Cowry Monthly Economic

&

Financial Markets Report

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Cowry Research

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Economic Upside Remains Robust Despite 2.98% Slow Growth; Non-oil Sector Upholds Rally…

According to the latest GDP data from the National Bureau of Statistics, Nigeria's economy posted robust gross domestic output growth of 2.98% to N18.28 trillion in real terms in the first quarter of 2024, slightly lower than the 3.46% growth reported in the fourth quarter of 2023, but higher than the 2.31% recorded in the corresponding quarter of 2023. This growth marks the 14th consecutive quarter of economic expansion and at a solid pace since exiting recession in 2020 following the effect of the pandemic.

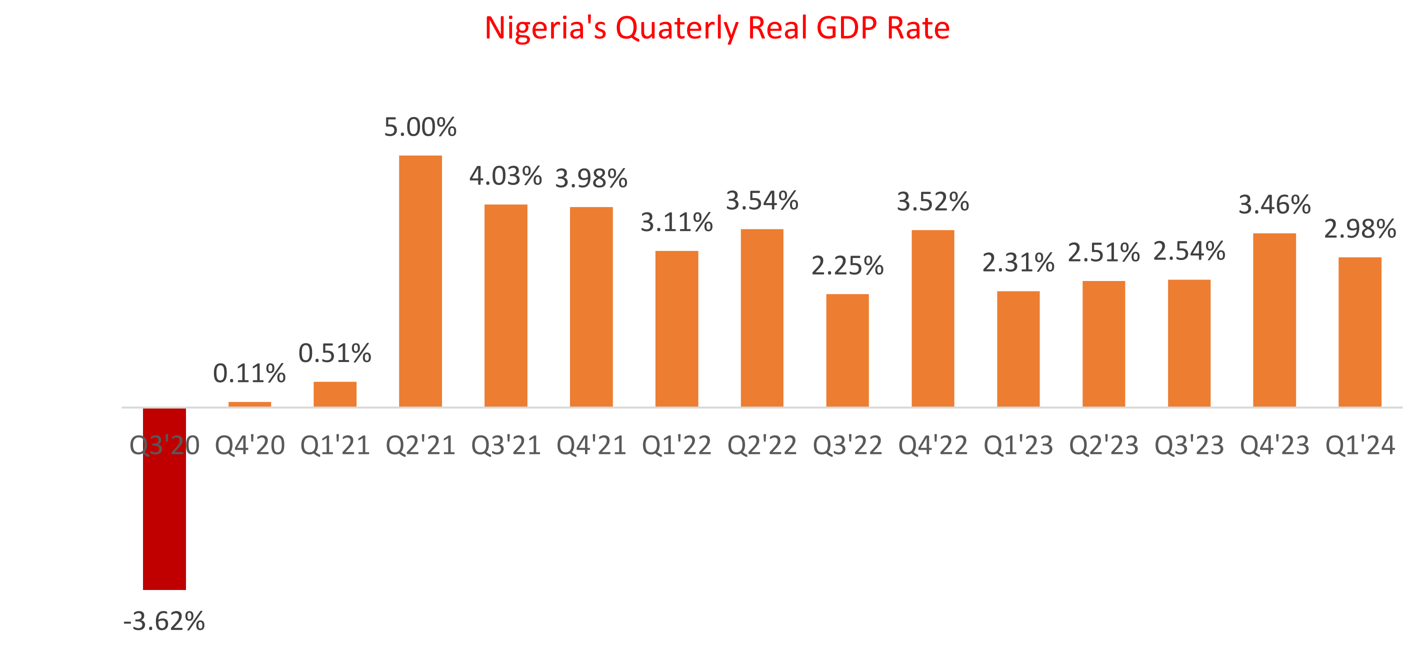
The positive output growth was underpinned by the non-oil sector which grew by 2.80% in real terms during the reference quarter (Q1 2024). This rate was higher by 0.02% points compared to the rate recorded in the same quarter of 2023 and 0.28% points lower than the fourth quarter of 2023. This sector was driven in the first quarter of 2024 mainly by Financial and Insurance (Financial Institutions); Information and Communication (Telecommunications); Agriculture (Crop production); Trade; and Manufacturing (Food, Beverage, and Tobacco), accounting for positive GDP growth.

Consequently, the Services sector, which recorded a growth of 4.32% and contributed 58.04% to the aggregate GDP led the growth momentum. Performance of the service sector comes from strong activities in the finance and insurance sector, information and communication as was driven by improvement in financial services offerings, development in the technology space as well as investments into finance and technology companies (FinTech) to drive services offerings. In terms of share of the GDP, the services sector contributed more to the aggregate GDP in the first quarter of 2024 compared to the corresponding quarter of 2023.

