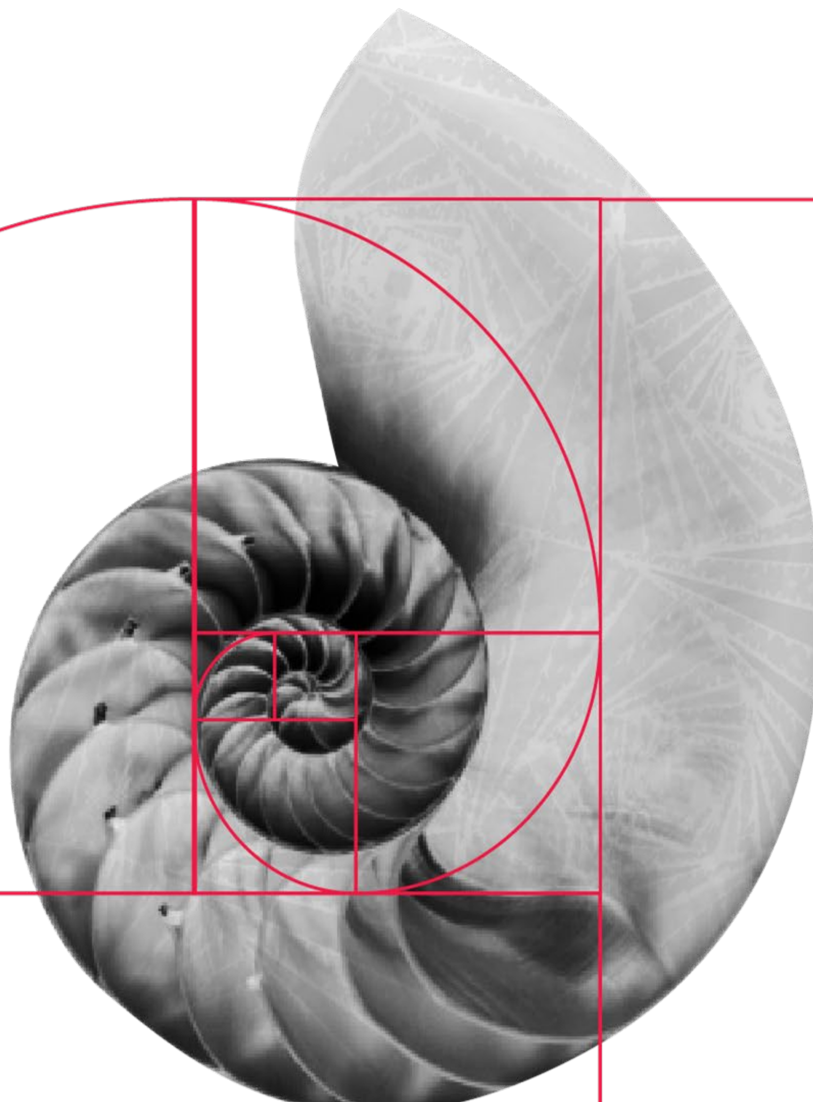
Nigeria in 2023. *Charting Through a Pervasive Slowdown.*



Macroeconomic Review & Outlook
Global Economy

December 2022

Executive Summary.

The Year 2022 – A period that started with the optimism of consolidation of the post-COVID recovery, albeit slowly, but eventually went southwards with the multifaceted impact of the Russia-Ukraine conflict and tighter monetary conditions. Not only did the Russia-Ukraine conflict disrupt the relatively smooth functioning of the global economy, but it also made global central banks hasten switches to monetary policy tightening as inflationary pressures rose to levels not seen in decades. To put it in a proper context, we acknowledge that global inflation rates were on the rise before Russia invaded Ukraine on 24 February, reflecting the (1) post-pandemic supply chain disruptions, (2) shortages of chips and semi-conductors, and (3) increased demand that accompanied the reopening of world economies. However, just before the world economies started feeling the impact of the war, global PMI surveys reflected that the supply chain delays had started easing in the US, UK and Euro Area, implying that inflationary pressures may moderate by H2-22 amid the favourable base effects from the prior year.

However, the Russia-Ukraine conflict shattered the hopes of moderation as the conflict introduced new risks to the inflationary pressures, worsening the supply chain constraints. Moreover, food and energy prices also spiked, given the contribution of both countries to global supplies. Therefore, consumer prices spiralled across the developed and developing economies to the extent that some countries introduced export bans to limit price shocks in their respective domestic economies. Consequently, the preceding induced global central banks to aggressively tighten monetary policies faster than initially expected as inflationary pressures rose.

Given that the uncertainties concerning the global macroeconomic and financial environment are high striking a balance between avoiding a disorderly tightening of financial conditions and containing the potential threats will be critical as we head into 2023FY. With persistent and aggressive monetary policy tightening, the questions on the minds of investors have been centred around the probability of a 'soft landing'. However, in our opinion, it will be difficult for major central banks globally to engineer this, especially given that inflation rates have significantly risen above the monetary authorities' target, even as the impact of monetary policies lags behind inflation and output. Crucially, our call is for the US Fed to maintain its rate increases, albeit at a slower pace than implemented in 2022FY, until H1-23 and pause for the remainder of the year before cutting the key policy rate in 2024FY. Our prognosis is hinged on the Fed's inflation-targeting strategy (adopted in August 2020), designed only to cut the Fed's

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funds rate when actual inflation converges to the 2.0% target. Thus, as the central banks in advanced economies keep raising key policy rates, we expect growth to falter and turn negative in H1-23. Indeed, the IMF forecasts that 31 out of selected 72 economies will experience a contraction in real GDP lasting for at least two consecutive quarters at some point during 2022 -2023, amounting to more than one-third of world GDP.

Away from that, the US dollar has appreciated significantly against other world currencies on account of the combined impact of (1) US Fed monetary policy tightening, (2) heightened global uncertainties, (3) the Russia-Ukraine conflict, and (4) country-specific conditions; for instance, fiscal risks in the United Kingdom. Moreover, the US dollar's strength against other world currencies could linger into H1-23, given that the US policy rate is expected to remain elevated, and many advanced economies could fall into economic recession. Consequently, (1) higher global interest rates and (2) a strengthened US dollar implies that it will become more difficult for many emerging and frontier economies to raise money and refinance their external debts, increasing financial markets' volatility. Notwithstanding, we believe the situation has created an opportunity for countries to embark on a conscious fiscal consolidation effort, as funding from alternative external sources (bilateral and multilateral) may not be enough to cover the outsized fiscal deficits, holding domestic debt issuances constant.

Overall, our outlook for the global economy is a slowdown compared with 2022E growth levels. On the one hand, we expect to see the impact of monetary policy tightening on global household demand and private investment conditions, weighing down the overall growth in 2023. Elsewhere, while inflationary pressures are likely to slow down compared to 2022E levels, given the favourable base effects, we expect prices to remain significantly above pre-pandemic levels, further pressuring consumer wallets and slowing household consumption. On the other hand, the slowdown in China primarily because of the lingering property sector woes and stifled domestic consumption will negatively impact other countries' external sector conditions, given the roles played by China in global trade. Equally, the lingering Russia-Ukraine conflict is also expected to contribute to the expected global economy's pervasive slowdown in 2023FY. On a balance of factors, the IMF expects global economic growth to slow to 2.7% y/y in 2023FY, down from an expected 3.2% y/y growth rate in 2022E.

Finally, the level of volatility in the crude oil market heightened in 2022 following an increased uncertainty about the interplay between supply and demand forces. Prices have generally fallen from the multi-year high reached in March, as global growth concerns and lockdowns in China influenced an underperformance in global demand. Amid the mire, supply recovered to pre-pandemic levels, underpinned by increased output from OPEC and its allies, and the US, coupled with the substantial releases of crude oil from strategic reserves. As a result, we expect oil demand to reach pre-pandemic levels in 2023FY, driven majorly by increased consumption from China. On supply, while we still expect growth in oil production, we anticipate a slower increase with the drag stemming from a fall in output from the OPEC alliance following the newly instituted production cuts and the impact of EU sanctions on Russia's output. On a balance of factors, we forecast Brent crude oil price will average USD92.00/bbl. in 2023. We cite the slowdown in global growth and prolonged COVID-19 restrictions in China as potential risks to demand. On the flip side, we believe any disruption to current output poses key risks to supply.

Contents.

Global.

Growth.

Recovery Pace Slows After Initial Post-COVID Boost

- **Global growth to slow to +2.7% y/y in 2023FY (2022E: +3.2% y/y)**
- **Emerging markets to grow by 3.7% y/y (2022E: +3.7% y/y)**
- **Advanced economies' growth to weaken to +1.1% y/y (2022E: +2.4% y/y)**
- **Global monetary policy to remain tight, albeit less aggressive, in 2023FY**

At the start of 2022, the global economy maintained its solid momentum, consolidating on the initial post-COVID boost of 2021 even as the international monetary authorities signalled intentions to switch monetary policy stances later in the year. After that, however, the global growth optimism faded given a combination of factors, including (1) the Russia-Ukraine conflict, which commenced in late February, (2) higher global interest rates as global central banks tightened monetary policy more than initial expectations, and (3) China's zero-COVID strategy, which impacted local and external demand negatively.

Notably, the Russia-Ukraine conflict resulted in negative consequences for the global economy, including (1) worsening of the lingering supply-chain constraints, (2) disruption of trade flows, and (3) higher inflationary pressures. Significantly, the conflict reduced the supply of key commodities, including wheat, corn, natural gas, crude oil, nickel and palladium. At the same time, global central banks began using policy tools to tackle the inflationary pressure, with a commensurate impact on the reduction of business investments as global interest rates rose.

