

MACRO ECONOMIC OUTLOOK

Theme: **Chess vs Checkers** - Strategic Depth vs.
Tactical Simplicity in Nigeria's Financial Markets.



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Executive Summary

The global economy in 2024 is a symphony of cautious optimism and strategic adjustments. The US economy, transitioning from a post-pandemic surge to a more sustainable growth trajectory, faces persistent inflationary pressures and a cooling labour market. Despite these challenges, American consumers remain resilient, their spending buttressed by robust wage growth. The Federal Reserve's balancing act between combating inflation and sustaining growth will be crucial in the latter half of the year, potentially paving the way for rate cuts that could enhance investor confidence globally.

Across the Atlantic, the Eurozone's journey from stagnation to gradual recovery is marked by modest GDP growth and a cautious ECB, which has begun easing monetary policy. The Eurozone's inflation has shown signs of moderation, yet wage pressures and geopolitical risks, particularly the ongoing conflict in Ukraine, pose significant uncertainties.

In the US, the first half of 2024 witnessed a remarkable surge in the stock market, driven predominantly by the AI revolution. The "Magnificent Seven" tech giants—Microsoft, Nvidia, Apple, Alphabet, Amazon, Meta, and Tesla—spearheaded this rally, their dominance underscoring the profound impact of AI on market dynamics. As we move into H2 2024, the diffusion of AI across various sectors is expected to sustain market momentum, although the initial surge may give way to a more balanced market performance.

Nigeria stands at a critical juncture, its economic outlook influenced by both global trends and domestic policies. The US economy's performance and potential rate cuts hold significant implications for Nigeria, possibly leading to a less costly debt market and improved investor sentiment.


Domestically, Nigeria's macroeconomic stability hinges on several key factors. Recent reforms aimed at unifying exchange rates and boosting FX market activity offer a glimmer of hope. The government's commitment to fiscal consolidation, coupled with projected improvements in non-oil revenue and a narrowing budget deficit, indicates a movement towards economic stability.

However, challenges remain. Nigeria's high debt burden, rising domestic borrowing costs, and opaque external reserves pose risks to economic stability. Transparency and continued reform momentum will be crucial in maintaining investor confidence and navigating the tightrope of economic recovery.

The SSA Eurobond market in 2024 has been a tale of two halves. The first half saw a rollercoaster ride with successful issuances by countries like Côte d'Ivoire and Kenya, buoyed by multilateral investments and early whispers of a US rate cut. However, the unexpected strength of the US economy and the Federal Reserve's policy reversals sent shockwaves through the market, highlighting the fragile nature of investor confidence.

Looking ahead, Nigeria's Eurobond performance in H2 2024 will depend on a complex interplay of global and domestic forces. The government's ability to generate foreign reserves, manage its debt burden, and enact sound economic policies will be critical in attracting investment and maintaining economic stability.

As we navigate the remainder of 2024, the Nigerian economy's path will be shaped by a blend of global influences and domestic resilience. The world watches as Nigeria strives to balance growth and stability, harnessing the potential of reforms and leveraging global economic trends to carve a path towards sustainable development. In this intricate dance of economics, every step, every decision, echoes with the promise of a brighter, more prosperous future.



Global Macroeconomic Outlook



General Overview

The global economy in 2024 is defined by a delicate balancing act between growth and inflation. While some regions continue to grapple with the residual effects of the COVID-19 pandemic, geopolitical tensions, and supply chain disruptions, others are beginning to experience a gradual normalization. Central banks worldwide are navigating through the complexities of tightening monetary policies to combat inflation while striving to maintain economic growth. Emerging markets show signs of resilience, benefiting from rate cuts and stabilization efforts. In contrast, developed economies face the challenge of moderating inflation without stifling growth. As we move forward, the economic landscape remains dynamic, with policy decisions playing a pivotal role in shaping the outlook.

As the global inflationary pressures begin to ease from the multi-decade highs witnessed over the past two years, central banks are expected to lower borrowing costs. Some institutions, especially in emerging markets, have already started cutting rates. The European Central Bank (ECB) and the Bank of Canada (BOC) followed suit in early June. It is anticipated that the U.S. Federal Reserve and the Bank of England will adopt similar measures

later in the year as they observe renewed progress in their inflation control efforts by the end of the second quarter.

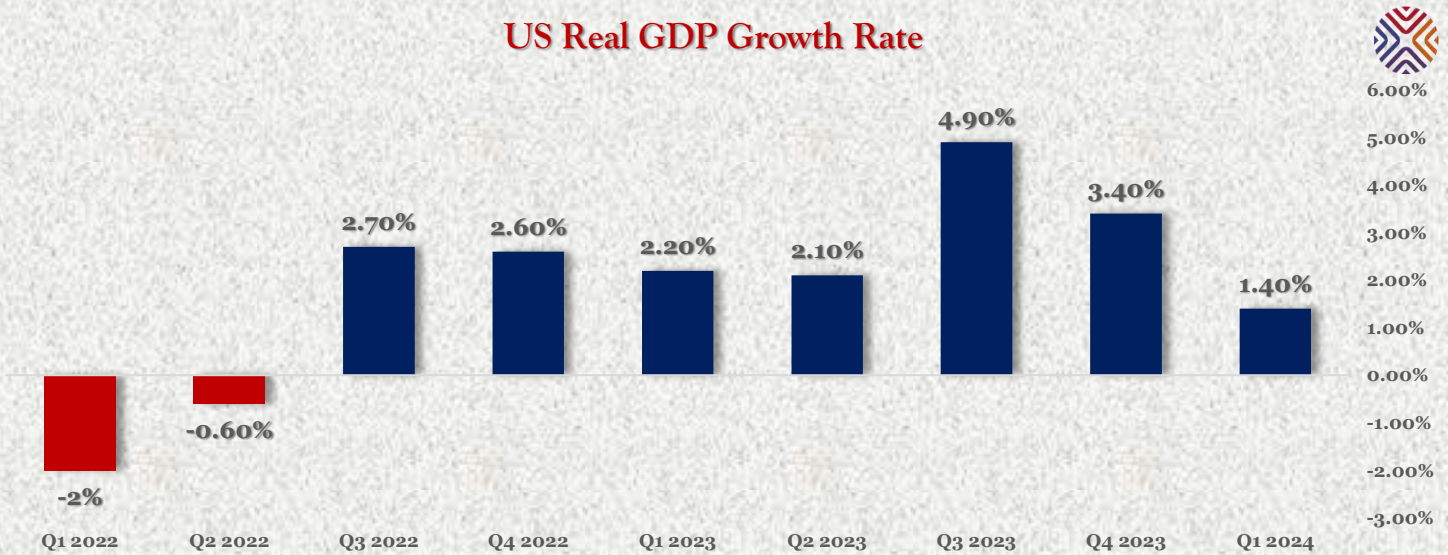
The US in 2024: A Year of Cautious Optimism and Shifting Gears

The US economy in the first half of 2024 presented a story of resilience and recalibration. Growth continued, albeit at a more moderate pace compared to the post-pandemic surge. However, inflation remained a persistent thorn in the side of policymakers and consumers alike. This section dives into the key trends that shaped the US economic landscape in the first half of the year, with a look towards the uncertainties and opportunities that lie ahead.