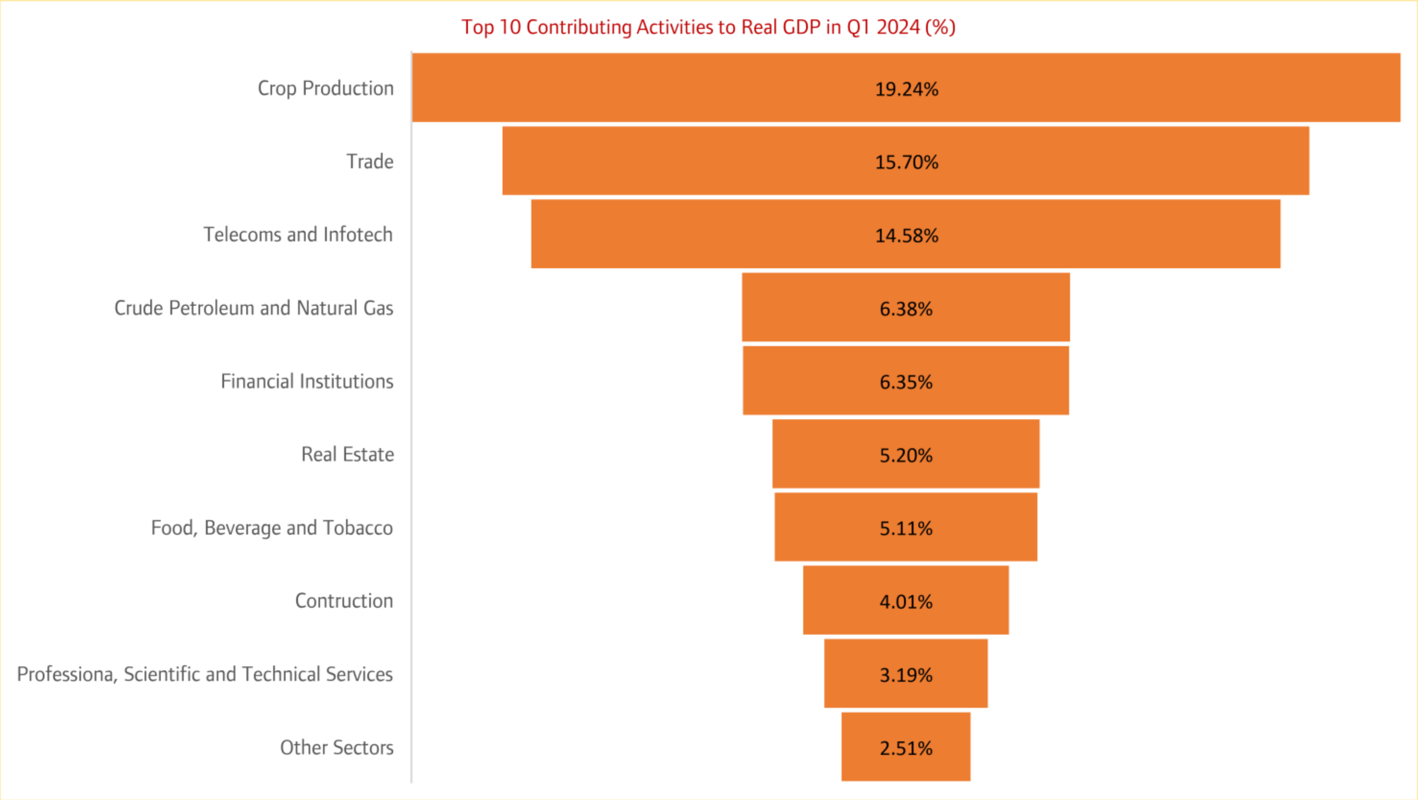
Elsewhere, the agriculture sector grew by 0.18%, from the growth of -0.90% recorded in the first quarter of 2023 as a result of the breather experienced in the insecurity level which has bedeviled agricultural activities in the country. However, the sector contributed 21.07% to overall GDP in real terms in Q1 2024, lower than the contribution in the first quarter of 2023 and lower than the fourth quarter of 2023 which stood at 21.66% and 26.11% respectively. The growth of the industry sector was 2.19%, an improvement from 0.31% recorded in the first quarter of 2023. This sector's growth was propelled by growth in the manufacturing, water supply, construction, trade, arts and entertainment, and other complimenting sectors during the review period.

The pivotal oil sector continued to grow robustly, albeit at a slower pace and reaching 5.70% year on year in the first quarter when compared to the 12.11% in Q4 of 2023. Growth decreased by 6.41% points when compared to Q4 2023 which was 12.11%. On a quarter-on-quarter basis, the oil sector recorded a growth rate of 13.77% in Q1 2024. The Oil sector contributed 6.38% to the total real GDP in Q1 2024, up from the figure recorded in the corresponding period of 2023 and up from the preceding quarter, where it contributed 6.21% and 4.70% respectively. Therefore, Nigeria in the first quarter of 2024 recorded an average daily oil production of 1.57 million barrels per day (mbpd), higher than the daily average production of 1.51mbpd recorded in the same quarter of 2023 by 0.06mbpd and higher than the fourth quarter of 2023 production volume of 1.55 mbpd by 0.02mbpd.

As noted in our 2024 outlook, we anticipate a higher real GDP growth than in 2024, with expectations of accelerated growth in the oil sector, aligned with the recovery in crude oil production. Additionally, the normalisation and permeation of new government reforms and policies are expected to propel growth in the non-oil sector, particularly supported by the Services sector. Overall, Cowry Research projects a 3.25% year-on-year real GDP growth in 2024.



Source: National Bureau of Statistics, Cowry Research



Sectoral % Contribution to GDP in Q1 2024

Sector	y/y Sector Growth (%)	2024 Q1 GDP	% Contribution
Agriculture	0.18%	3,851,887	21.07%
Information and Communication	5.43%	3,269,596	17.89%
Trade	1.23%	2,870,158	15.70%
Manufacturing	1.49%	1,824,139	9.98%
Financial and Insurance	31.24%	1,245,603	6.81%
Mining and Quarrying	6.30%	1,181,937	6.47%
Real Estate	0.84%	950,975	5.20%
Construction	-2.14%	733,708	4.01%
Professional, Scientific and technical se	1.01%	583,576	3.19%
Other Services	-18.27%	459,183	2.51%
Education	1.62%	340,901	1.87%
Public Administration	2.09%	295,399	1.62%
Transportation and Storage	3.33%	216,343	1.18%
Accommodation and Food services	2.80%	184,670	1.01%
Human health and Social services	2.12%	131,851	0.72%
Arts, entertainment and recreation	4.44%	57,115	0.31%
Water supply & Waste management, O	6.95%	44,102	0.24%
Electricity & Gas, others	-5.43%	33,888	0.19%
Administrative & Support services	-1.53%	3,181	0.02%
Real GDP	**2.98%**	**18,278,213**	**100%**

Inflation Targeting: CBN Maintains Hawkish Stance with Another 150bps Rate Hike……

In May 2024, the CBN Monetary Policy Committee (MPC) concluded its two-day policy meeting, maintaining a hawkish policy stance for the third consecutive time this year by raising the monetary policy rate (MPR) by 1.50% to 26.25% from 24.75%. This decision followed a review of current economic and financial developments both locally and globally, and an assessment of the risks to the economic outlook. This rate hike exceeded expectations, which anticipated a more modest increase of 100 basis points, as the committee aims to combat rising inflation and uphold monetary and price stability in the economy.