In addition, China's lockdown across major cities that recorded spikes in COVID-19 cases negatively impacted other countries' external demand. Moreover, according to S&P Global, global manufacturing PMI dropped below the 50-point threshold for the first time since June 2020, from 50.3 points in August to 49.8 points in September. According to a survey, the fall in global manufacturing PMI points to factory activity deteriorating over the rest of the year amid (1) an intensifying downturn in global trade flows, (2) subdued demand linked to ongoing cost-of-living crises globally, and (3) growing economic uncertainty about the outlook. **Overall, the global economy is expected to have grown by 3.2% y/y in 2022E (2021FY: 6.0% y/y).**

It is pertinent to note that global inflationary pressures remain, driven by higher costs of energy and food prices, exacerbated by the Russia-Ukraine conflict. In addition, the post-pandemic demand recovery supported price growth, thus broadening price pressures. Accordingly, monetary authorities have increased interest rates to levels not seen in decades as inflation rates have also risen to unprecedented levels.

We expect the global economy to slow further in 2023FY, given lingering geopolitical tensions, an expectation of further monetary policy tightening, and a continuous slowdown in demand amidst persistent inflationary pressures. Notably, given the lagging impact of monetary policy decisions, we expect the effects of the synchronised global interest rate increases to be felt most in 2023FY, with private investments and domestic demand likely to be most affected. Elsewhere, the energy crisis witnessed particularly in Europe is expected to linger, as the prospect of Russia completely cutting supplies remains high. This would worsen inflationary pressures and negatively impact aggregate demand. Besides, the likelihood of new geopolitical tensions – in east Asia and elsewhere – and continued US dollar strengthening could contribute to the already heightened cross-border tensions. **Thus, according to IMF estimates, the global economy is on course for a pervasive slowdown, with 2023FY growth estimated to settle lower at 2.7% y/y. However, the downside risks to the outlook remain elevated, including (1) inflationary forces persisting for longer, (2) risks of both under and over-tightening of monetary policy, (3) increased geopolitical tensions, (4) halting of gas supplies to Europe by Russia, (5) worsening of China's property crisis, and (6) widespread debt distress in vulnerable emerging markets.**

Figure 1: Historical global growth

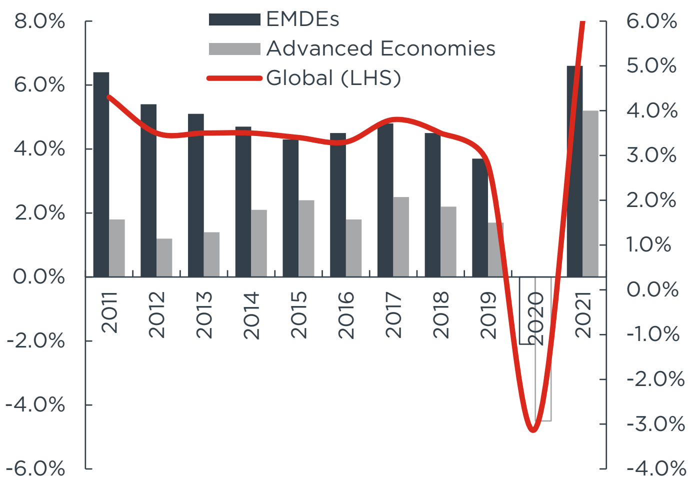
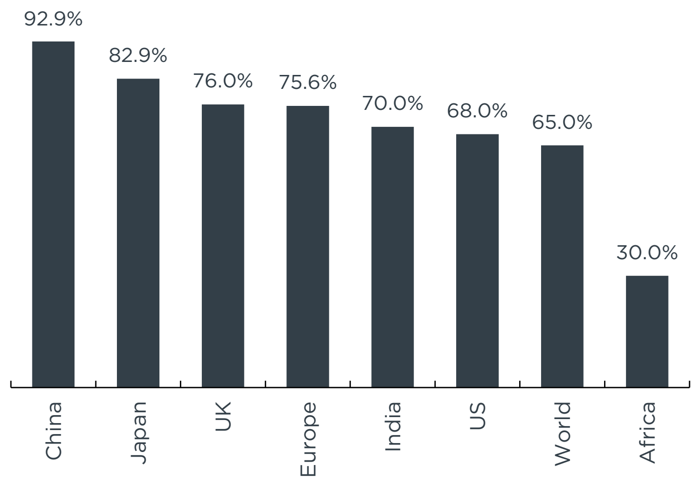


Figure 2: Vaccination rate (as of 30 October 2022)



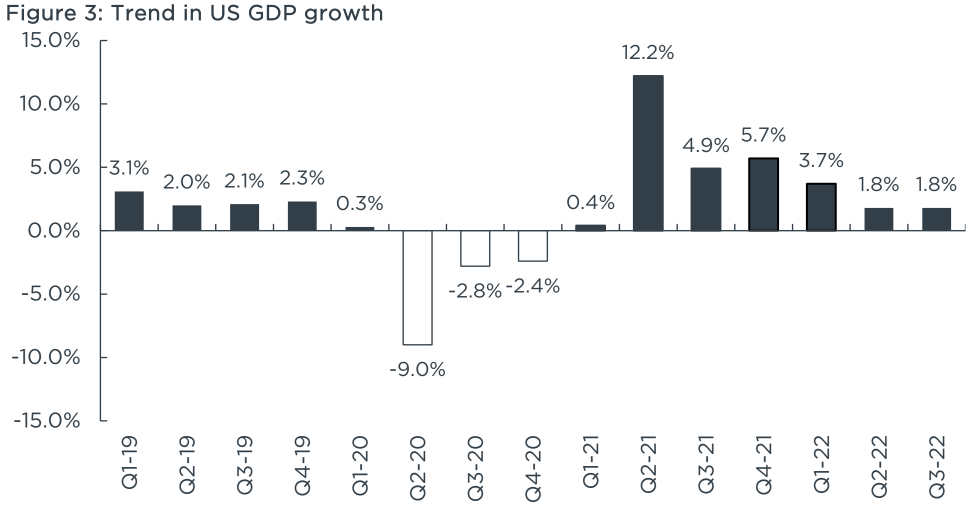
Source: IMF, Our World in Data, Cordros Research

Growth Momentum Weakens in Advanced Economies

Coming off the initial post-COVID boost, advanced economies' growth was significantly hampered by the impact of the Russia-Ukraine conflict and tighter monetary and financial conditions. Besides, the elevated inflationary pressures synchronised with low real disposable income, limiting consumer spending amid higher pressures on residential investments.

Economic growth weakened in the United States (US) as a slowdown in business activities weighed on the growth momentum. Specifically, US GDP declined consecutively in H1-2022 before recovering in Q3-22. Notably, Q1-22 and Q2-22 GDP declined by 1.6% q/q and 0.9% q/q, respectively. The recorded declines were primarily due to the lingering impact of the (1) fall of investments in new inventories, (2) supply chain disruptions, and (3) fading impact of government stimulus on consumption. Accordingly, growth slowed substantially across personal consumption expenditure (+1.0% q/q vs Q1-22: +1.8% q/q) and gross private domestic investment (+1.9% q/q vs Q1-22: +2.3% q/q). Meanwhile, exports of goods and services (+18.0% q/q vs Q1-21: -5.3% q/q) and imports of goods and services (+3.1% q/q vs Q1-22: +17.7% q/q) recorded expansions. In Q3-22, the US economy reversed its trajectory, growing by 2.6% q/q (vs Q2-22: -0.6% q/q). The growth print was primarily driven by a shrinking trade deficit as the strong US dollar reduced the cost of aggregate imports (-6.9% q/q vs Q2-22: +2.2% q/q). That said, domestic consumption (+1.4% q/q vs Q2-22: +2.0% q/q) remained weak albeit still resilient, while residential investments (-26.4% q/q vs Q2-22: -17.8% q/q) tanked for the sixth consecutive quarter given interest rate hikes and elevated inflationary pressures.

Figure 3: Trend in US GDP growth

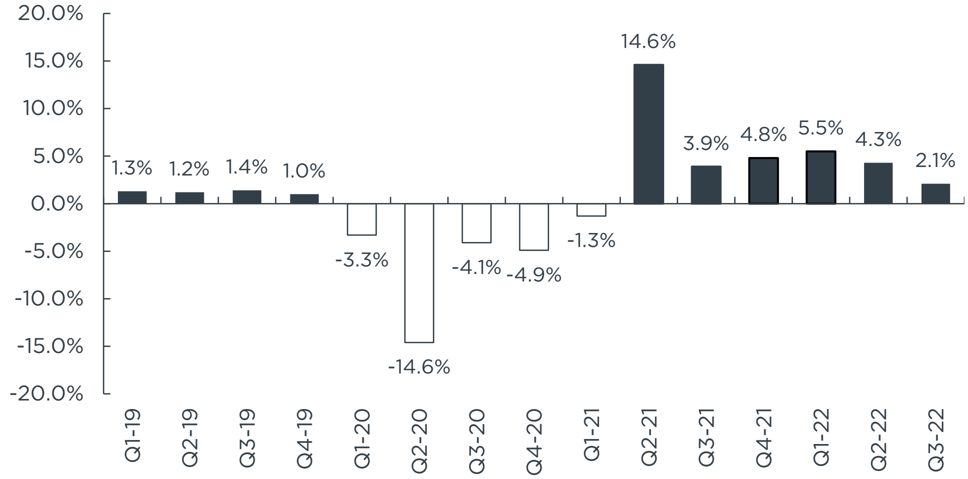


Source: Bureau of Economic Analysis, Cordros Research

In the Euro Area, real GDP grew by 0.6% q/q in Q2-22 (Q1-22: 0.3% q/q). We highlight that the growth reflected the effects of easing COVID-19 restrictive measures and the summer tourism season in southern countries during the review period. Furthermore, the Euro Area economy expanded slowly by 0.2% q/q in Q3-22 (Q2-22: 0.7% q/q) – the slowest growth since the rebound from COVID-19 restrictions in Q2-21 (+2.2% q/q). The subdued growth reflected the lingering impact of elevated price pressures and tighter monetary conditions in the region, given higher interest rates. Notably, we highlight that Italy (+0.5% q/q vs Q2-22:

+1.1% q/q), Spain (+0.2% q/q vs Q2-22: +1.5% q/q), and Germany (+0.3% q/q vs Q2-22: +0.1% q/q) recorded expansions, offsetting the contractions of Latvia (-1.7 q/q vs Q2-22: 0.0% q/q), Belgium (-0.1% q/q vs Q2-22: +0.5% q/q) and Austria (-0.1% q/q vs Q2-22: +1.9% q/q). However, on a year-on-year basis, the Euro area expanded by 2.1% y/y in Q3-22 (Q2-22: 3.9% y/y).