Growth: Shifting from High Gear to Cruise Control

US Real GDP Growth Rate



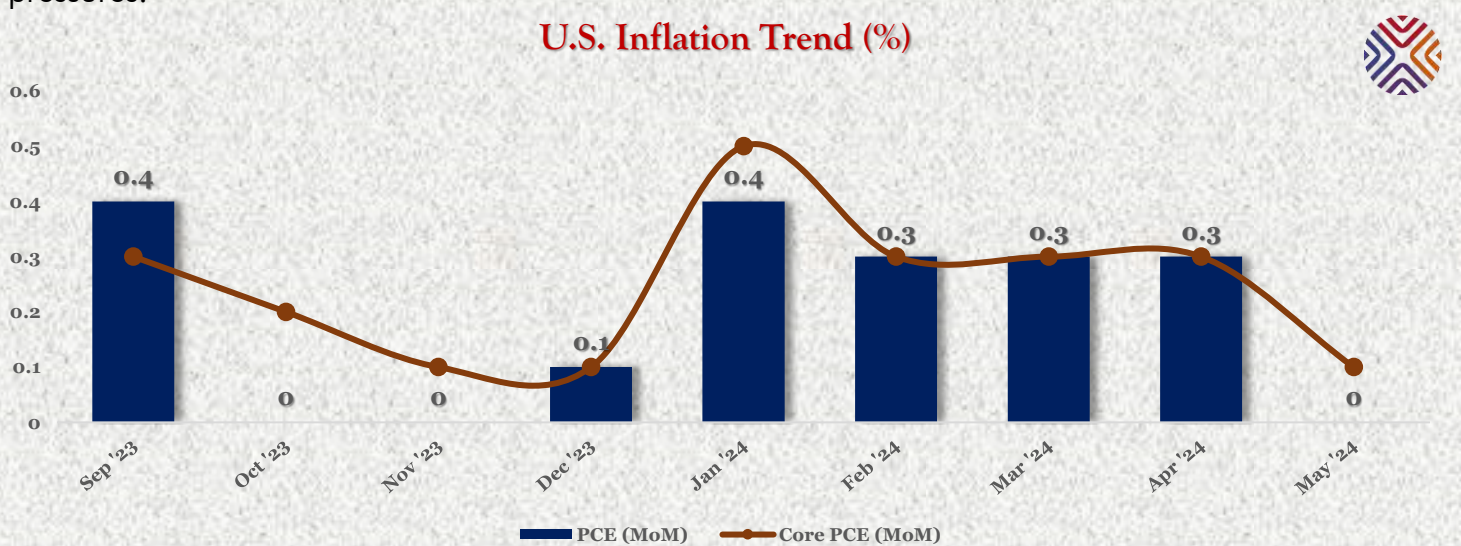
Source: Comercio Partners | U.S. BEA

The US economy expanded at an annual rate of 1.4% in the first quarter of 2024, a significant slowdown from the robust 3.4% growth witnessed in Q4 of 2023. This moderation was largely expected as the economy transitioned from a post-pandemic rebound to a more sustainable growth trajectory. However, rising imports acted as a drag, highlighting the interconnectedness of the global economy. While some might view the slowdown in the US economy as a cause for concern, it's important to remember this still represents growth, and a more balanced pace could foster long-term economic health.

Inflation: A Persistent Headache with Early Signs of Relief

Inflation remained a top concern throughout the first half of 2024. Early in the year, inflation prints came in higher than anticipated, hovering around 3.3% (May's CPI) by the end of the second quarter. This exceeded the Federal Reserve's target of 2%, prompting concerns about a potential wage-price spiral. Food and energy prices and lingering supply chain disruptions continued to fuel inflationary pressures.

U.S. Inflation Trend (%)



NB: Price Consumption Expenditure (PCE) Price Index

Source: Comercio Partners | U.S. BEA



However, there were some glimmers of hope. May's PCE data, a key inflation measure, showed a welcome slowdown. While still elevated, inflation displayed its slowest pace in six months. This suggests that the Fed's tightening policies, including a series of interest rate hikes pushing the federal funds rate between 5.25% and 5.50%, might be starting to take effect.

The Consumer: Still Spending, But Feeling the Pinch

Despite rising borrowing costs, American consumers remained surprisingly resilient. May's PCE data revealed robust spending, with inflation-adjusted consumer spending driven by goods and rising incomes. This spending resilience defied some earlier predictions of a sharp slowdown due to higher interest rates. Solid wage growth continued to support consumer spending. Wages and salaries rose 0.7% in May, and real disposable income jumped by 0.5% — the most significant increase since January 2023 and a positive sign for the overall economy. However, a closer look reveals a potential shift in consumer behaviour. The data suggests a move towards services like healthcare and airfare while spending on durable goods like appliances might be plateauing due to higher prices. This highlights the impact of inflation on consumer choices.

The Labour Market: A Cooling Breeze After a Hot Streak

The labour market, a traditional pillar of US economic strength, also displayed signs of a slowdown. The unemployment rate, which remained near historic lows throughout 2023, finally crept above 4% for the first time since 2021. While this might seem concerning at first glance, it's important to remember that this still represents a relatively tight labour market by historical standards.

Additionally, job growth, though positive, has been concentrated in sectors like government spending, healthcare, and social assistance. This raises questions about the private sector's ability to drive job creation, a crucial factor for the Fed as it navigates its dual mandate of maintaining price stability and promoting maximum employment.

Looking Ahead: A Balancing Act for the Fed

The second half of 2024 and beyond will be defined by how the US economy navigates several key uncertainties. The Federal Reserve's policy decisions will be paramount. Will they continue their hawkish path to combat inflation, even at the risk of slowing growth further? Or will they adopt a more dovish stance if inflation shows sustained moderation, and the labour market weakens considerably? Federal Reserve officials acknowledged the impact of their policies on economic growth and inflation. While committed to combating inflation, they indicated a willingness to adjust their approach based on incoming data.



This suggests a potential for a policy shift towards the latter half of the year if inflation shows sustained moderation. In 2023, the US economy witnessed a surprising decoupling of inflation and growth. Inflation dropped significantly while GDP remained healthy. This could be partly explained by the "Off-the-books population effect."



The significant growth in 2023 might be attributed to the previously undocumented population (Illegal Immigrants). With increasing talks on stricter immigration controls at both state and federal levels, these "unaccounted people" effect is unlikely to support the economy's GDP in 2024. This suggests that economic growth might be more subdued this year compared to 2023, further strengthening the case for potential rate cuts by the Fed. We forecast that high importation will continue to weigh on US GDP.

We see the US growing between 1.4% and 1.7% in the second half of the year.

We expect the Federal Reserve to shift focus from an intense fight against inflation to achieving its 2-core mandate (price stability and maximum employment) as the economy begins to show weakness.

Therefore, the FED will adopt a more balanced approach in the second half of the year to ensure the unemployment rate does not reach a worrisome level.

Therefore, we expect just one rate cut from the Fed in the second half of 2024.

What Does This Mean for Nigeria?

The recent slowdown in core inflation is a positive sign, supporting the possibility of a rate cut. This scenario enhances investor confidence and suggests that emerging markets like Nigeria may benefit from a less costly debt market. Furthermore, a thriving U.S. economy tends to have a positive trickle-down effect on Nigeria, barring any escalation of geopolitical tensions.



Bottom Line

In conclusion, the US economy in 2024 finds itself at crossroads. While growth persists, inflation and a potentially cooling labour market present challenges. The Fed's policy decisions and the evolution of these economic factors will be crucial in determining the trajectory of the US economy in the second half of 2024 and beyond. A successful balancing act could lead to a "soft landing" – containing inflation without triggering a recession. However, navigating these shifting tides will require careful calibration and a watchful eye on the ever-evolving economic landscape.

The outlook for the U.S. economy suggests moderate economic growth can be sustained even as interest rates remain elevated. The recent slowdown in core inflation is a positive sign, supporting the possibility of maintaining economic growth while managing inflation. This scenario enhances investor confidence and aligns with the Federal Reserve's objective of achieving a balanced and stable economic environment.

The global macroeconomic outlook for the U.S. indicates a cautious yet optimistic trajectory. As inflationary pressures show signs of easing and monetary policies adapt to emerging economic conditions, the potential for stable growth remains within reach. However, the path forward requires careful monitoring of economic indicators and responsive policy adjustments to navigate the complex economic landscape.