At the meeting, the committee decided to continue its inflation-targeting approach to combat inflation. Consequently, the members voted to:

1. Raise the MPR by 150 basis points to 26.25% from 24.75%.

2. Retain the asymmetric corridor around the MPR at +100/-300 basis points.

3. Retain the Cash Reserve Ratio (CRR) for Deposit Money Banks at 45%.

4. Retain the Liquidity Ratio at 30%.

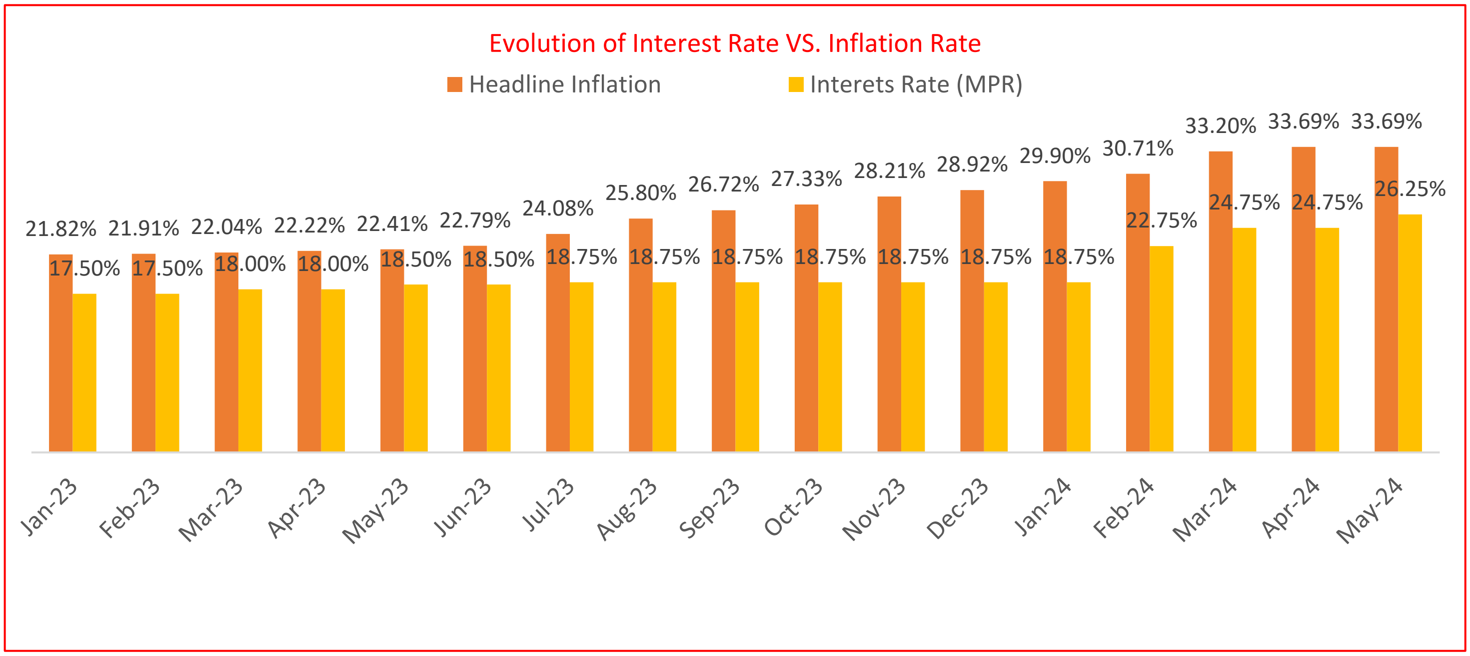
The committee's primary focus remained on achieving price stability by effectively using the tools available to the monetary authority to curb inflation. The latest inflation data from the National Bureau of Statistics (NBS) showed that the headline inflation rate continued its upward trend in April, rising by 49 basis points to 33.69% year-on-year. This increase was driven by food inflation and core inflation, which rose by 0.52 percentage points and 0.94 percentage points to 40.53% year-on-year and 26.84% year-on-year, respectively.

However, the growth rate of headline inflation moderated for the second consecutive month, rising by a combined 1.99 percentage points between March and April, compared to an acceleration of 2.78 percentage points in January and February. This indicates a positive trend with a moderation in the month-on-month figures. Specifically, the headline index moderated to 2.29% in April from 3.02% in March; the food inflation rate slowed to 2.50% month-on-month, down from 3.62% in March; and core inflation declined by 0.34 percentage points to 2.20% in April.

Committee members expressed concerns over the sustained contractionary stance, which could further shrink the real sector by discouraging investments and adversely affecting employment and growth rates. However, they also noted positively that the recent tight monetary policy stance of the Bank is beginning to yield the desired outcomes.

Cowry Research has noted the 150 basis points increase in the monetary policy rate as an aggressive move aimed at reining in inflation to a single-digit target band and ensuring domestic price stability. This hike, which exceeded market expectations of a 100 basis points increase, reflects the central bank's commitment to tackling inflation decisively. This implies that the fiscal authority is expected to implement policies to balance the monetary side for a concerted result.

Despite the unexpectedly high rate hike to 26.25%, the effects of previous increases this year are already permeating the economy. This trend could encourage investors to further commit funds into Nigeria's economy, aligning with the goal of achieving a $1 trillion economy by 2030. However, this focus on price stability has come at the expense of economic growth, particularly in the context of a weakening naira and high import costs. Given these circumstances, Cowry Research anticipates a potential pause in the rate hike cycle at the next committee meeting in July. This pause could provide a necessary breather to assess the cumulative impact of the previous hikes on the economy and to strike a balance between curbing inflation and fostering growth.



Nigeria's CPI Surges to Fresh Levels of 33.69% in April; Gives CBN Little Thicket for Rates Ruse…

Nigeria's consumer price inflation (CPI) continued its monthly acceleration for the sixteenth consecutive month, reaching a 28-year high of 33.69% in April 2024, up from 33.20% the previous month. This increase is partly attributed to the renewed weakness in the naira, the removal of fuel subsidies, and the hike in electricity tariffs, according to the latest inflation report published by the National Bureau of Statistics (NBS) on Wednesday.

The sluggish movement was anticipated as the incremental rise in April's headline inflation rate showed a 0.49 percentage point increase from March 2024; beating our expected 34.65% and expectations of the market at above 34% but marking an 11.47 percentage point increase compared to April 2023's rate of 22.22%. This increase in the headline index was driven by various items within the inflation basket, including food, housing, transportation, and miscellaneous categories.