Figure 4: Trend in the Euro Area GDP growth (%)



Source: Eurostat, Cordros Research

In Q3-22, the United Kingdom (UK) recorded its first economic contraction in more than a year as the higher cost of living continued to exert downward pressure on household spending. According to the Office for National Statistics (ONS), the UK's real GDP contracted by 0.2% q/q in Q3-22 (Q2-22: +0.2% q/q), as higher consumer prices and increased interest rates dampened household spending and business investments. Analysing the breakdown provided, we highlight that private consumption (-0.5% q/q vs Q2-22: +0.2% q/q) and business investments (-0.5% q/q vs Q2-22: +3.7% q/q) declined, while general government expenditure grew by 1.3% q/q (Q2-22: -1.5% q/q). Notably, we highlight that the UK is the only G7 country yet to recover fully from the COVID-19-induced slump. Consequently, on a year-on-year basis, the economy grew slower by 2.4% (Q2-22: +4.4% y/y).

In Japan, economic activities remained on a moderate growth path, supported by improvements across private consumption, public spending and fixed investment, following the relaxation of COVID-19-induced restrictions despite a resurgence in the infection rates. As a result, economic growth expanded by 1.6% y/y in Q2-22 (Q1-22: +0.6% y/y) – the most significant increase since Q2-21 (+7.2% y/y). On a quarter-on-quarter basis, the economy recorded its third consecutive growth, beating market expectation (+0.7% q/q) as it expanded by 0.9% q/q in Q2-22 (Q1-22: +0.1% q/q).

Figure 5: Trend in the UK GDP growth

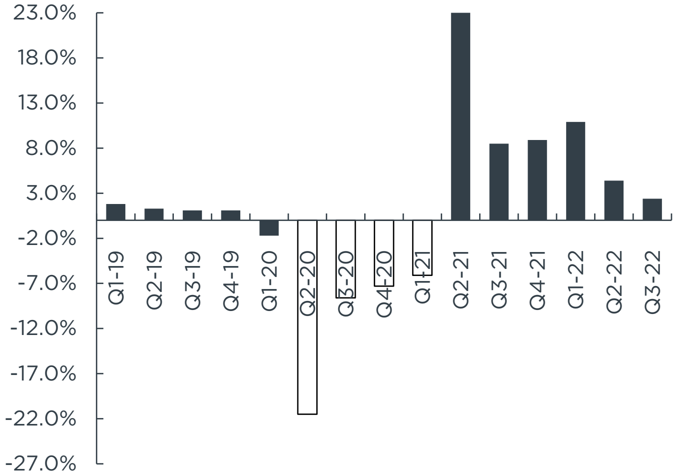
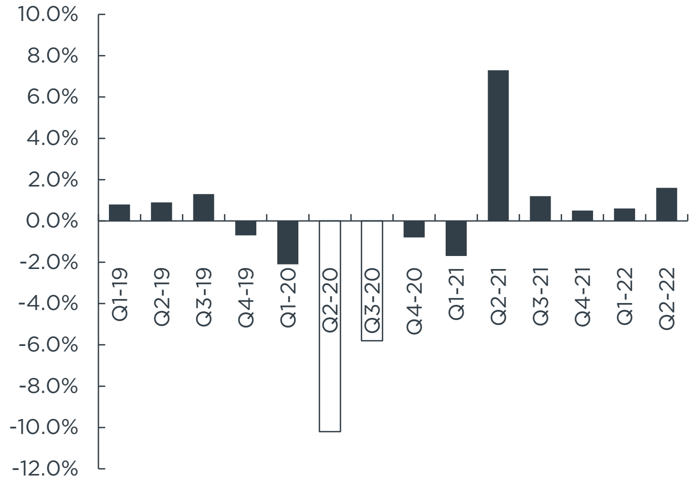


Figure 6: Trend in Japan's GDP growth



Source: ONS, JSB, Cordros Research

Emerging Economies are Holding up, but External Risks Abound

In 2022, many Emerging and Developing Economies (EMDEs) were relatively resistant to the spillover effect of the Russia-Ukraine conflict, partly driven by favourable terms of trade even as external demand slowed. On the one hand, the favourable statistical base effects from the prior year flattered some regions' growth. We highlight that an improvement in domestic demand supported the growth in other countries even as the monetary authorities mirrored the interest rate hikes by major central banks globally. Notwithstanding, we note that China's slow expansion and Russia's economic contraction are weighing down the EMDE's overall growth. China's slow growth reflects lingering property sector woes and the government's zero-COVID strategy, even as measures have been introduced to boost economic activities – notable measures include (1) expansion of tax relief and fee reduction policies, (2) deferring social security premiums, and (3) boosting infrastructure spending. Simultaneously, the decline in Russia's economic activities reflects the aftermath of its invasion of Ukraine following the consequent international sanctions.

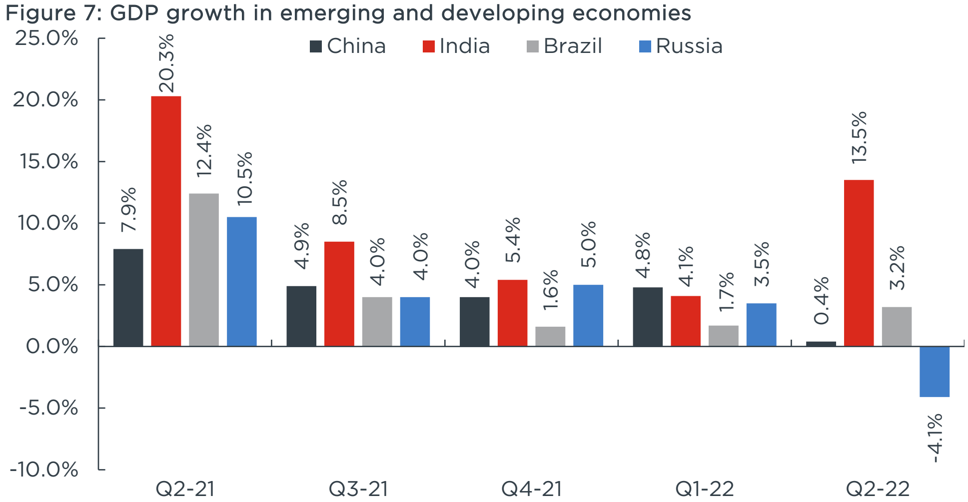
More specifically, China's economic growth weakened to its lowest level since the COVID-19-induced contraction in Q1-20. According to the Chinese National Bureau of Statistics (NBS), real GDP grew by 0.4% y/y in Q2-22 (Q1-22: +4.8% y/y and Q2-21: +7.9% y/y). However, in Q3-22, the economy grew by 3.9% y/y in Q3-22 (Q2-22: 0.4% y/y), beating market expectations of a 3.4% y/y growth, reflecting the impact of the government's measures to boost economic activities during the review period after the zero-COVID policies with limited interventions dampened growth in Q2-22. Notwithstanding, the real estate sector contracted by 4.2% y/y, dragging overall growth. On a quarter-on-quarter basis, the Chinese economy expanded by 3.9% in Q3-22 (Q2-22: -2.7% q/q), while the 9M-22 growth rate settled at 3.0% y/y.

In India, growth expanded by 13.5% y/y in Q2-22 (Q1-22: +4.1% y/y), the highest y/y growth since Q2-21 (+20.1% y/y), albeit flattered by a favourable base effect, setting the stage for a full year growth rate above pre-pandemic levels. The growth momentum was propelled by a broad-based improvement across agriculture (+4.5% y/y vs Q1:22: +2.2% y/y), utilities (+ 14.7% y/y vs Q1-22 +13.8% y/y) and, public administration (+26.3% y/y vs Q1-22: +6.2% y/y) sectors. That said, economic activities grew slowly in the mining (+6.5% y/y vs Q1-22: +18% y/y), manufacturing (+4.8% y/y vs Q1-22: +4.9% y/y), and construction (+16.8% y/y vs Q1-22: +71.3% y/y) sectors.

In Brazil, economic growth remains positive, expanding by 3.2% y/y in Q2-22 (Q1-22: +1.7% y/y), marking the sixth consecutive quarterly increase and highest print since Q3-21 (+4.0% y/y). We note that the sturdy growth was primarily driven by higher household consumption (+5.3% y/y) amid increased real income. On a quarter-on-quarter basis, growth in economic activities also settled higher at 1.2% q/q in Q2-22 (Q1-22: +1.1% q/q) – the highest print since Q4-20 (+3.0% q/q).

However, economic activities plummeted in Russia following the Russia-Ukraine conflict and associated sanctions by NATO and its allies. Consequently, the economy contracted (-4.1% y/y in Q2-22 vs Q1-22: +3.5% y/y) to its lowest level since the pandemic-induced decline in Q2-20 (-8.0% y/y). While the departure of foreign capital dampened investment activity, domestic demand was hammered by elevated price pressures, higher interest rates and a low level of importation (imported goods to support domestic production was weak). Analysing the breakdown, we note that the most significant decline was recorded across the trade (-14.1% y/y vs Q1:22: +3.7% y/y) and manufacturing (-4.0% y/y vs Q1-22: +5.1% y/y) sectors.