The Eurozone in 2024: A Cautious Balancing Act in H2 2024

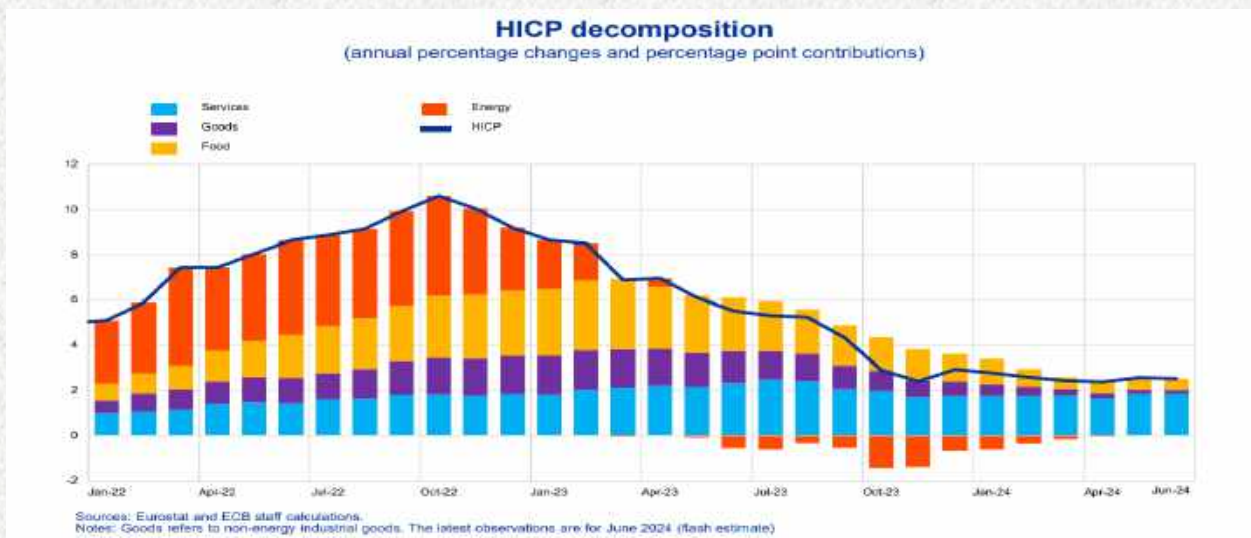
Navigating from Stagnation to Gradual Recovery: A Review of H1 2024

The Eurozone economy exhibited a slow and uneven recovery during the first half of 2024. Following a period of stagnation at the end of 2023, real GDP growth in Q1 2024 reached 0.3%. This modest expansion was driven by slight increases in domestic demand and net exports, although inventory destocking partially offset these gains. Economic activity remained under pressure from lingering effects of the 2023 slowdown, tight financing conditions due to the ECB's policy stance, and subdued business confidence.



Inflation, a major concern in 2023, showed encouraging signs of moderation in H1 2024. Headline inflation, measured by the Harmonised Index of Consumer Prices (HICP), dropped from 2.8% in January to 2.6% in February, then stayed at 2.4% for the next two months before springing up to 2.6% in May (According to Eurostat's flash estimate inflation in June is expected to stand at 2.5%). The decline we've seen can be attributed to lower inflation rates for most components, with food and non-energy industrial goods showing improvement. Notably, services inflation remained elevated due to robust wage growth, a trend we will explore further in the outlook section. Core inflation also decreased (from 3.8% in January to 2.8% in May), reflecting easing pipeline pressures and weaker demand amidst tighter monetary policy.





Source: Eurostat

Despite the continued decline in inflation, the European Central Bank (ECB) maintained a cautious approach for most of the first half, keeping its key interest rates steady before introducing a 25-basis point cut in its policy rates later in June. The deposit facility rate remained at a historically high level of 4% before moving to 3.75% following the ECB's June decision. This reflects the ECB's commitment to curbing inflation and returning it to its medium-term target of 2%. Market expectations for future monetary policy adjustments experienced some volatility during this period, but these have stabilized as the economic environment has become more predictable.

Forward Guidance for the Second Half of 2024: A Cautious Optimism

The Eurozone's economic prospects for the second half of 2024 present a picture of cautious optimism

Our analysis suggests growth is likely to be sustained at a modest pace, driven by several key factors:

Improved Labor Market Dynamics: The Eurozone has witnessed a robust labour market with employment rising by 0.3% in Q1 2024, adding roughly 500,000 new jobs. Unemployment has dropped to its lowest level since the Euro's inception at 6.4% (April 2024). This positive trend is expected to continue, supporting consumer spending and overall economic activity.

Favourable Trade Environment:

We anticipate improved terms of trade and a potential rise in exports due to increasing global demand.

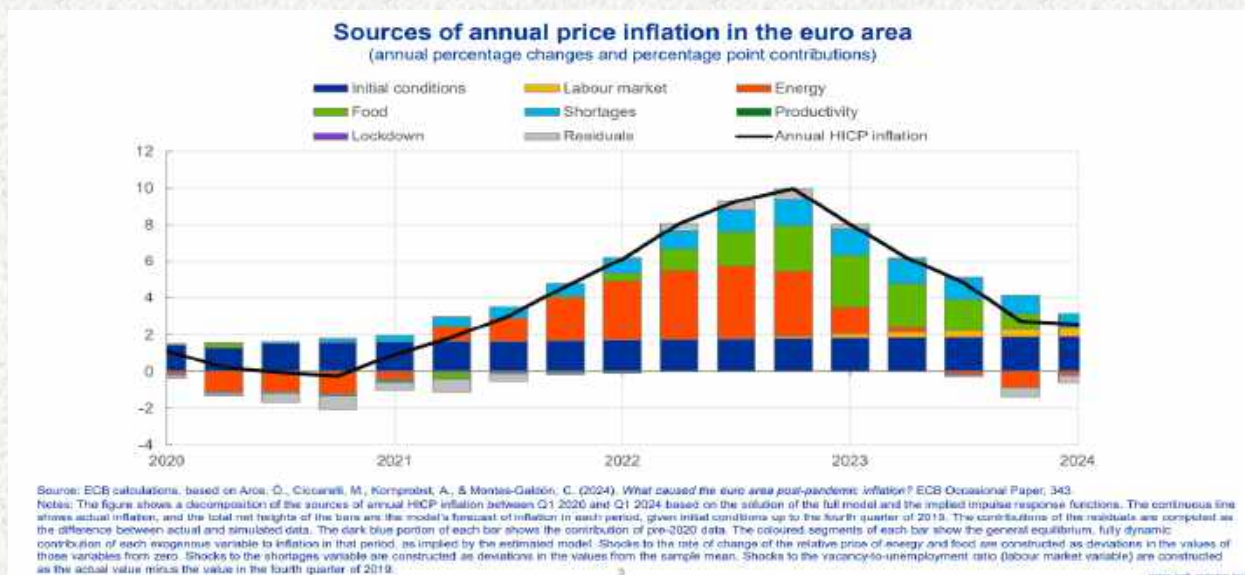
However, a potential escalation in global trade tensions, such as a hit back by the Chinese authority due to the recent increase in EU tariffs on Chinese EVs, could hinder this progress as any hit back from China could hurt the Euro economy. Close monitoring of trade developments will be crucial for assessing the external sector's contribution to growth.

Wage Pressures and Inflation: While the recent decline in inflation is encouraging, wage-driven service sector inflation remains a concern. The staggered nature of wage adjustments and potential one-off payments will likely continue to fuel inflation throughout 2024. However, corporate profits are absorbing part of the pronounced rise in unit labour cost, reducing the inflation effect.

Consequently, we expect inflation to remain around current levels, potentially closing the year above the ECB's 2% target.

Additionally, harsh weather conditions could affect food prices, and a further escalation of the war in Ukraine could disrupt global trade and energy markets, pushing inflation higher.