Food inflation remains a significant driver of the headline index, hitting 40.53% year-on-year in April. This surge is due to rising prices of essential food items such as millet flour, garri, bread, wheat flour, semovita, yam tuber, water yam, cocoyam, coconut oil, palm kernel oil, vegetable oil, dried fish, beef, frozen chicken, and various fruits and beverages. Despite this annual increase, food inflation moderated by 1.11 percentage points to 2.5% in April, down from 3.62% in March, due to the decreases seen in the rate of price increases for items like yam, water yam, Irish potatoes, beer, local beer, Milo, Bournvita, Nescafe, groundnut oil, palm oil, eggs, milk, soft drinks, spirits, and various fruits.

Elsewhere, the core inflation, which excludes the prices of volatile agricultural produce and energy, stood at 26.84% year-on-year in April 2024, up by 6.87 percentage points from 19.96% in April 2023. The highest increases in core inflation were observed in prices for housing rentals, motorcycle journeys, bus journeys within cities, medical consultation fees, X-ray services, and accommodation services. Meanwhile, on a month-on-month basis, the core Inflation rate was 2.20% in April 2024, printing at 2.54% in March 2024, and indicating a decrease of 0.34%.

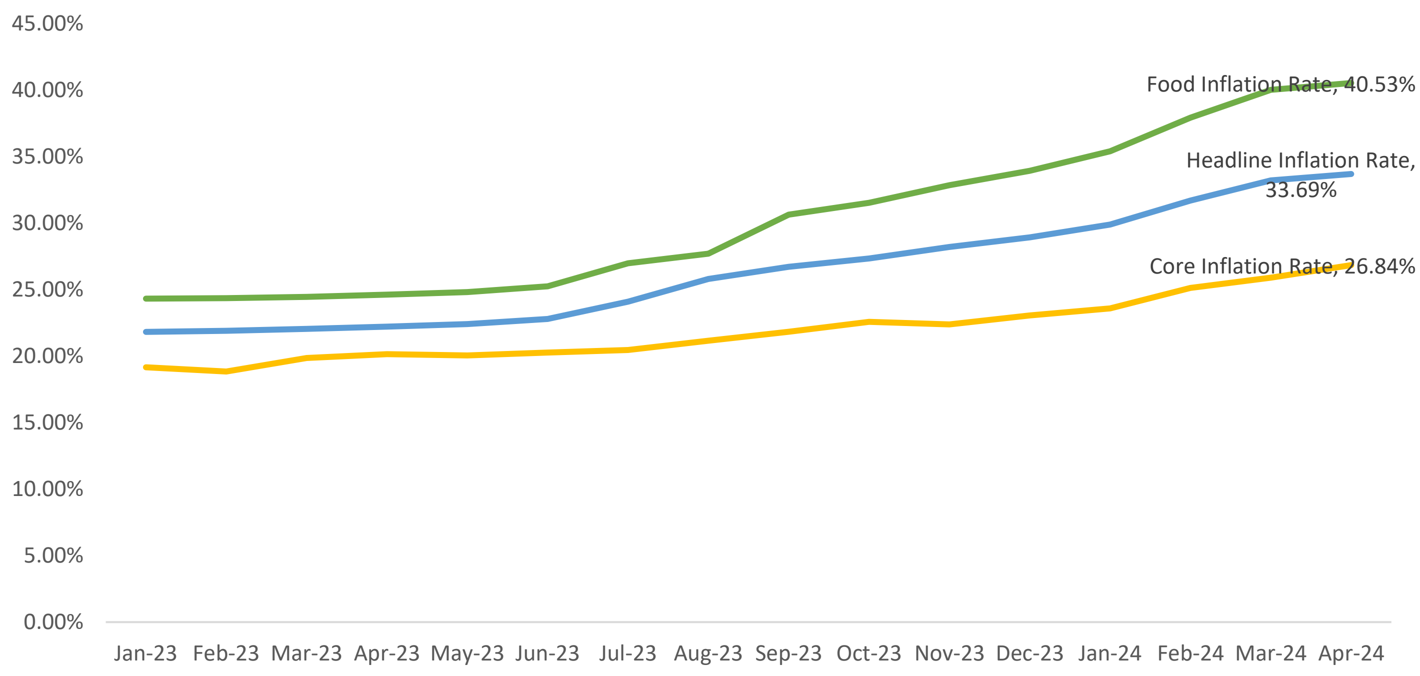
Across the states, headline inflation was highest in Kogi (40.84%), Bauchi (39.91%), and Oyo (38.37%), while Borno (26.09%), Benue (27.53%), and Taraba (28.69%) recorded the slowest year-on-year rises. On a month-on-month basis, Lagos (4.52%), Ondo (3.35%), and Edo (3.27%) experienced the highest increases, whereas Kano (0.30%), Ebonyi (0.97%), and Adamawa (1.25%) had the slowest rises.

Also, for the food index, it was highest in highest in Kogi (48.62%), Kwara (46.73%), Ondo (45.87%), while Adamawa (33.61%), Bauchi (33.85%) and Nasarawa (34.03%), recorded the slowest rise on year-on-year basis. On a month-on-month basis, however, food inflation was highest in Lagos (4.74%), Edo (4.06%), and Yobe (3.99%), while Kano (0.47%), Adamawa (0.98%) and Zamfara (1.50%) recorded the slowest rise.

In our view, the persistent rise in food prices comes from ongoing security concerns in food-growing regions across the country, the logistics challenges of making these farm-produces available and infrastructure deficits. The pass-through effect of currency depreciation on domestic food prices also contributes significantly to the soaring food prices as consumer pockets continue to get squeezed.

In the meantime, the CBN is expected to proceed cautiously with rate hikes as part of its ongoing efforts to tighten monetary policy and control all inflation indicators. Thus, we anticipate a further slow rise in headline inflation to around 34% in May 2024.

