelled to local market

Source: FMDQ, Budget Office, CBN, Afrinvest Research

While our market projection was on-spot, our Modified Duration lost 13bps due to significant price decline on the FGN 42, 49 and 50. This offset the 4.3% gain on shorter-dated instruments in our recommendation.

## Review of H1:2023 Investment Recommendation



## Selected Instruments in the Afrinvest Research's 2023 Recommendation

Modified Duration Bond Portfolio	Smart Eurobond Portfolio	Passive Bond Portfolio
Instrument	Issuer	Issuer
^13.53 23-MAR-2025	REPUBLIC OF NIGERIA 2025	DANGOTE CEMENT PLC 2024
^12.50 22-JAN-2026	REPUBLIC OF NIGERIA 2031	FLOUR MILLS OF NIGERIA PLC 2025
^15.00 28-NOV-2028	REPUBLIC OF NIGERIA 2038	UNITED CAPITAL 2025
^14.55 26-APR-2029	REPUBLIC OF NIGERIA 2049	ACCESS BANK 2026
^16.2499 18-APR-2037	REPUBLIC OF KENYA 2028	MTN NIGERIA COMMUNICATIONS PLC 2028
^13.00 21-JAN-2042	REPUBLIC OF ANGOLA 2028	
^14.80 26-APR-2049	ACCESS BANK PLC 2026	
^12.98 27-MAR-2050	ECOBANK TRANSNATIONAL 2024	