Figure 7: GDP growth in emerging and developing economies



Source: NBS, CSO, Trading Economics, Cordros Research

Global Central Banks Maintain their Interest Rate Hiking Cycle

The actions of global central banks can be perfectly summed into the words of Dennis Culhane: “Extraordinary times require extraordinary measures”. Since inflationary pressures have risen to levels not seen in decades, it is unsurprising that central banks have successively implemented interest rate hikes to combat price-level increases. The elevated inflation during the year was exacerbated by the Russia-Ukraine conflict, which led to higher food, commodities and energy prices, given the key roles played by Russia and Ukraine in the supply of these products. Besides, the tight labour market conditions in advanced economies led to higher wage growth, colliding with lingering post-pandemic spending to create a perfect storm of increased demand and higher inflation expectations. Accordingly, the need for lower demand arose to meet the shortfall in supply and re-anchor inflation expectations. Consequently, central banks across the globe implemented and maintained interest rate increases even as these measures increased the downside risks to their respective economies.

The United States Federal Open Market Committee (FOMC) increased the key policy rate by a cumulative 375bps in 2022. At the penultimate policy meeting for the year in November, the Committee voted to increase the federal funds rate’s target range further by 75bps to a range of 3.75% - 4.00%, bringing the key policy rate to its highest level since December 2007 (4.25%). In its decision to hike the policy rate further by 75bps, the Committee highlighted that recent indicators pointed to modest growth in spending and production, robust job gains in the preceding months, and low unemployment, while inflationary pressures remained elevated. Notably, the Committee stated that in determining the pace of future rate increases, it would take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. However, at the post-meeting press conference, the Fed's chairman had a more hawkish tone as he highlighted that the terminal rate was being assessed higher than was projected in the September meeting, although he noted that the pace of rate hikes might slow from December.

Similarly, in Europe, the Governing Council of the European Central Bank (ECB) raised the key policy rate by 200bps in 2022, as of October. Furthermore, at its October policy meeting, the Governing Council increased the interest rates on the Deposit Facility and Main Refinancing Operations by 75bps apiece to 1.50% and 2.00%, respectively. At the same time, the interest rate on the Marginal Lending Facility was also increased to 2.25%. Accordingly, borrowing costs are now at the highest levels since December 2008. The Council also stated that it will reinvest the principal payments from maturing securities under the Pandemic

Emergency Purchase Programme (PEPP) until at least the end of 2024. In justifying its decision, the Council noted that (1) inflation remains too high and will stay above the target for an extended period and (2) the labour market continued to perform well as the unemployment rate remained at the historically low level of 6.6% as of August. Consequently, the Council stated that its monetary policy aims to reduce demand support and guard against the risk of a persistent upward shift in inflation. Lastly, the Governing Council expected to raise interest rates further to ensure the timely return of inflation to its 2% medium-term inflation target.

In England, the Bank of England (BOE) cumulatively raised the Bank Rate by 275bps in 2022, as of November, with the last increase of 75bps coming during the November meeting, taking the key policy rate to a 14-year high of 3.00%. As noted by the Committee, a key consideration for the hike was labour market tightness (unemployment rate: 3.6% in the three months to September 2022). In addition, there have been continuing signs of higher domestic prices and wages that could indicate greater persistence. Notwithstanding, the Committee highlighted that further increases in the Bank Rate might be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.

Elsewhere, the Monetary Policy Committee of the People's Bank of China (PBoC) voted to keep the Loan Prime Rate (LPR) steady at 3.65% at its October meeting. We highlight that this represented the second consecutive decision to keep the rate unchanged after cutting the key policy rate by 5bps at the August policy meeting. We think the decision of the Committee to maintain the key policy rate at 3.65% was due to the need to avoid a significant policy divergence in the face of monetary policy tightening in other major economies. Besides, we believe the Committee is caught between the dilemma of stemming the downward slide of the Yuan and supporting economic growth.

Table 1: Macroeconomic indicators across selected countries

	US	Euro Area	UK	Japan	China	India
YTD rate decision	375bps	200bps	275bps	Unchanged	-15bps	190bps
Latest Inflation Rate	7.7%	10.6%	11.1%	3.7%	2.1%	6.8%
Unemployment Rate	3.70%	6.60%	3.60%	2.60%	5.50%	6.40%
Equity Market (YTD return)	-16.5%	-16.5%	-6.5%	-6.6%	-16.5%	2.1%

Source: IMF, Trading Economics, Cordros Research

Global Economy on Course for a Pervasive Slowdown

Since the war in Ukraine broke out in late February, there has not been any end in sight, and inflationary pressures remain significantly above pre-pandemic levels. To combat the rising price levels, global central banks are expected to maintain a tight monetary policy stance, with no clear-cut indication of a switch in stance over 2023. The preceding is likely to lead to continued pressures on household consumption and private investments amid a significant slowdown in government spending. Consequently, the global economy is on course for a pervasive slowdown in 2023.

Therefore, the global economy is expected to slow further in 2023FY after the weakening in 2022E, primarily due to the impact of (1) tighter global monetary and financial conditions, (2) slow growth in China in line with the lingering property market (*c.* 20.0% of GDP) woes and the government's intermittent zero-COVID strategy, (3) spillover effects of the Russia-Ukraine conflict, and (4) declining real disposable income. **According to the IMF, the 2023FY expected global growth (2.7% y/y) will be the weakest since the 2001 global slowdown (2.5% y/y), excluding the declines in 2008 (during the global financial crisis) and 2020 (COVID-19-induced slump).**

As highlighted earlier, monetary policy stances are also expected to remain tight for most of 2023FY. For context, the current market expectation is for the US Fed to maintain its interest rate hikes in H1-23 before halting over the rest of the year. The preceding is hinged on the Fed's inflation-targeting strategy (adopted in August 2020), designed only to cut the Fed's funds rate when actual inflation converges to the 2.0% target. **Given the higher US interest rate and strengthening of the US dollar, other economies are expected to toe the path of the Fed in the first half of 2023. Accordingly, it will become more difficult for many emerging and frontier economies to raise money and refinance external debt, increasing financial markets' volatility.**

Across the developed economies, we expect growth to weaken to 1.1% y/y in 2023FY (2022E: 2.4% y/y), driven by the (1) lingering impact of the Russia-Ukraine conflict, (2) elevated inflationary pressures, (3) tighter financial conditions, and (4) weak external demand. Notably, the IMF forecasts that between H2-22 and H1-23, 31 out of some selected 71 economies (the majority of which are advanced economies) will record GDP contractions for two consecutive quarters. Accordingly, developed economies are expected to bear the most of the brunt in 2023FY, while the outlook is mixed for developing economies.

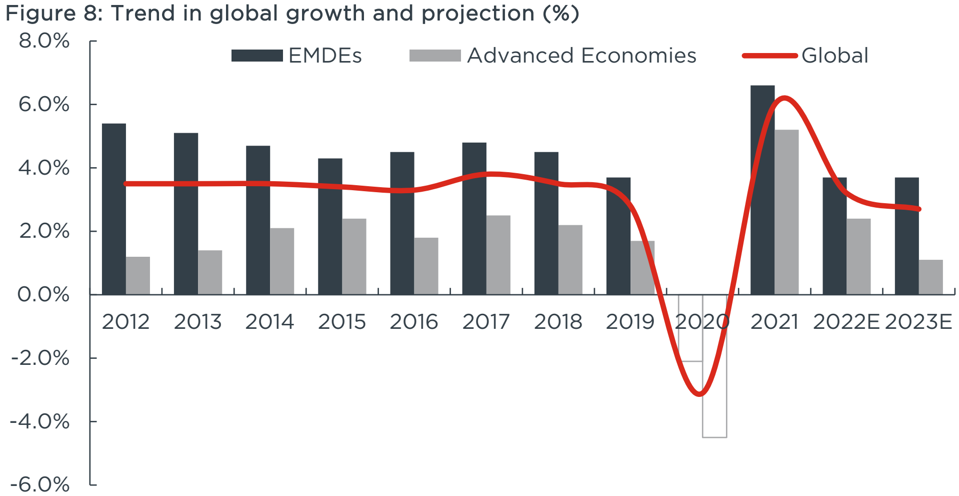
For the US, economic growth is expected to be weaker as elevated consumer prices continue to lower real disposable income and weaken consumer demand (*c.* 65.0% of GDP). Besides, private investments are also expected to add another layer of pressure to the growth outlook because higher interest rates dampen investment spending. Elsewhere, government spending is expected to rise slowly, given the Biden administration's attempt to limit the pressure on the economy.

On a balance of factors, the US economy is projected to grow by 1.0% y/y in 2023FY, trending lower than the slow growth of 1.6% y/y in 2022E.

The Eurozone is expected to be at a significant disadvantage in 2023, given the lingering Russia-Ukraine conflict. In addition, the monetary condition in the area is expected to be tighter in line with the hawkish stance of the European Central Bank (ECB). Other factors expected to lead to the Eurozone's slower growth include higher inflationary pressures, weak external demand, and worsening terms of trade as the prices paid for imports rise faster than those received for exports, weighing on the region's income. Consequently, the IMF expects the Euro Area to grow by 0.5% y/y in 2023FY (2022E: 3.1% y/y).

Given the vulnerability of emerging economies to external shocks, we expect the trickle-down effect of slow growth in advanced economies and lingering monetary policy tightening to dampen the region's growth over the short-to-medium term. Besides, the slow growth in China, given the lockdowns in multiple locations and the worsening property market crisis, is also expected to dampen the growth outlook of emerging and developing economies. Moreover, the IMF also expects Sub-Saharan African (SSA) countries to grow slowly in 2023 because of the trifecta impact of (1) lower trading partners' growth, (2) tighter monetary conditions and (3) a negative shift in the commodity terms of trade. As a result, according to the IMF's estimates, emerging markets are projected to grow by 3.7% y/y in 2023FY (2022E: 3.7% y/y).

Figure 8: Trend in global growth and projection (%)



Source: IMF, Cordros Research

Crude Oil.