Monthly Evolution of Nigeria's Inflation



Source: NBS, Cowry Research

Equities Market: The Bulls Rule as ASI Posts Gain of 1.09% in May

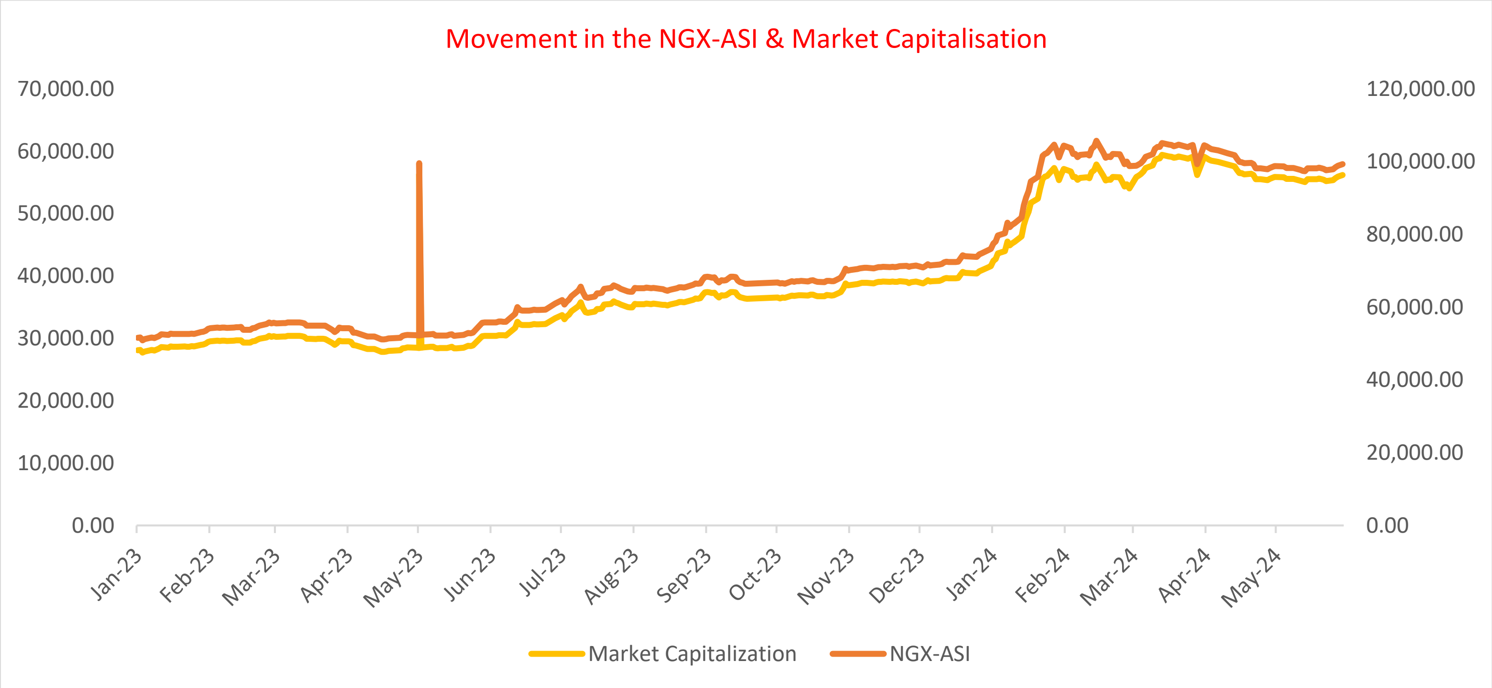
After the negative outing for the All-Share Index (ASI) by -6.06% m/m in April 2024, the local bourse rebounded, recoding modest gains of +1.09% m/m in May. The positive performance comes on the back of the attractiveness of the prices of some listed companies that paid dividends despite the interest rate hike to 26.25% and the attractive fixed income outlook, among other weak economic fundamentals. Also, the market capitalization of listed equities expanded by N619.45 billion in May to N56.17 trillion as the year-to-date return of the index improved to 32.80% from April's 31.36%.

Despite this, trading activity during the month was subdued, with the average number of deals, traded volume, and value decreasing marginally by 7.89%, 16.26%, and 13.87% month-on-month to 8,825 deals traded in 494.9 million units and valued at N9.39 billion, respectively.

Sectoral performance in April was largely bullish, as four out of the five tracked sectors closed in positive territory due to heightened buying interest, particularly in oil and gas and banking stocks, while one sector closed southward. Specifically, the Banking and Oil & Gas sectors led the gainers chart in the month, appreciating by 2.97% and 2.06% m/m, respectively, due to positive price movement in GTCO, JAIZBANK, FIDELITYBNK, SEPLAT, CONOIL, and OANDO.

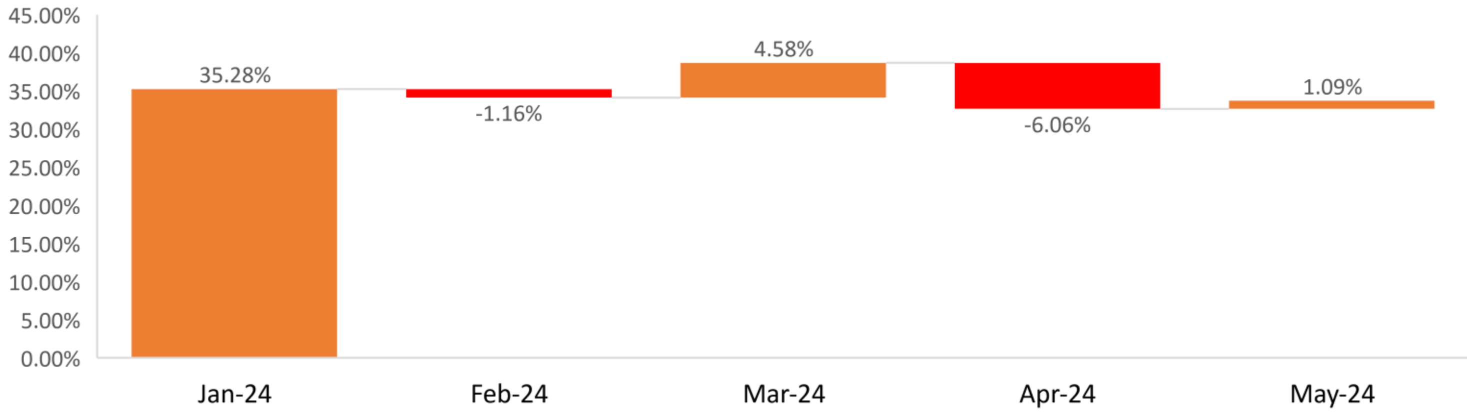
Similarly, the Consumer Goods and Industrial Goods indexes saw gains of 1.19% and 0.16% from investor interest in TANTALIZER, PRESCO, JULIUS BERGER, NESTLE, and BERGER PAINTS, respectively. On the contrary, the Insurance index emerged as the lone decliner in the month of May, falling by 3.26% m/m due to waning sentiments from market players as insurance firms published their full-year financial accounts late with NEM, LINKASSURE, and MUTUAL BENEFITS.