Source: FMDQ, Bloomberg, Afrinvest Research

# FIXED INCOME PROJECTION FOR H2:2023 (DRIVERS)

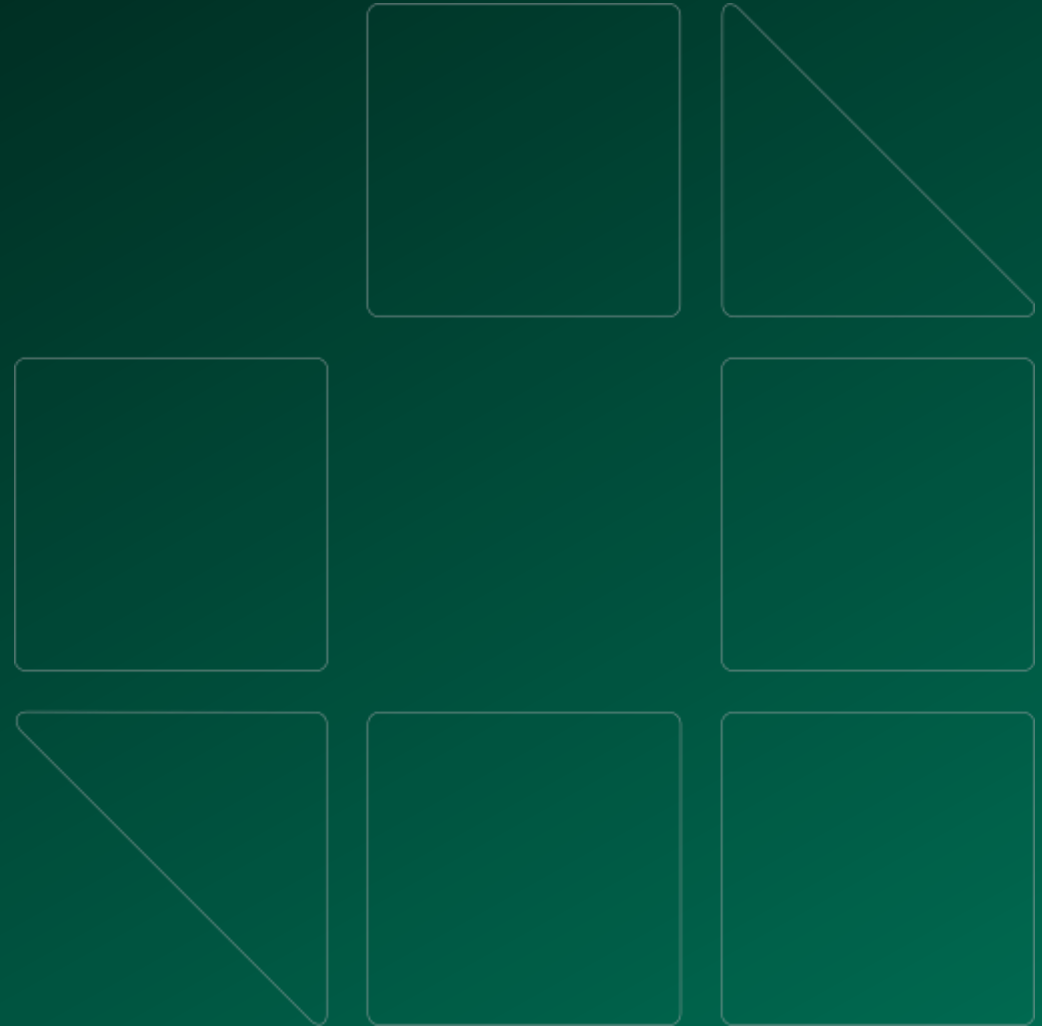
H1:2023 Review & H2:2023 Outlook

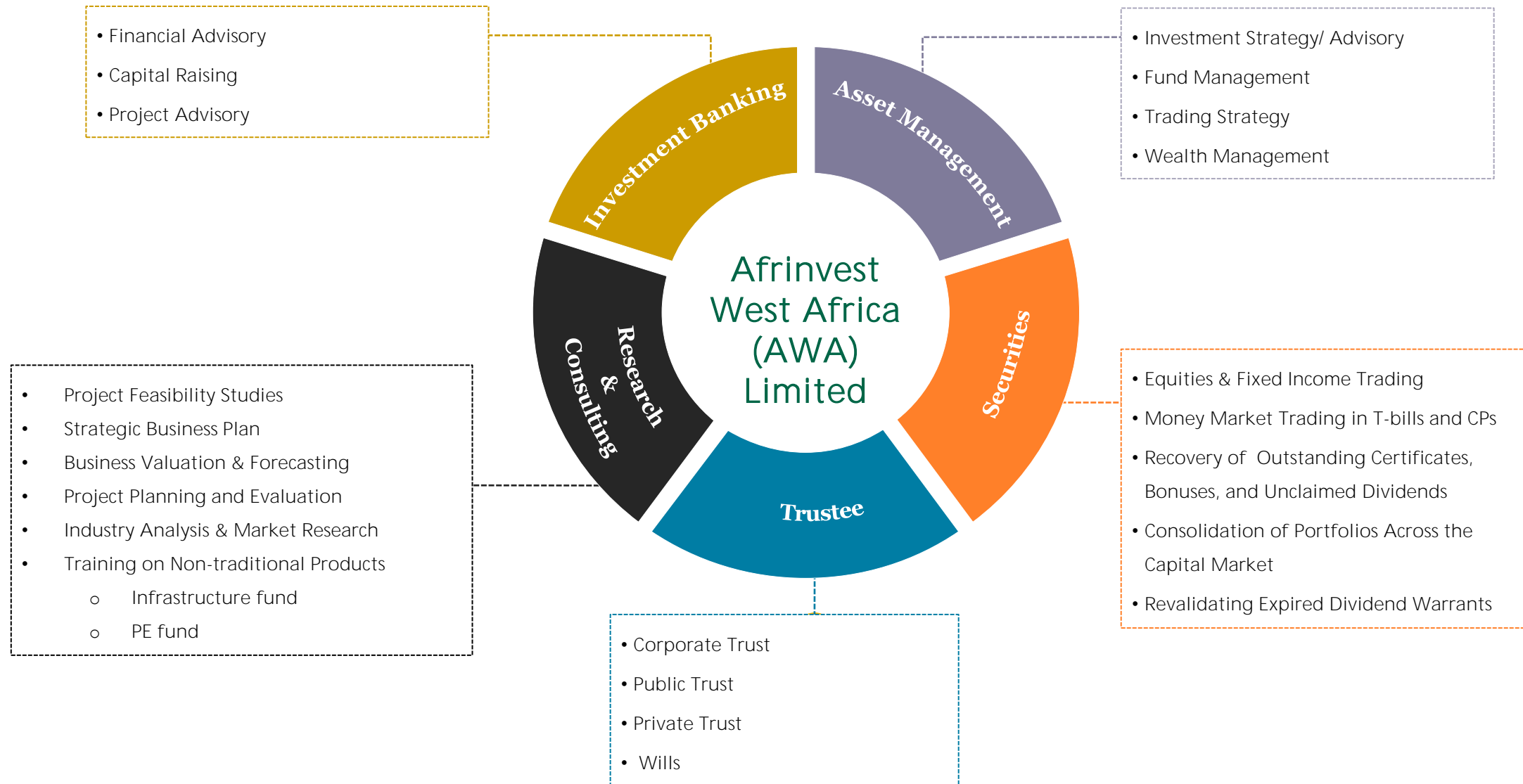
- We posit that the benchmark FGN bond yields should track higher to 13.3% by year-end while NT-bills tick higher to 6.4%.
- Inflation and FX dynamics alongside fiscal realities and expected maturities support a bearish view.
- Downside risks to forecast would materialize should FG leverage the increase in W&M threshold from 5.0% to 15.0%, CBN unwinds Special bills, global interest rate tapers and CRR normalization is sustained.

FACTORS	BULL CASE	BASE CASE	BEAR CASE
Domestic Inflation	Inflation rate prints below 24.0% by 2023-end	Inflation rate rises to 25.3% by 2023-end	Inflation rate crosses 26.0% by 2023-end
Domestic Interest Rate Policy	CBN loosens rate in <b>alignment with FG's</b> preference	Muted posture but CBN would explore measure to tighten liquidity for price and currency stability	CBN tightens rate further to incentivize holding Naira and lure offshore capital
FG Borrowing	Fiscal pressure ease due to reform benefits and buoyant oil sales	Fiscal pressure should build as new administration commence fuller implementation of 2023 budget	Fiscal pressure swells as reform benefits delay and oil sales weaken



# Our Capabilities





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Thank You



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