Another Pressured Year in the Offing

- The level of volatility in the oil market heightened in 2022
- Tighter supply anticipated following reduced OPEC+ output
- Upside and downside risks may counter each other
- 2023E Brent crude price forecast: USD92.00/barrel

Crude oil prices have been particularly volatile in 2022 following increased uncertainty about market dynamics. Having risen to a fourteen-year high of USD127.98/bbl in March, following apprehensions surrounding the Russia/Ukraine crisis, crude oil prices have generally fallen in the time since. Specifically, the global benchmark price, Brent crude, declined by 33.2% from its 2022 high to USD86.72 (as of 2 December), averaging USD100.49/bbl in 2022. The fall in prices was underpinned by weakened global economic conditions, pandemic-induced restrictions in China and substantial releases of crude oil from strategic reserves. Notably, crude oil prices rebounded in October, though partially, following OPEC+ members' announcement of a 2.00 mb/d production cut, citing economic reasons. We believe the effect of the announcement on prices was only partial, given that the general market expectation is that the actual cuts may not exceed 1.00mb/d considering that the cartel and its allies' current output is below stipulated quotas.

Figure 9: Crude oil prices (USD/bbl)

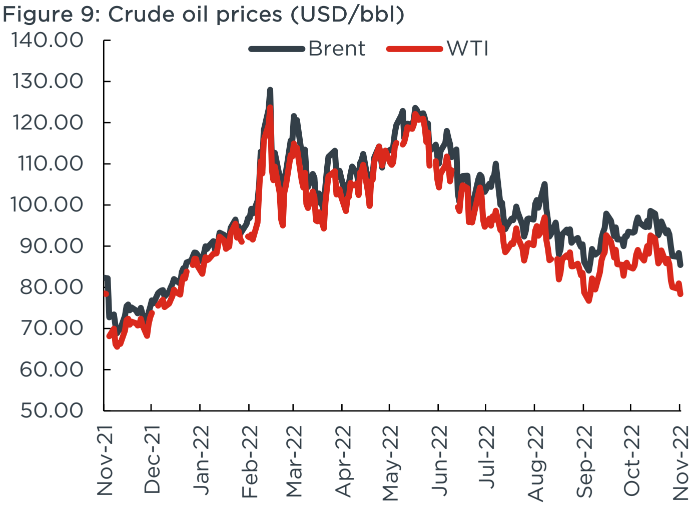
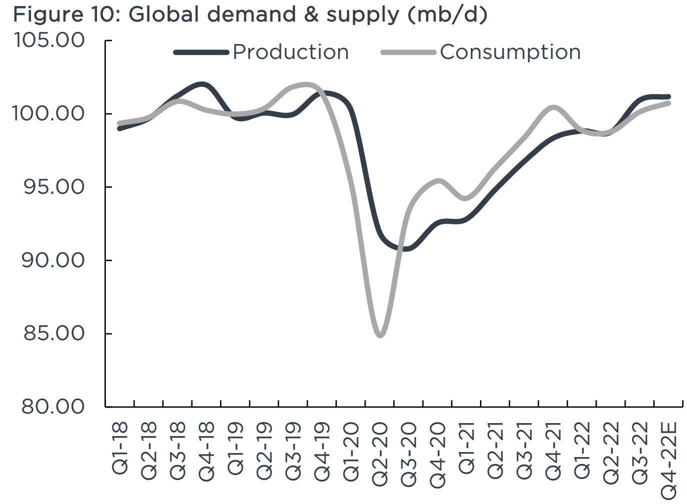


Figure 10: Global demand & supply (mb/d)



Source: Bloomberg, EIA, Cordros Research

Global demand grew slowly in 2022, driven by slower oil consumption due to intermittent COVID-19 induced lockdowns in China and weakened demand in advanced economies. Specifically, according to the Energy Information Administration's (EIA) early estimates, oil demand growth bucked expectations, edging up at a slower pace by 2.0% y/y as of October (expectation: 2.4% y/y). Nevertheless, we expect oil demand to hit pre-pandemic levels by year-end and rise by 1.2% y/y in 2023FY, driven majorly by increased consumption from China.

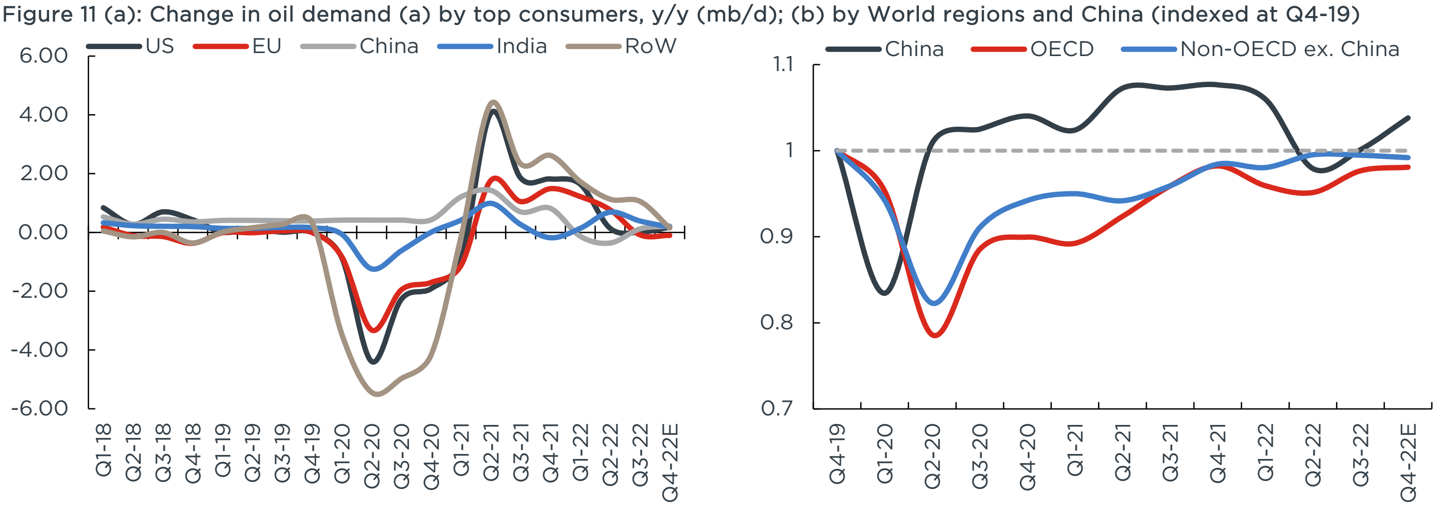
Whereas oil supply has already recovered to pre-pandemic levels, driven by the unwinding of OPEC+ cuts and increased output from the US. EIA estimates oil supply grew by 4.4% y/y as of October. While we expect the oil supply to increase in 2023FY, we believe the pace of expansion will be much slower than in 2022, as we expect only a handful of countries to record production growth, most prominently the US. On the other hand, we expect output from OPEC and its allies to fall due to the newly instituted production cuts and an anticipated fall in Russia's production following EU embargoes.

Weighing the current market dynamics and future expectations and factoring in speculative effects, we expect the price of Brent crude oil will average USD92.00/bbl in 2023 (2022E: USD102.77/bbl).

Market Balance: Supply Outlook Dampens Sentiments

Demand: Following reduced consumption because of COVID-19 lockdowns in China and a particularly weakened demand in advanced economies, oil demand is estimated to have grown at a slower pace than initially estimated. Early estimates show an overall increase of 1.91 mb/d (+2.0%) y/y as of October, tracking behind initial expectations of a 2.30 mb/d (+2.4% y/y) increase in overall oil consumption. We highlight that government support measures in the first half of the year, such as fuel subsidies and petrol tax cuts in most advanced economies, kept demand resilient and prevented a contraction. However, we note that the impact was short-lived as the deterioration of the global economy meant governments could not sustain the support measures; thus, oil demand numbers slowed in H2.

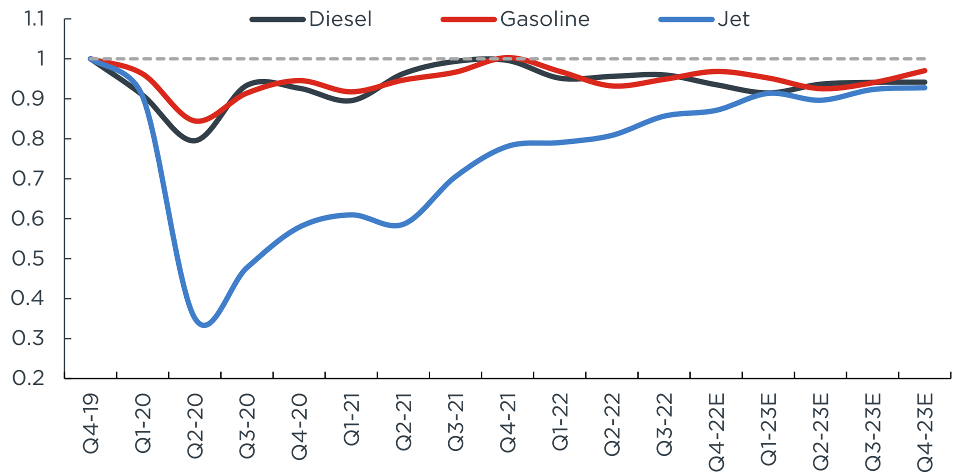
Figure 11 (a): Change in oil demand (a) by top consumers, y/y (mb/d); (b) by World regions and China (indexed at Q4-19)



Source: Bloomberg, EIA, World Bank, Cordros Research

Furthermore, we note the increased use of petroleum products such as diesel and fuel oil for power generation as opposed to natural gas due to higher prices. Though, diesel consumption has slowed relative to last year's level. On the other hand, jet fuel consumption has gradually recovered from the COVID-19-induced fall following rapid tourism growth, particularly in advanced economies. Nonetheless, jet fuel demand remains below pre-pandemic levels by *c.* 14.0%. In a similar fashion to diesel, gasoline consumption has also fallen slightly.