Investor sentiment, as reflected by market breadth, waned in May, with 48 advancing stocks against 53 declining ones. The top performers were TANTALIZER (+28%), PRESCO (+28%), JBERGER (+25%), and GTCO (+22%), whereas PZ CUSSONS (-42.00%), NEM (-23%), NASCON (-22%), and ETI (-18%) were the leading underperformers.

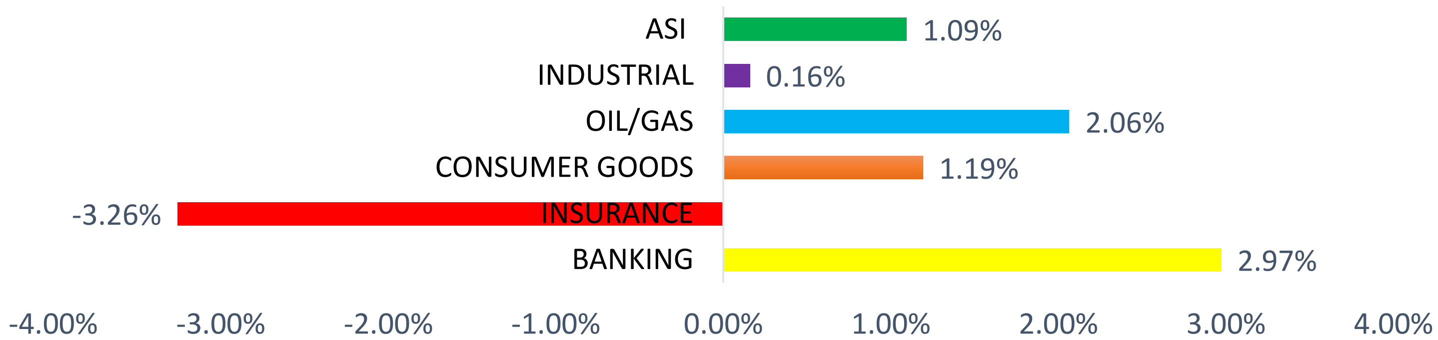


In June, we anticipate the equities market to report further gains on the back of bargain hunting activities while window dressing activities by fund managers begin to take center stage as we begin to head into the half-year market activities.

Monthly Performance of the Equities Market



May 2024 Sectorial Performance



Top 10 Performers and Underperformers in May 2024

Top Ten Gainers				Bottom Ten Losers			
Symbol	**May-24**	**Apr-24**	**% Change**	**Symbol**	**May-24**	**Apr-24**	**% Change**
TANTALIZER	0.50	0.39	28.2%	PZ	22.00	38.00	-42.1%
PRESCO	267.20	209.00	27.8%	DEAPCAP	0.40	0.59	-32.2%
JBERGER	85.00	68.05	24.9%	NEM	8.00	10.35	-22.7%
FLOURMILL	38.00	30.50	24.6%	NASCON	40.85	52.55	-22.3%
GTCO	40.00	32.70	22.3%	INTBREW	3.65	4.65	-21.5%
OANDO	11.80	9.65	22.3%	FTNCOCOA	1.10	1.39	-20.9%
CAP	34.95	28.60	22.2%	CHAMS	1.50	1.88	-20.2%
INTENEGINS	1.69	1.39	21.6%	ETERNA	12.25	15.15	-19.1%
DANGSUGAR	47.00	38.90	20.8%	CHAMPION	3.00	3.68	-18.5%
JAIZBANK	2.28	1.95	16.9%	ETI	21.30	26.00	-18.1%

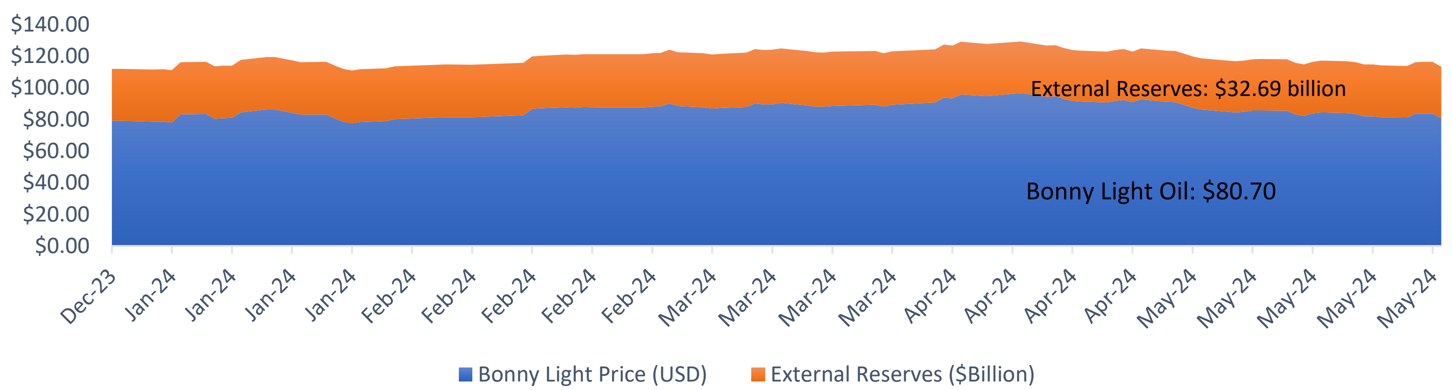
Foreign Exchange Market: Naira Weakens Against Dollar Across Markets as Demand Surge.