Source: Eurostat

ECB Winning Against Energy Shock: The global inflationary surge of 2022 was significantly fuelled by the energy crisis triggered by Russia's invasion of Ukraine. This conflict disrupted global oil supplies, sending prices soaring past \$120 per barrel. This shock quickly rippled through the economy, pushing up the prices of a wide range of goods and services, presenting a major challenge for policymakers worldwide.

However, the ECB's measured response through its tightening cycle appears to have successfully contained the inflation directly caused by the energy shock. As the graph illustrates, inflation has significantly declined from its peak, suggesting that pre-pandemic factors are now driving most of the remaining inflationary pressures. This shift paves the way for a more accommodative monetary policy stance.

While the recent rate cut marks a cautious step in this direction, we anticipate the ECB to potentially intensify its easing measures in 2025, assuming inflation continues its downward trajectory.

Monetary Policy and Growth Trajectory:

The ECB's recent 25 basis point rate cut signifies a shift in their monetary policy stance, acknowledging the progress on inflation. However, it's important to note that real interest rates remain restrictive compared to last September. This cautious approach by the ECB aims to balance the need for controlling inflation with fostering economic growth. While the rate cut provides some monetary policy support, a potential resurgence of inflation or a global recession could force the ECB to re-evaluate its stance. Additionally, an abrupt intensification of the war in Ukraine could erode household and business confidence, disrupting global trade and derailing the Eurozone's projected recovery.

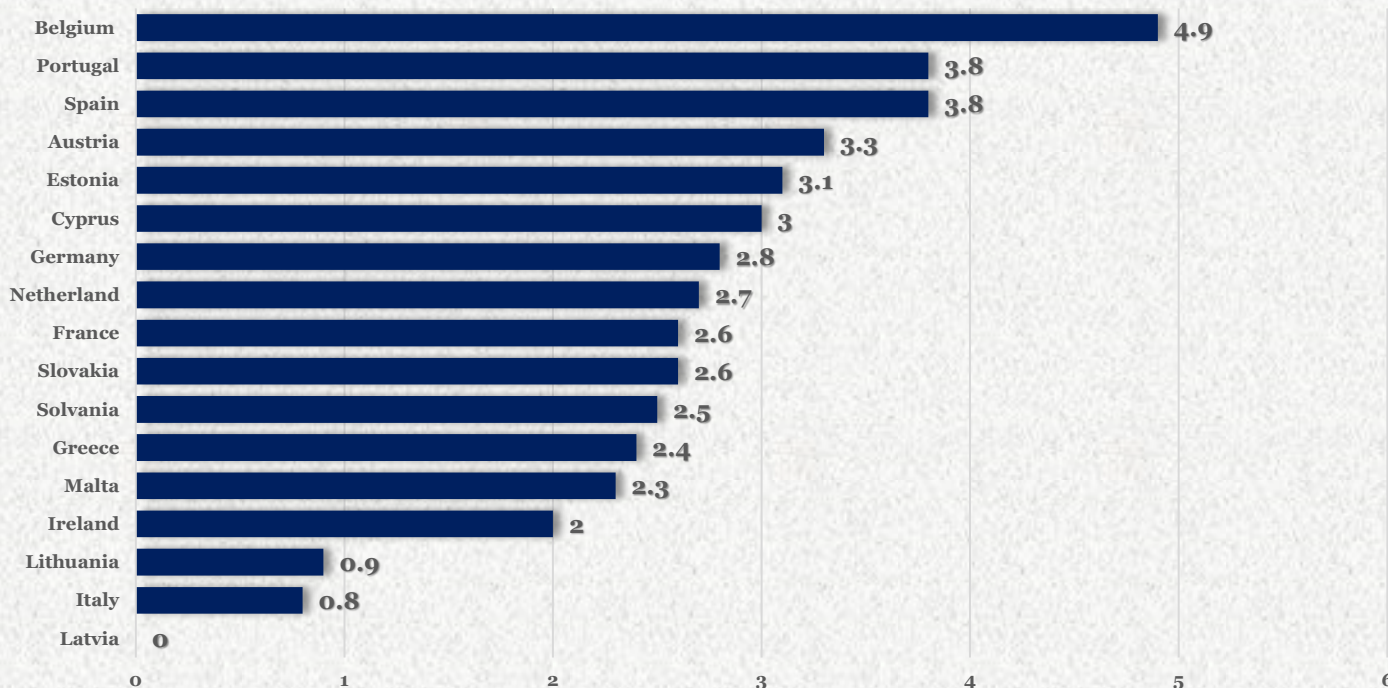
To balance risks, we expect one more 25-basis cut in policy rate by the ECB this year.

Balancing the inflation rate across the Eurozone, especially in a country like Belgium where inflation is still high, may force the ECB to be cautious, strengthening our case for just one more rate cut this year. We strongly believe the ECB will be careful with easing borrowing costs too quickly, ensuring they don't have to revert to tightening rates, which could erode confidence in the ECB's ability to tame inflation.





Inflation Rate in the Eurozone (%)

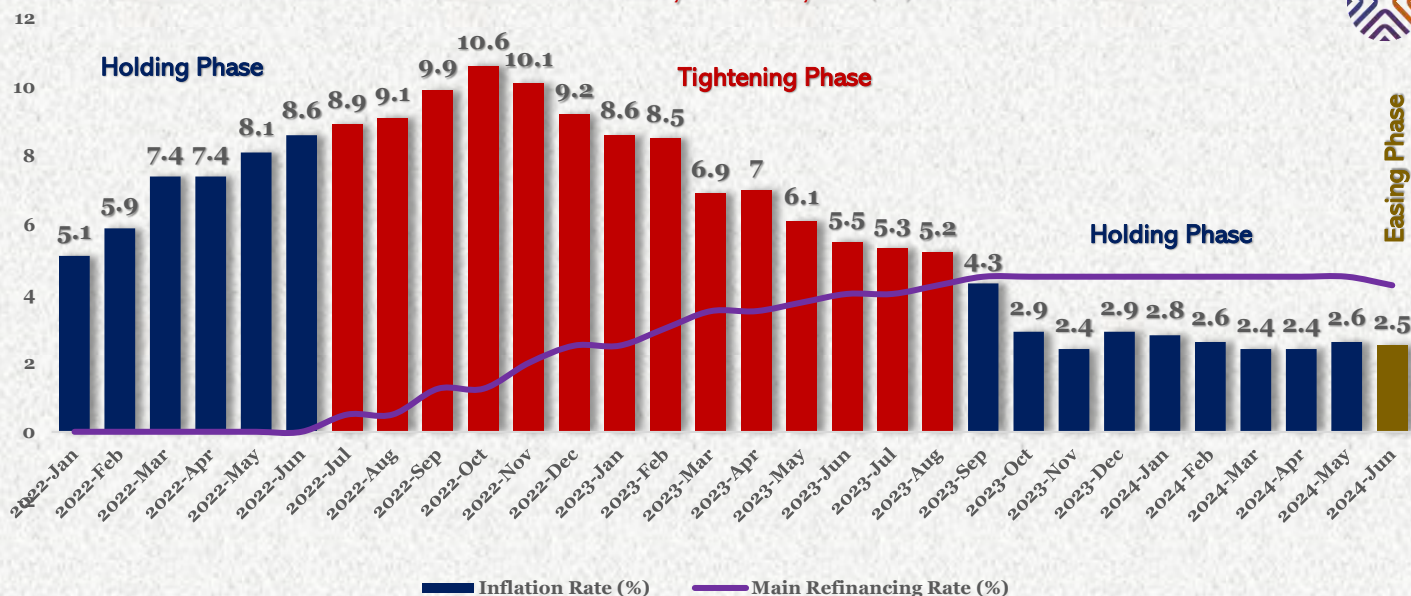


NB: Data based on Eurostat's HCIP

Source: Comercio Partners | Eurostat

In response to the global inflationary surge of 2022, the ECB adopted a methodical approach to monetary policy. Their strategy unfolded in three distinct phases, each demonstrably successful in halving inflation. The initial tightening phase, spanning July 2022 to September 2023, saw the ECB implement a series of interest rate hikes totaling 450 basis points. This decisive action demonstrably curbed inflation, bringing it down from a peak of 10.6% in October 2022 to 5.2% by September 2023.