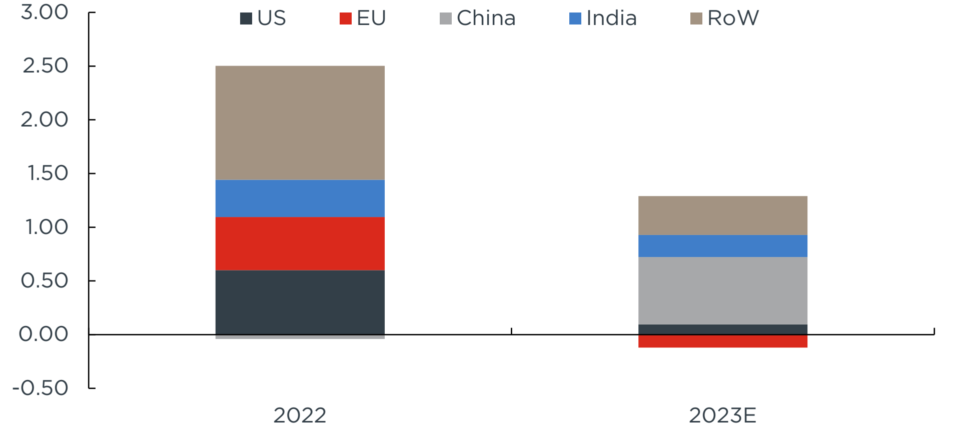
Figure 12: Refined product demand in 2022 (indexed at Q4-19)



Source: IEA, World bank, Cordros Research

According to EIA estimates, oil consumption will rebound to pre-pandemic levels by the end of 2022 and settle at 102.39 mb/d in December. Going into 2023, we expect consumption to hit new highs supported by (1) a recovery in Chinese demand and (2) a sustained switch from natural gas to crude oil for power generation and industrial usage. On the former, we believe that a loosening of the COVID-19 lockdown measures in China (accounts for *c.* 14.0% of total crude oil demand pre-pandemic) and an attendant increase in the country's demand will foster a growth in crude oil consumption numbers. As of writing, early estimates point towards a 5.1% y/y increase in overall Chinese demand in 2023. On the other hand, International Energy Agency (IEA) anticipates increased use of petroleum products for power generation and industrial usage to 0.70 mb/d by 2022 year-end, doubling on a year-on-year basis. With natural gas prices expected to remain high, we expect this trend to continue into 2023, particularly during the winter. Finally, we note that most of the oil demand expansion for 2023 will be underpinned by Asia. Outside Asia, oil demand growth is expected to be negligible or slightly negative. **Overall, the EIA projects oil demand will increase by 1.17 mb/d (+1.2%) y/y in 2023FY.**

Figure 13: Oil demand forecast in 2022 (mb/d)



Source: EIA, Cordros Research | RoW = Rest of World

Supply: The crude oil supply narrative matched expectations for 2022, with total production recovering to pre-pandemic levels. As of October, oil production increased by 4.06 mb/d (4.2% y/y), partly influenced by OPEC and its allies' steadily unwinding COVID-19 cuts. Effectively, production across the alliance increased by 2.43 mb/d (5.6% y/y) as production targets for member countries were reviewed upwards, coupled with a recovery in Libya's output (+86.7%) from its Q2 slump. However, as noted in our previous reports, the total supply picture was distorted as most OPEC+ members failed to meet production targets, with the total shortfall amounting to *c.*3.50 mb/d as of September. Russia (1.30 mb/d), Nigeria (0.90 mb/d) and Kazakhstan (0.50 mb/d) accounted for *c.*77.0% of the total shortfall. The production shortfall is generally attributable to operational issues and capacity constraints following (1) the boycott of Russia's oil following its invasion of Ukraine, (2) structural deficiencies and vandalism in Nigeria, and (3) political instability in Kazakhstan. Notably, at its monthly meeting in October, OPEC+ agreed to reduce production quotas by 2.00 mb/d from November, even as current production remains below the total quota.

Figure 14: Total production (mb/d)

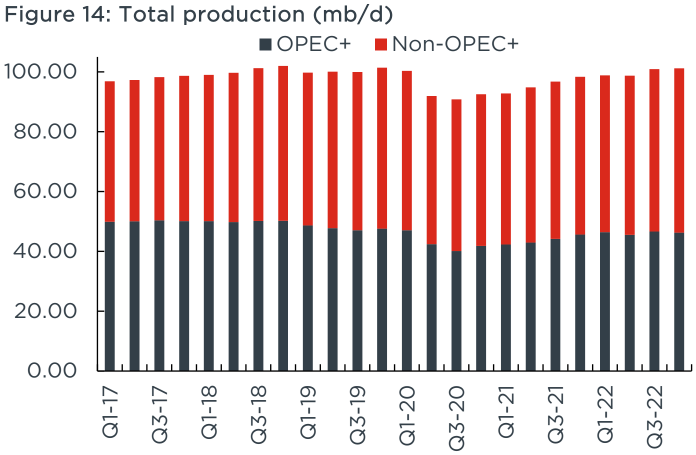
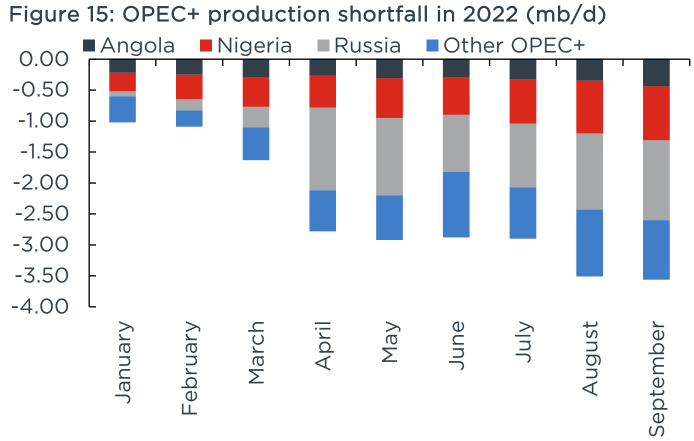


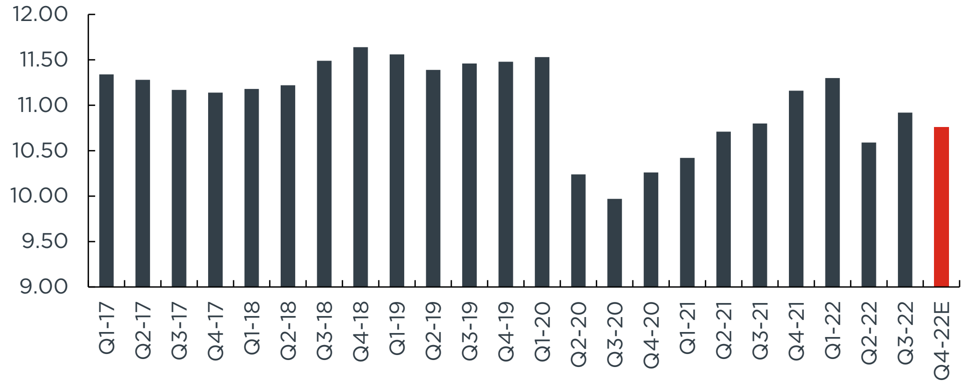
Figure 15: OPEC+ production shortfall in 2022 (mb/d)



Source: OPEC, IEA, EIA, World Bank, Cordros Research

Russia's production fell short of pre-invasion levels by about 1.45 mb/d (-13.4%), tracking below the IEA's estimates of a 2.50 – 3.00 mb/d fall. In addition, we note that Russia has re-routed its oil exports from the G7 economies to other countries, such as China, India and Turkey, to maintain production and sales. Noteworthily, EU sanctions on Russia begin in December 2022.

Figure 16: Oil production in Russia (mb/d)



Source: EIA, Cordros Research

On the other hand, production among non-OPEC producers, which also accounted for half of the increase in total oil supply, was underpinned by the higher output from the US, Canada and Norway. Overall, total output among non-OPEC+ producers increased by 1.81 mb/d (3.5%) y/y as of October. Notably, US production increased by 0.51 mb/d (4.6%) y/y and is projected to rise by the same pace through the rest of the year. At current levels, US crude oil production is about 1.00 mb/d below the pre-pandemic peak (13.00 mb/d). The higher production in 2022 indicates the increased drilling by US shale producers, as revealed by the US total oil rig count. We note that the US oil rig count is higher on a year-on-year basis but has been broadly stagnant since June as producers remain focused on returning cash to shareholders rather than investing in new production. In addition, the US oil industry is facing higher input costs due to labour and equipment shortages.

Figure 17: US production (mb/d)

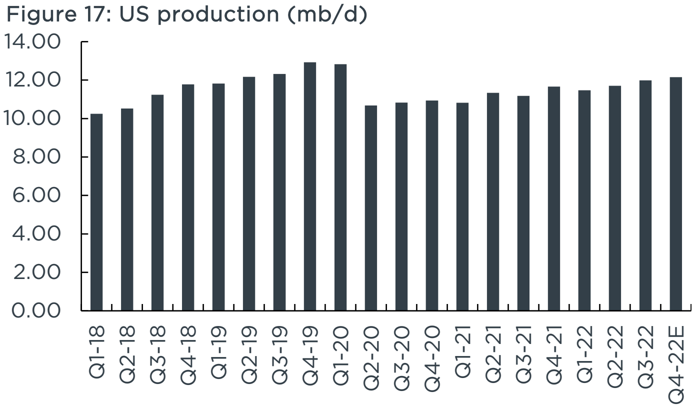
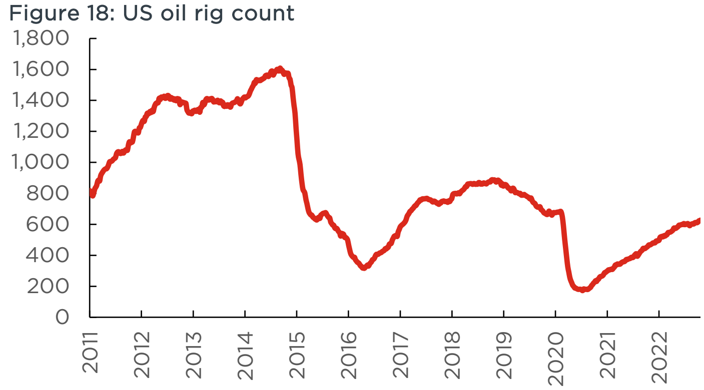