The crude oil market in May 2024 exhibited some price volatility due to geopolitical tensions, but demand growth was slightly weaker than anticipated. Oil prices saw a slight increase compared to April, with Brent crude reaching $84.23 per barrel by the end of May with the WTI and OPEC basket prices closing behind at around $80. This increase was likely due to ongoing geopolitical tensions in the Middle East raising supply concerns.

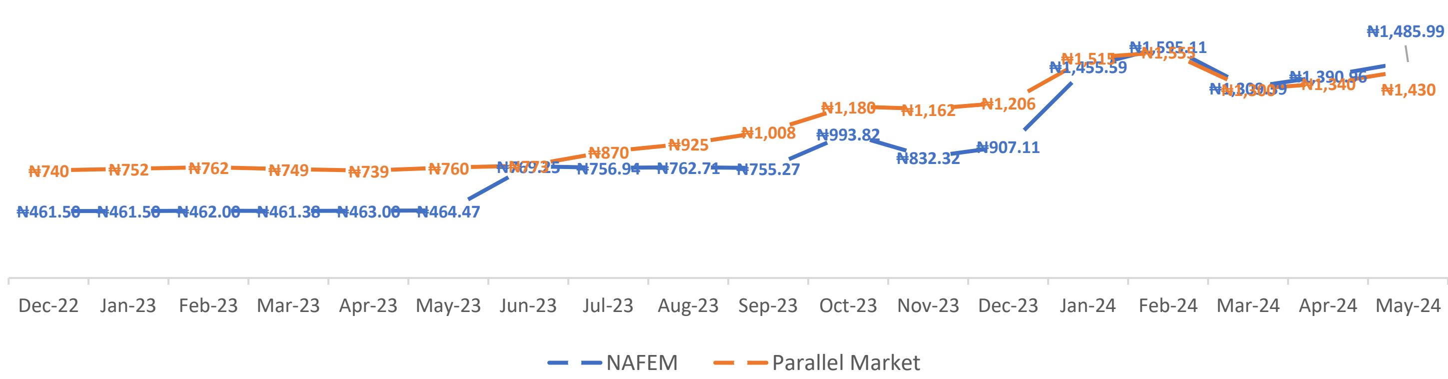
Locally, the Bonny Light crude oil price experienced a decline by 11.3% month on month to close at $80.70 per barrel in May from $90.93 per barrel in April. Also, the gross foreign reserves saw a marginal uptick by 1.36% to $32.69 billion despite the level of volatility witnessed in the fx market and weak movement in crude oil prices.

In the foreign exchange market, the naira exhibited negative outing across various fx segments, depreciating by 6.40% or N95.03 month on month at the official market to close at N1,485.99 to the dollar from N1455.59 per dollar as demand surge and short supply of the green back from the CBN persisted across the all segment of the market. The local currency also weakened by 6.29% or N90.00 month on month at the parallel market to close at N1,430 to a dollar.

Movement FX Reserves Movement



SNAPSHOT OF NIGERIA'S FX MARKET

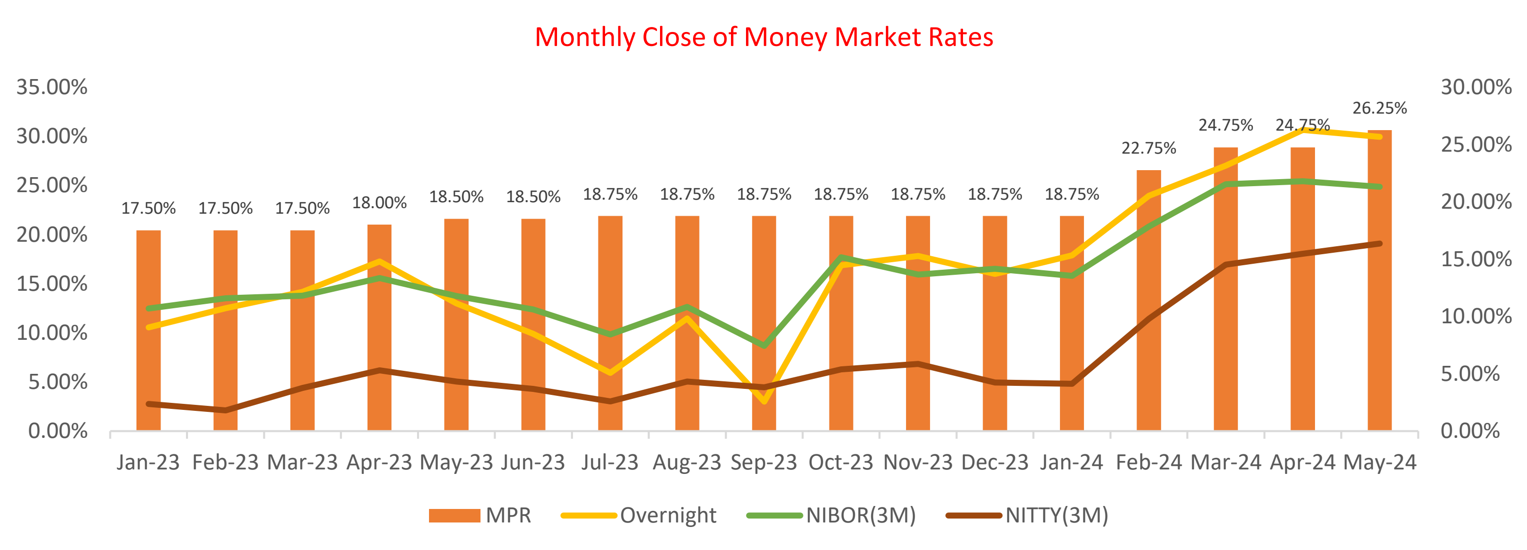


Money Market: Strong Liquidity Inflow Awashes Financial System as NIBOR Tanks

Moving into the money market, the financial system was left awashed with liquidity flow from OMO bills maturities and monthly FAAC inflows as the NIBOR rates nosedived across all tenor gauges. Notably, the overnight NIBOR declined by 69ppts month on month to close at 29.95% from 30.64% in the previous month as liquidity levels in the market eased. In the same manner across the various maturity gauges, illiquidity levels eased by 1.18ppts, 0.57ppts and 0.78ppts to close at 24.00%, 24.85% and 25.80% month on month as banks continue to fund their obligations. Nonetheless, OPR and OVN rates moved in a southward direction by 1.12ppts and 1.06ppts month on month respectively to 29.09.0% and 29.94% respectively.