ECB Policy Rate Cycle (%)



Source: Comercio Partners | Eurostat

With inflation exhibiting signs of moderation, the ECB transitioned to a holding phase from September 2023 to June 2024. Maintaining stable interest rates allowed the Eurozone economy to adjust to the new environment while inflation continued its downward trajectory, reaching 2.6% by June 2024. This period of stability further solidified the gains achieved during the tightening phase.



Recognizing the progress made, the ECB initiated a cutting phase in June 2024 with a 25-basis point rate reduction. This cautious shift in policy acknowledges the success of the previous phases and reflects the ECB's commitment to navigating the Eurozone towards a sustainable economic recovery with price stability.

Risks and Uncertainties: Navigating a Complex Environment

The Eurozone faces a delicate balancing act in the second half of 2024. While the outlook suggests a gradual economic recovery and continued decline in inflation, significant uncertainties remain. Here are some key risks to monitor:

Geopolitical Risks: The ongoing war in Ukraine continues to cast a shadow on the global economy, with potential impacts on energy prices, supply chains, and overall business confidence. Any further escalation could significantly disrupt the projected Eurozone recovery.

Global Trade Tensions: Rising trade tensions, exemplified by the recent EU-China tariff dispute, could dampen export growth and disrupt global trade flows. Close attention should be paid to developments in this area.

Wage-Price Spiral: The persistence of wage pressures, especially in the services sector, has the potential to ignite a wage-price spiral, where rising wages fuel inflation, which in turn necessitates further wage increases to maintain purchasing power. The ECB will need to carefully monitor this dynamic to ensure inflation expectations remain anchored.

Monetary Policy Uncertainty: While the ECB's recent rate cut offers some guidance, the future path of monetary policy remains uncertain. The ECB will likely adopt a data-dependent approach, adjusting rates based on incoming economic data and inflation. Any significant deviations from current expectations could roil markets and impact investment decisions.



The AI Uprising:
Propelling US Stock Market
Performance in H1 2024 and
Shaping H2 Outlook

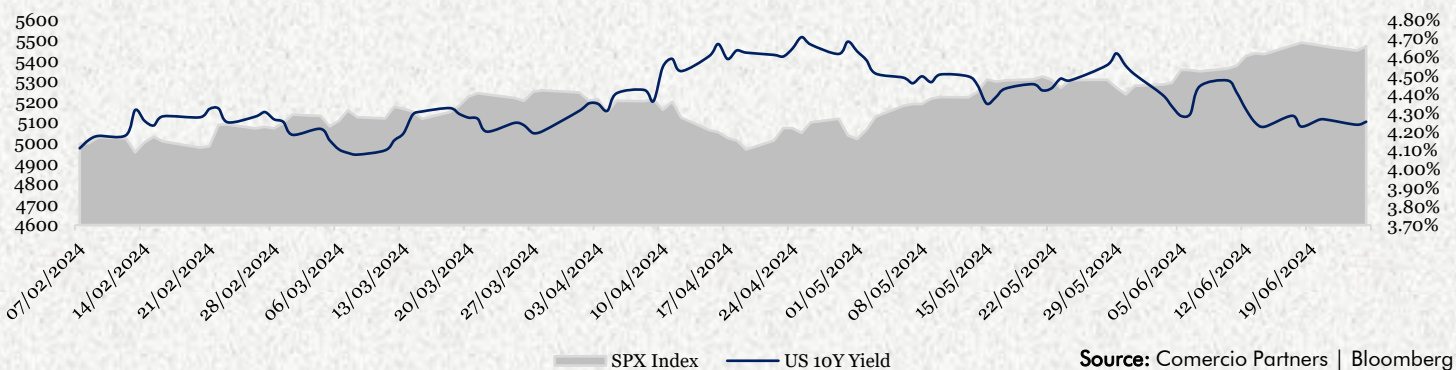


A Tale of Two Halves: AI, the Mag 7, and a Resilient Market

Overview

The first half of 2024 presented a dynamic landscape for the US equity market. Fuelled by the advancement of Artificial Intelligence (AI) and the stellar performance of the "Magnificent Seven" (Mag 7) - Microsoft, Nvidia, Apple, Alphabet, Amazon, Meta, and Tesla - the market experienced a remarkable surge. These tech giants exerted a powerful influence, comprising a substantial 32% of the S&P 500 and contributing over 60% of its returns since the beginning of 2023. Their dominance underscores the profound impact they've had on both market behaviour and investor sentiment.

SPX Index & US 10yr Bond Yield Performance



Source: Comercio Partners | Bloomberg

Beyond the Bull Run: Resilience in a Shifting Landscape

However, the narrative shifted as the year progressed. The Federal Reserve's hawkish stance sent US 10-year yields soaring from 3.9% in December to 4.3% at present. Despite these rising yields, equity markets displayed surprising resilience. The S&P 500 defied expectations, surging 15% and surpassing its previous all-time high. The Dow Jones Industrial Average also remained robust, climbing over 3%. Notably, the tech-heavy NASDAQ-100 outperformed both, recording a near 19% gain. This resilience suggests a potentially robust underlying market, capable of weathering headwinds.

Unveiling the Mag 7's Powerhouse Performance: Dominant Tech Titans Drive Market Surge

The "Magnificent Seven" propelled the first half of 2024's market surge, each delivering stellar individual performances except Tesla which recently recovered from its initial losses. Microsoft, a stalwart in the tech sector, leverages its cloud computing dominance and AI integration to fuel growth. Its Azure platform, a magnet for investment and customers thanks to robust AI services, continues to be a significant driver.



Nvidia emerged as the undisputed champion, with its stock skyrocketing by over 150% year-to-date. Their GPUs, crucial for AI processing, solidify their position as a cornerstone of the AI revolution. Nvidia's Q1 performance, boasting a staggering 262% revenue surge, underscores its strategic positioning and innovative prowess.

Despite being a hardware giant, Apple excites investors with its foray into AI applications through its vast user base. Announced partnerships to integrate AI into its devices further bolstered confidence, highlighting AI as a major growth vector.

Alphabet's Google remains a critical player in the AI ecosystem, continuously leveraging AI to enhance its search capabilities and other services.

The AI Uprising: Propelling US Stock Market Performance

The first half of 2024 witnessed a remarkable phenomenon: Artificial Intelligence (AI) emerged as a major driver behind the impressive gains in the US stock market. Leading the charge was Nvidia, whose skyrocketing performance serves as a microcosm of the profound impact AI is having across sectors.

Nvidia: A Chipmaker at the Heart of the AI Revolution

Nvidia's technology sits at the very core of AI transformation. This is demonstrably evident in

evident in their data centre revenue for FY25 Q1, which surged 427% year-over-year. This phenomenal growth highlights their solutions' critical role in the AI sector, further emphasised by their robust 78% gross margins – a clear indicator of their profitability.

Beyond Hardware: The Ecosystem Effect

The AI rally extends far beyond just hardware manufacturers. Investors are building "AI baskets" that go beyond companies like Nvidia, mirroring the diverse ecosystem that fuels AI development. Big Tech giants like Amazon, Alphabet, Microsoft, and Meta are projected to collectively spend a staggering \$200 billion on cloud and AI investments this year. This includes building and running massive data centres, the powerhouses that train and run these sophisticated AI systems. Utility companies are also catching a ride on the AI wave, as the ever-growing demand for processing power translates to increased energy needs.