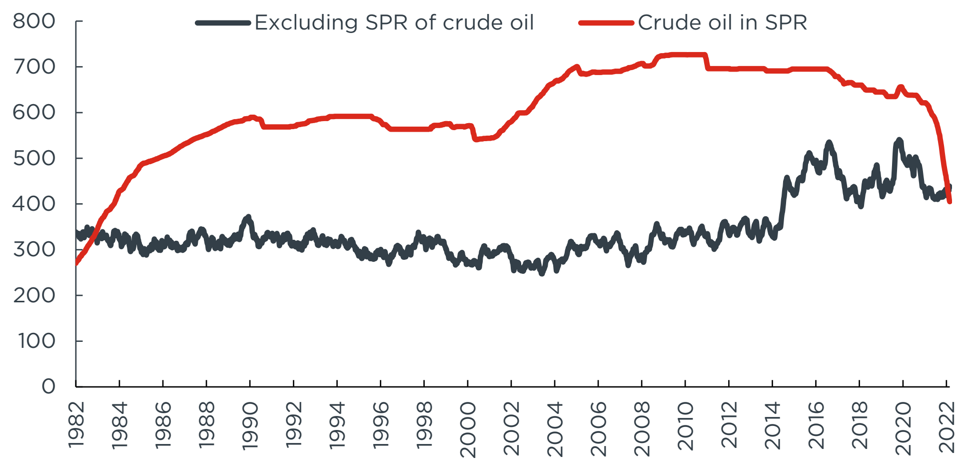
Figure 18: US oil rig count



Source: IEA, Bloomberg, World bank, Cordros Research

Oil inventories have steadily declined since February despite releasing crude oil and petroleum products from IEA members' strategic reserves to stabilise oil prices. Notwithstanding, the oil market would have been tighter if not for the strategic releases. We note that total releases amount to *c.*180.00 million barrels between March and August, translating to 1.0% of global consumption. Releases from the US Strategic Petroleum Reserves (SPR) accounted for *c.*74.0% of the total releases during the period, contributing 134.00 million barrels of crude oil to the market. The US SPR are now at the lowest level since 1984 and has shrunk below the quantity of commercial inventory.

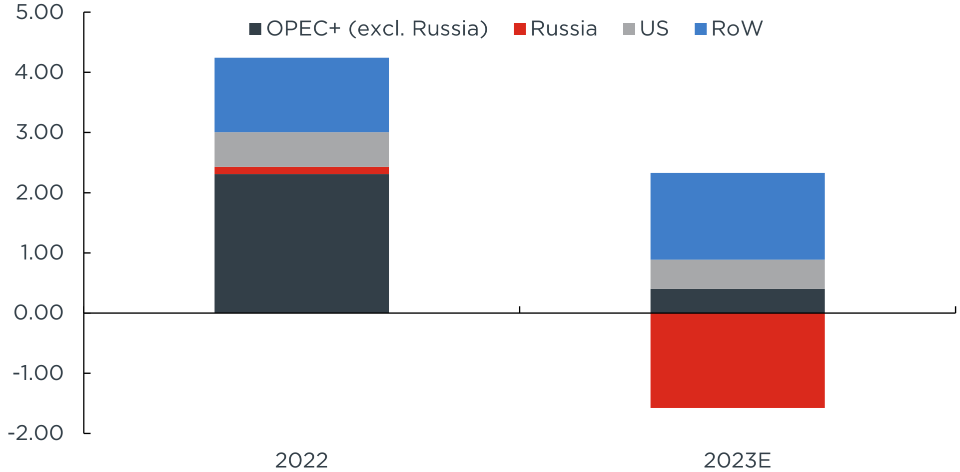
Figure 19: US oil inventories (mb/d)



Source: EIA, World bank, Cordros Research

For 2023, the overall expectation for supply is a 0.75 mb/d (+0.8% y/y) increase in oil production driven by non-OPEC output, owing majorly to an expected increase in US output – the EIA projects a 0.49 mb/d (+4.1%) y/y increase in US production. Also, OPEC+ crude oil production is expected to fall, led by Russia and factoring in the new cuts. On the latter, we align with the general market sentiment that the OPEC+ output cut will be smaller than the 2.00 mb/d announced, considering that majority of the alliance members are producing well below their ceilings due to capacity constraints. As a result, the IEA estimates a 1.00 mb/d decrease in OPEC+ crude oil output from November 2022, with Saudi Arabia and the UAE shouldering the bulk of the lower production targets. Also, we expect the strategic releases of crude oil (and petroleum products in some cases) to end in 2022, highlighting the unsustainability of the initiative over the medium to long term.

Figure 20: Oil supply forecast (mb/d)



Source: EIA, Cordros Research

Price Forecasts & Risks

Considering all the factors discussed above, our base expectation is the price of Brent crude oil will average USD92.00/bbl in 2022. Therefore, as seen in figure 20 below, our projection aligns with the consensus estimates for crude oil.

Figure 21: Oil price forecasts

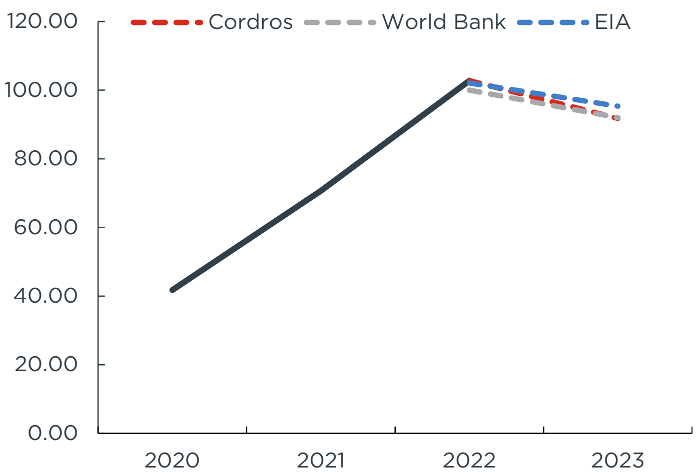
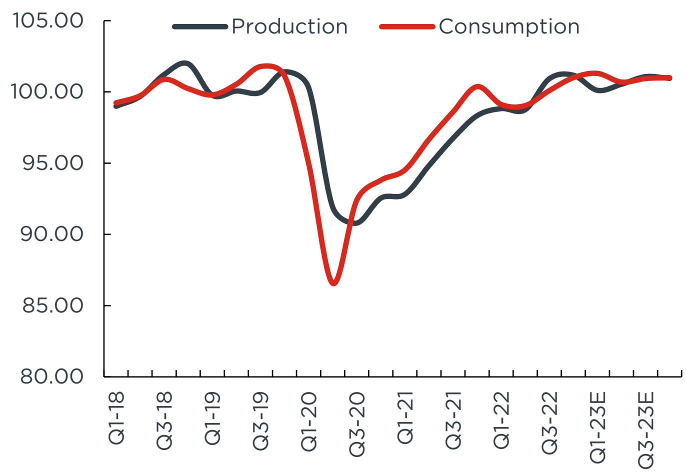


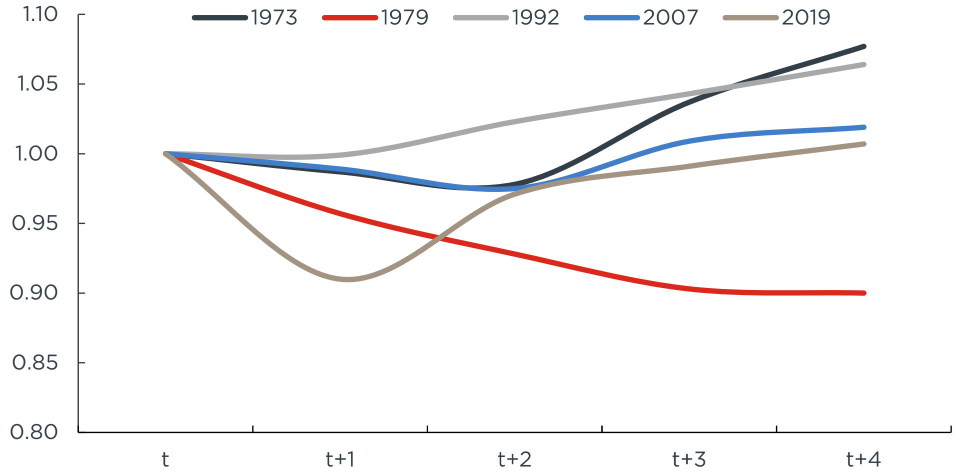
Figure 22: Oil demand and supply forecasts



Source: EIA, World Bank, Cordros Research Estimates

On the downside, we list an expected global slowdown and prolonged COVID-19 restrictions in China as potential risks to demand. As stated in the earlier parts of this report, heightened recessionary fears due to synchronous policy tightening by most central banks globally, worsening financial conditions, and declining real purchasing power would cause overall global growth to decelerate. The impact of a possible recession on the oil market would be a much weaker oil demand. For emphasis, precedence shows that oil consumption tends to slow in recessionary periods. A World Bank analysis shows that the most significant decline in oil consumption occurred in the 1980s, when consumption fell for four consecutive years.

Figure 23: Changes in oil demand around recessions (indexed at 1)



Source: IEA, World Bank, Cordros Research | t = time in years, with t at 0

On the upside, we list (1) the effects of sanctions on Russia's exports, (2) OPEC+ supply decisions, (3) under-production from the US, and (4) lower levels of strategic oil reserves as possible risks to supply. Firstly, it is pertinent to note that the effects of the additional sanctions on Russia may not be as straightforward, as G7 members may not be able to fully implement the proposed oil price cap without the participation of large EMDEs. Besides, Russia has indicated it will not trade with countries participating in the price cap. This fuels the conclusion that though there may be disruptions in Russia's oil exports, market participants may find ways to sidestep the sanctions. Overall, for OPEC+, we do not rule out the possibility of a further cut in production in the face of weaker-than-expected demand.