On the other hand, the NITTY rates were in the northward direction by 0.92ppts, 1.03ppts, 0.87ppts, and 0,09pt respectively to close at 18.31%, 19.08%, 20.50%% and 24.96% for the 1-Month, 3-Month, 6-month and 12-Month NITTY respectively due to the expectations for further rise in yields at the Nigerian Treasury bills auctions. For the NT-Bills secondary market, average yield rose m/m to 20.12% despite the soft demand witnessed in the market and the tight liquidity conditions in the market.

Meanwhile, in May 2024, the CBN conducted two rounds of Nigerian T-bills auctions with a combined offer of N688.34 billion across the 91, 182, and 364-day instruments compared to N292.21 billion on offer at the last month's auction. The CBN ended selling the instrument at N802.5 billion as Investors' appetite was fairly strong with the overall bid-to-offer ratio of 2.91x higher than April's 2.0x. The 364-day instrument recorded the strongest buy interest with bids totalling N2.31 trillion in May. Meanwhile, stop rates on the 91, 182, and 364- day instruments at the May auctions rose to 16.50%, 17.45% and 20.69% which provides indications that offshore investors are still expressing their strong faith in Nigeria's economy despite the downturn in reserves.



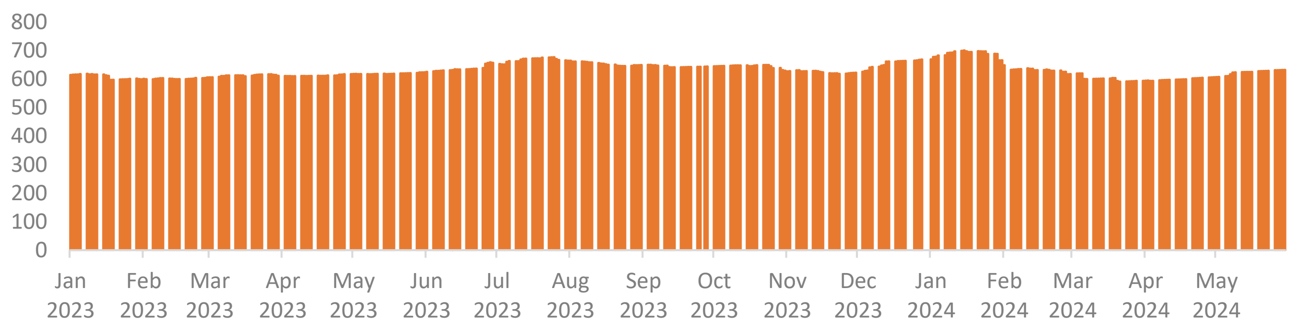
Fixed Income Market: Mixed Outing for FGN Bonds as Eurobond Yields Stay Bullish……

Moving ahead into the fixed income market, the month of May saw a mixed performance with less aggressive activity level as buy-side interest continued across the mid to long end maturities of the curve especially in the 2034, 2038 and 2053 maturities respectively.

In the month of May, the DMO issued FGN paper worth N450 billion to investors with the introduction of a new 9-year instrument but ended up raising N381 billion or N682.1 billion when we include non-competitive bids with a total subscription amounting to N551.3 billion. This indicated a bid-to-cover ratio of 1.5x. compared to the April 2024 auction, new stop rate offered were at 19.29%, 19.74% and 19.89% for the APR-2029, FEB-2031 and MAY-2038 of the plain vanilla.

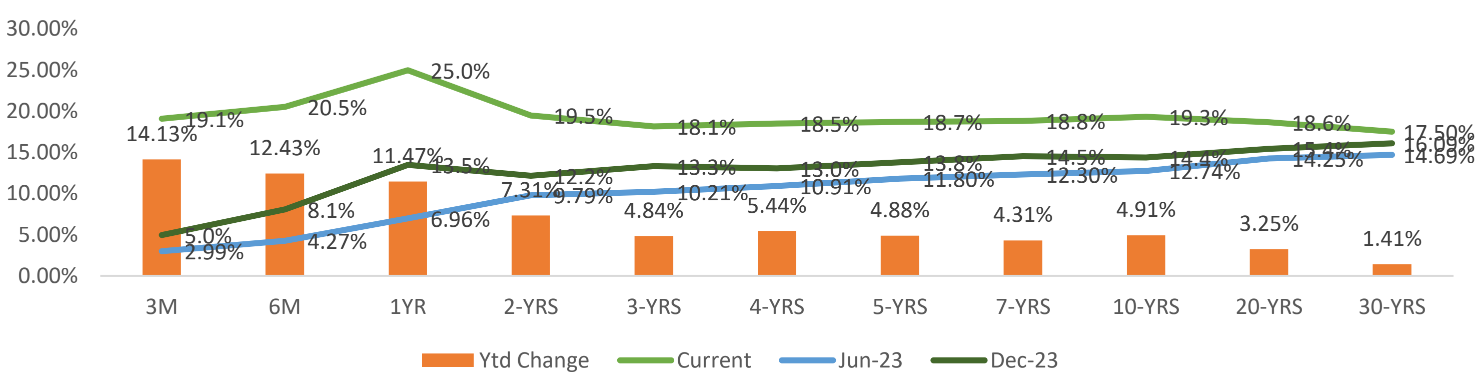
In the Nigerian Eurobond market, bullish sentiment prevailed despite the level of cautiousness seen across the sub-Sahara African sovereign bond space plus signs of recovery across the market. Consequently, the average secondary Eurobond yield declined by 15 basis points to 9.81% from 9.96% in the prior month on the back of buy sentiment in the Nigerian instrument especially on the mid-to long end of the curve.

S&P/FMDQ Nigeria Sovereign Bond Index (NGN)



Source: S&P Dow Jones Bond Indices, Cowry Research

Naira Bond Yield Curve



IMPORTANT DISCLOSURES:

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