Nvidia's AI Expansion: A Force to Be Reckoned With

Their data centre revenue, reaching a staggering \$22.6 billion, further bolsters the narrative of Nvidia's success in catering to the ever-growing demand for AI processing power. This dominance is further complemented by a constant stream of innovation – the upcoming Rubin AI platform and the highly anticipated Blackwell chip are prime





examples. Scheduled to launch in 2026, the Rubin AI platform is specifically designed to dominate the rapidly expanding \$3 trillion AI market, perfectly aligning with CEO Jensen Huang's vision of a new industrial revolution driven by AI.

SEC Approves Bitcoin ETFs Amid Crypto Regulation Shifts

In H1 2024, the SEC approved 11 Bitcoin ETFs from BlackRock, Ark Investments, Fidelity, Invesco, VanEck, and others, listing them on NYSE, Nasdaq, and CBOE despite risk warnings. In May, the U.S. House passed the "Financial Innovation and Technology for the 21st Century Act," creating a regulatory framework for cryptocurrencies and defining roles for the CFTC and SEC, despite SEC warnings of potential financial risks.

H2 2024 Outlook: AI's Expanding Influence Shapes the Market

As we head into the second half of 2024, the AI-driven rally shows no signs of abating. The demand for these technologies remains robust, fuelled by consumers and enterprises hungry for innovation and efficiency. However, a shift in market dynamics is anticipated.

Beyond the Magnificence: AI Diffusion Across Sectors

The initial surge experienced by AI-focused stocks, particularly within the "Magnificent Seven," will likely give way to a broader market embrace of AI. Companies across various industries are waking up to AI's potential and actively integrating it into their operations. This newfound focus should translate into earnings upgrades for a wider range of companies, leading to a more balanced market performance.

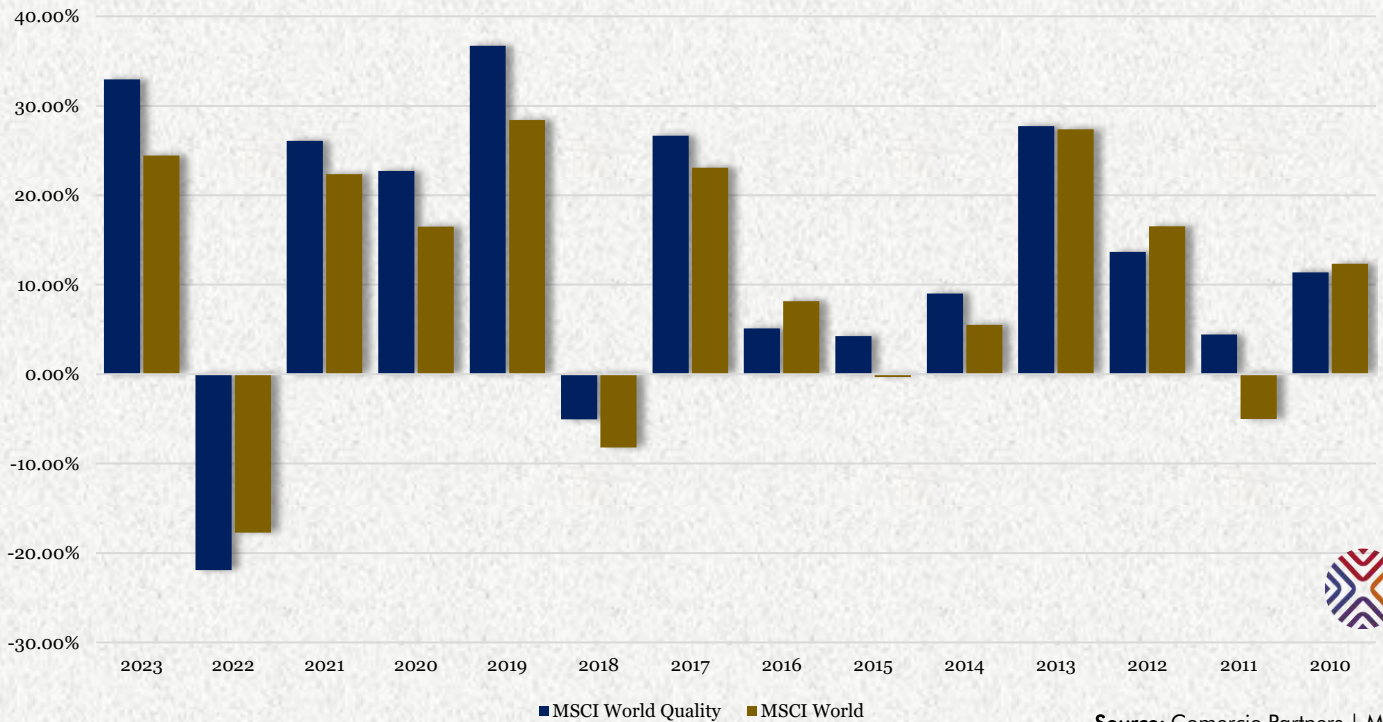
The current valuation disparity, with the top ten AI stocks trading at a premium compared to the broader market, suggests this adjustment is already underway.

As AI becomes ubiquitous, the earnings gap between AI leaders and other sectors is expected to narrow. Healthcare, finance, and manufacturing are prime examples of industries poised to benefit from AI-driven advancements in efficiency and innovation. This sectoral shift will contribute to a more diversified and resilient equity market landscape. Also, we expect market participants to position themselves in small-cap stocks awaiting the upside from price gain when the Fed begins to cut rates. This will support our case for reduced divergence in the second half of the year.

Quality in Focus, But Opportunities Remain

Undoubtedly, AI will be a major force, but we believe quality stocks with strong fundamentals (high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage) will continue to be front runners in the second half. These companies have already outperformed significantly and now trade at a premium even globally. The MSCI World Quality index serves as a case in point, returning 32% in the past year compared to the broader market's 25%.

Cumulative Index Annual Performance



With global growth slowing and equity markets near all-time highs, significant upside potential at the index level may be limited. However, compelling opportunities still exist for discerning investors who look beyond the surface.

Navigating the Landscape: Fundamentals and Selective Optimism

The anticipated Fed rate cut later this year is not expected to negatively impact the financial sector, which is projected to extend its year-to-date gains of about 9% (using S&P 500 Financials as a benchmark). However, for the broader market, robust earnings growth may not necessarily translate to soaring share prices – a characteristic of a mid-to-late cycle environment.

Ultimately, the market's performance will hinge on evolving expectations around economic growth, inflation, and interest rate policies. While global growth is expected to decelerate moderately, inflation normalization and potential rate cuts could provide a supportive backdrop for equities.

The US equity market's outlook remains optimistic, driven by the continued enthusiasm for AI and its expanding influence across industries. The "Magnificent Seven" will undoubtedly maintain their pivotal role, but a more balanced and comprehensive market performance is expected as AI benefits reach a wider range of companies. Investors are encouraged to remain vigilant and focus on companies with robust fundamentals and a strategic approach to AI adoption to navigate this evolving landscape effectively.



An aerial, top-down view of the African continent, split vertically down the middle. The top half of the continent is depicted as arid and yellow, with sparse vegetation and winding, dry-looking rivers. The bottom half is lush and green, with dense forests, mountains, and a network of blue rivers. The surrounding oceans are a deep blue, with some whitecaps visible. The text is overlaid on the central part of the image, spanning across the boundary between the two halves.

**A Tale of Two Halves: SSA
Eurobonds in 2024 and
Nigeria's Tightrope Walk**

Introduction

The story of SSA Eurobonds in 2024 so far has been one of contrasting fortunes. The first half started with a rollercoaster ride, with many issuers seeing their bonds tumble in value. Yet, amidst the turbulence, several countries like Côte d'Ivoire and Kenya defied the odds with successful issuances. This comeback, even for high-risk borrowers, was fuelled by a surge of investment from multilateral lenders, restoring some confidence in the market. Additionally, early whispers of a U.S. rate cut further buoyed investor sentiment.