Elsewhere, as witnessed since the turn of the year, the strong investments in oil exploration, usually associated with a significant uptick in crude oil prices, have been non-existent, as US shale producers have prioritised profitability over new production. Therefore, coupled with the higher input cost challenges in the US, we believe the aforementioned adds some uncertainty to US production if sustained in 2023.

Furthermore, additional releases of strategic oil reserves to support the market in the face of dwindling supply would risk leaving strategic global inventories at deficient levels. Thus, we are skeptical about the possibility of the releases exceeding 2022. However, we think that the timing of the additional OPEC+ cuts may amplify the White House's consideration of releasing more of the US SPR intermittently through winter.

Overall, the upsides and downsides may counteract each other. For one, the fall in oil supply could be offset by a weaker-than-expected demand, thereby limiting the extent to which prices could fall. In contrast, a higher demand or lower-than-expected supply from Russia or the US could be offset by OPEC+ spare capacity or additional releases from strategic inventories.

Sub-Saharan Africa.

Growth.

Improved Commodities Terms of Trade Supports Growth

- **SSA growth faltered after the initial post-COVID boost**
- **Consumer prices remain high in line with higher food and energy prices**
- **Regional growth to settle at 3.7% y/y in 2023FY (2022E: 3.6% y/y)**

The economic performance of Sub-Saharan Africa (SSA) in 2022E has been supported by the improved commodities terms of trade, as commodities prices increased significantly due to the Russia-Ukraine conflict. That said, we highlight that country-specific performance has been mixed because of several factors, including (1) extreme weather conditions, (2) power rationing, (3) election uncertainties, and (4) elevated inflationary pressures. While economic performance remains resilient in the West African corridor, extreme weather conditions have ensured slow growth in the East African corridor compared to the start of the year. At the same time, the Southern corridor's performance has been hampered by power rationing and strike actions in South Africa (+0.19% y/y vs Q1-22: +2.71% y/y). To put in a better perspective, Nigeria (+3.54% y/y vs Q1-22: +3.11% y/y) and Ghana (+4.84% y/y vs Q1-22: +3.32% y/y) maintained solid growth momentum as of Q2-22 driven by the resilient non-oil sector even as the oil sector's performance remains underwhelming in Nigeria. Similarly, growth in Rwanda (+7.30% y/y vs Q1-22: +7.90% y/y) and Kenya (+5.24% y/y vs Q1-22: +6.77% y/y) remained upbeat, albeit lower than the prior quarter, as prolonged drought dampened agriculture sector output. **Overall, SSA is on course to record a 3.6% y/y growth in 2022E, coming off the initial post-COVID boost of 4.7% y/y in 2021FY.**

Headline inflation remains stubbornly high across the SSA region, driven by high food and energy prices exacerbated by the Russia-Ukraine conflict. Crucially, food accounts for an average of *c.*40.0% of the region's consumption basket, and the IMF estimates that the passthrough from global to domestic food prices is relatively high at 30.0%. Moreover, extreme weather conditions have recently added to consumer price pressures across the region. While drought has been prevalent in East African countries, excessive rainfall has compounded inflation risks in the West African economies as increased flooding incidents hamper food harvest and distribution channels. Aside from that, we also highlight currency pressures as a key factor contributing to decades-high consumer pressures experienced by most countries in the region. **Accordingly, consumer prices remain elevated across Sub-Saharan African countries, reaching a 17-year high in Nigeria (21.09% y/y), a 21-year high in Ghana (40.38% y/y), a 25-year**

high in Rwanda (31.0% y/y) and settling at 7.60% y/y in South Africa as of October.

Currencies of countries in the region have weakened so far in 2022, primarily driven by the strong US dollar, requiring more local currency to be converted into dollars to meet import obligations. Besides, the increased risk of a significant global slowdown has led to capital repatriation away from fragile countries, drying up an important FX source for most countries. Notably, the depreciation has been severe with the Ghanaian cedi, which has shed 57.5% YTD (as of 28 November) because of an increase in FX demand emanating from genuine and speculative demand amid capital repatriation pressure due to sovereign credit rating downgrades. Elsewhere, the South African rand has depreciated by 7.0% YTD amid faltering investors' confidence. At the same time, increased corporate FX demand for imports has partly been responsible for the 7.5% YTD depreciation of the Kenyan shillings against the USD. Moreover, the Egyptian pound slid by 36.0% YTD, with the most pressure occurring on 27 October when the country signalled a shift to a flexible exchange rate framework after reaching a preliminary agreement with the IMF for a USD3.00 billion loan. Lastly, the Nigerian naira (-6.8% YTD), Rwanda franc (-4.5% YTD) and Tunisian dinar (-10.1% YTD) all depreciated against the United States dollar during the year, while the Angolan kwanza appreciated by 8.5% YTD.

Figure 24: GDP growth in African Economies

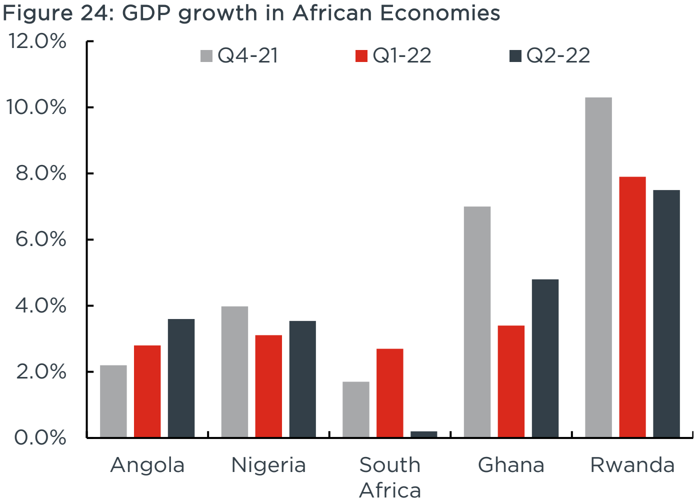
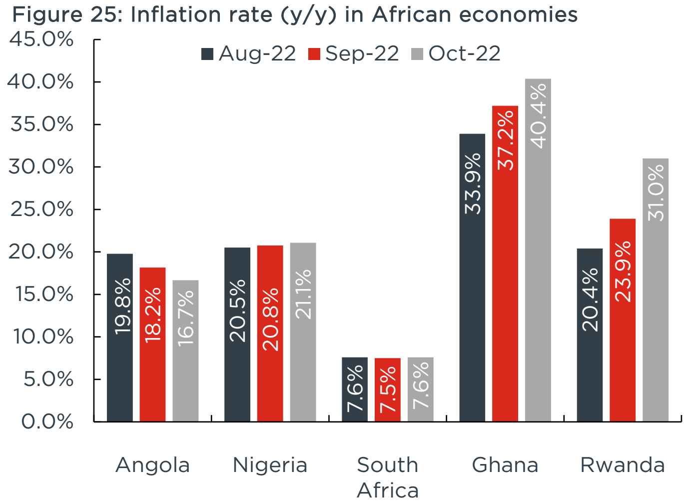


Figure 25: Inflation rate (y/y) in African economies



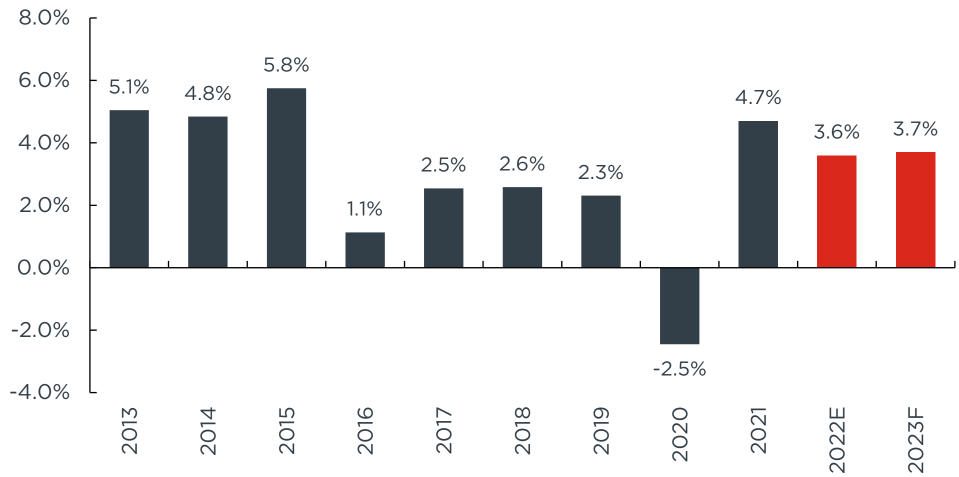
Source: Countries' statistical offices, IMF, Cordros Research

Regional Growth to Sustain Momentum; Risks Tilted to the Downside

The SSA region is expected to maintain its growth momentum, albeit slowly, reflecting the lingering effects of elevated commodity prices for the commodity-exporting countries. However, the combined effect of (1) tighter financial and monetary conditions and (2) lower trading partners' growth could likely dampen the effects of commodities prices, ensuring that, on average, growth remains broadly unchanged in the region. Consequently, the IMF expects the SSA region to grow by 3.7% y/y in 2023FY (2022E: 3.6% y/y).

For the oil-producing countries, slower growth in Nigeria and Equatorial Guinea is expected to ensure SSA's oil-producing countries' growth settles at 3.0% y/y in 2023FY (2022E: 3.2% y/y). On the other hand, South Africa's economic growth is expected to weaken to 1.1% y/y (2022E: 2.1% y/y) because of the troika impact of (1) lingering structural impediments, (2) supply routes disruption exacerbated by flooding, and (3) depressed domestic demand. At the same time, extreme weather conditions are expected to weaken Kenya's growth to 5.1% y/y (2022E: 5.3% y/y). Finally, the IMF expects Ghana to grow by 2.8% y/y (2022E: 3.6% y/y), weighing down the growth of the middle-income countries (2.8% y/y vs 2022E: 3.1% y/y).

Figure 26: SSA GDP growth (%) – Historical and Forecast



Source: IMF, Cordros Research

Disclosures.

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