However, this honeymoon period was cut short. The U.S. economy's unexpected strength sent shockwaves through the market, forcing the Federal Reserve to slam the brakes on those rates cut expectations. This reversal sent SSA Eurobonds spiralling downwards once again.

Looking ahead, the outlook for SSA Eurobonds in the second half hinges on a complex interplay of global forces – the health of the world economy, domestic policies within SSA countries, geopolitical tremors, and ultimately, how investors perceive the creditworthiness of each nation. But at the heart of it all lies the fundamental economic strength of these countries – their ability to generate foreign reserves, enact sound economic policies, and keep a tight grip on their debt burden. Countries that can navigate these challenges will be best positioned to weather the storm and potentially even attract new investment.

Global Rebound, Local Spotlight: Key Drivers in H2

The global economic picture for H2 paints a cautiously optimistic view. Major players like the US, EU, and China are showing signs of bouncing back from recent slowdowns. This is positive news for SSA Eurobonds, but the real game changer will be on a more local level.

Central banks in developed economies will likely tread carefully, aiming to tame inflation without suffocating growth. While the US Fed's moves will still influence SSA Eurobonds, their impact is expected to be muted. The one anticipated rate cut this year seems to be already priced in by the market. Instead, unexpected shifts in sentiment based on future events and data will likely cause short-term volatility but won't dictate the overall direction.

The spotlight will instead shift towards individual issuers. Ghana's ongoing Eurobond restructuring will serve as a stress test for others, prompting investors to scrutinize each country's ability to:

- **Build war chests:** Can they generate enough foreign reserves to weather future storms?
- **Tame the debt dragon:** Are they effectively managing current debt levels and avoiding a crisis?
- **Chart a course to prosperity:** Are they enacting sound economic policies to spur growth?

These issuer-specific factors, along with a country's overall fiscal health, will be the dominant forces shaping SSA Eurobond performance in the coming months. Countries that excel in these areas will be best positioned to attract investors and navigate the global economic climate.





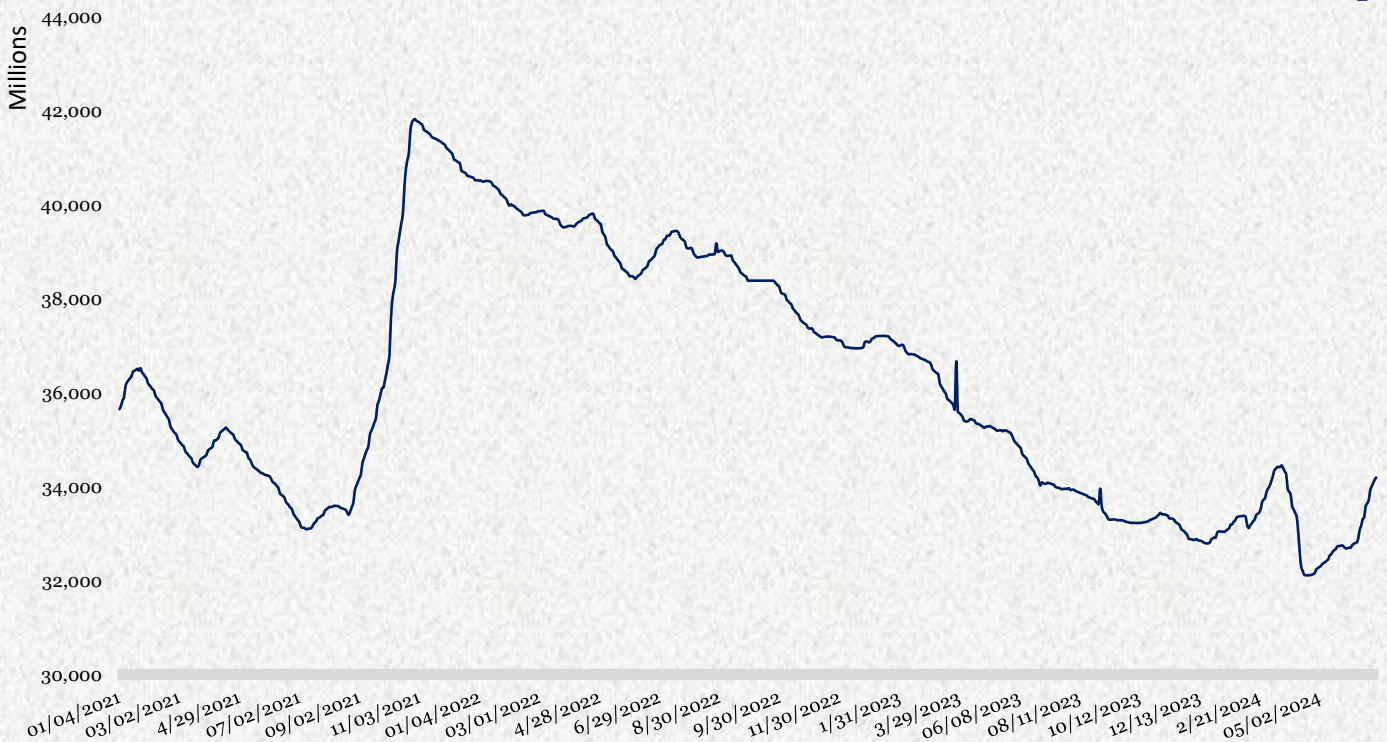
Nigeria: Eurobond Tightrope Walk

Overview

Nigeria's Eurobond story so far in 2024 has been one of mixed signals. While the average yield climbed over 50 basis points, indicating investor caution, the 2025 bond defied the trend with price appreciation. This lone bright spot could be due to its approaching maturity, a natural tendency for bonds to return to face value. However, the bigger picture remains a cause for concern. The lingering effects of the U.S. Fed's delayed rate cut, and Nigeria's sizable debt burden continue to weigh on investor sentiment.

Looking ahead, Nigeria's Eurobond performance in H2 will be a delicate balancing act. Recent reforms offer a glimmer of hope. The Central Bank's efforts to unify exchange rates and boost official FX market activity could be a game changer. A more transparent FX system has the potential to lure back investors hesitant about the naira's stability and foreign reserve management. Early signs are promising – Nigeria's foreign reserves have held steady this year, as opposed to the declines seen in the last three years. Additionally, a cautious uptick in foreign portfolio inflows suggests investors are taking note of these improvements.

Nigeria's Foreign Reserve



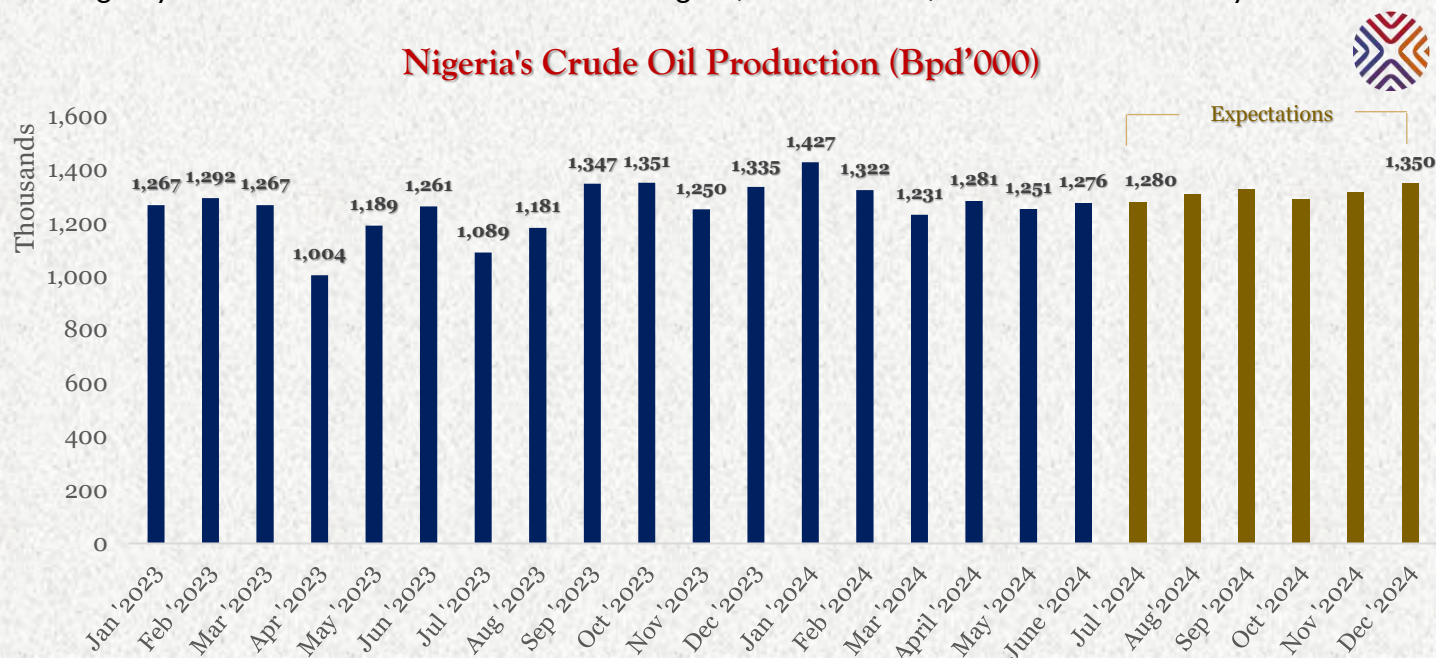
Source: Comercio Partners | Central Bank of Nigeria (CBN)



However, whether this translates to sustained demand for Nigerian Eurobonds remains to be seen. The key will be for Nigeria to maintain its reform momentum and demonstrate a clear path towards addressing its debt challenges. Can Nigeria successfully navigate this tightrope and emerge as an attractive Eurobond destination in H2? Only time will tell.

Nigeria: A Mixed Bag of Opportunities and Uncertainties

Recent reforms have garnered attention from credit rating agencies like Moody's and Fitch, prompting them to review Nigeria's outlook from stable to positive. This positive nudge could attract investors looking beyond the recent defaults in the SSA region, like Ghana's, but with a cautious eye.



Source: Comercio Partners | Nigerian Upstream Petroleum Regulatory Commission (NUPRC)

The oil sector presents a mixed picture. While stable production is expected in the 1.2-1.4 million bpd range for H2, significant output increases touted by the NNPC are unlikely to materialize in the short term.

However, the completion of the Dangote refinery offers a brighter spot. Refining its oil will improve investor confidence by reducing reliance on imported fuel and potentially boosting government revenue. This can ease pressure on foreign exchange reserves, a positive for investors seeking a financially stable issuer.

Further signs of progress include projected improvements in non-oil revenue and a narrowing budget deficit. These indicate a movement towards fiscal consolidation, another factor attracting investors.

However, the sustainability of these positive developments is a key question mark. Long-term commitment to reforms will be critical. Any backtracking, like a return to unconventional monetary policies, will raise red flags and dampen investor enthusiasm.

Another major concern is the opaque nature of Nigeria's external reserves. The CBN's reporting of only gross figures hides obligations tied to the reserves, leaving the true level of liquidity shrouded in mystery. This lack of transparency is a major turn-off for investors and could negatively impact Eurobond's performance.

Finally, Nigeria's high debt burden cannot be ignored. Rising domestic borrowing costs and a large existing debt stock limit the government's financial flexibility and crowd out private sector investment. This not only hinders overall economic growth but could also potentially scare off investors if they perceive a heightened risk of default. The government's ability to manage its fiscal deficit will be under close scrutiny. Efforts to diversify the economy, reduce reliance on oil revenues, and enhance tax collection will be vital.



The Delicate Dance with Investors

Nigeria's Eurobond performance in H2 will depend on a delicate balancing act. The government's commitment to reforms, its ability to manage inflation and forex, and transparency surrounding finances will be crucial factors. Overall trends in emerging market debt will also play a role, impacting investors' appetite and demand for Nigerian bonds.

While challenges remain, opportunities exist for Nigeria to leverage its Eurobonds if it implements sound economic policies and addresses security and political stability concerns. Investors will be closely monitoring Nigeria's economic indicators, policy decisions, and geopolitical developments to gauge the future trajectory of its Eurobond market. There's reason for cautious optimism, but the path forward for Nigerian Eurobonds remains a tightrope walk.

A Shrinking Risk Premium: Luring More SSA Issuers Back?

Our analysis suggests a potential silver lining for the SSA Eurobond market – a shrinking region-specific risk premium. To gauge this change, we looked at Senegal, the latest issuer, as a reference point.

Senegal's June 2024 Eurodollar issuance is a study case. They issued \$750 million in debt maturing in 2031 at a coupon rate of 7.75%. At that time, the Fed fund rate was at 5.25-5.5% and the 7-year Treasury Yield was 4.401%. Interestingly, Moody's and S&P credit ratings for Senegal remained stable (Ba3 and B+ respectively) compared to their 2018 issuance.

The last time Senegal issued a Eurodollar bond was in 2018 when it raised a 2.2 billion worth of Eurobond with only a \$1 billion 30-year tranche denominated in US dollars (the other was a 1-billion-euro issue equivalent to \$1.2 billion at the time). The Eurodollar bond was issued at a coupon of 6.75% when the Fed fund rate was at 1.50-1.75% level, 2 weeks before the policy rate was hiked by another 25 basis points. However, the 30-year Treasury Yield was 2.817% at the time of issuance. At the time of the Issue, Moody put the country's credit rating at Baa3 (stable) while S&P placed the country at B+ (stable).

Here's the key takeaway: Despite similar creditworthiness, Senegal's 2024 issuance came with a higher coupon rate than its 2018 issuance. This difference, when adjusted for changes in the country's default risk premium, suggests a decrease in the overall SSA region risk premium of around 3.58 points

This trend of a shrinking risk premium could be the reason why more SSA countries are feeling confident enough to return to the Eurobond market. We may very well see additional issuers emerge before year-end, with Nigeria and others potentially benefiting from this reduced premium.

Nigeria to test the depth of the Eurobond market with one foot amid market uncertainties.

Trends in the Eurobond Market

Federal Government of Nigeria Eurobonds (Benchmark)					
Rating/Agency	Description	Issue Date	Coupon (%)	Outstanding Value (\$'mm)	Maturity Date
B2/Moody's; B/S&P; B+/Fitch	7.625 21-NOV-2025	21 November 2018	7.625	1,118.35	21 November 2025
B2/Moody's; B/S&P; B+/Fitch	6.50 NOV 28, 2027	28 November 2017	6.5	1,500.00	28 November 2027
B2/Moody's; B/S&P; B-/Fitch	8.375 MAR 24, 2029	24 March 2022	8.375	1,250.00	24 March 2029
B2/Moody's; B/S&P; B+/Fitch	8.747 JAN 21, 2031	21 November 2018	8.747	1,000.00	21 January 2031
B1/Moody's; B/S&P; B+/Fitch	7.875 16-FEB-2032	16 February 2017	7.875	1,500.00	16 February 2032
B2/Moody's; B/S&P; B+/Fitch	7.625 NOV 28, 2047	28 November 2017	7.625	1,500.00	28 November 2047
B2/Moody's; B/S&P; B+/Fitch	9.248 JAN 21, 2049	21 November 2018	9.248	750.00	21 January 2049

Source: Comercio Partners | FMDQ

A quick look at the table above shows that Nigeria last patronized the Eurobond market in 2022 – over two years of halt – despite running on a deficit budget through the fiscal periods. The government has rather resorted to financing budget deficits with more reliance on the domestic debt market, an assent to the harsh realities of the external debt market in a period of rising interest rates or higher-for-longer rates. The Nigerian government has not just suffered the high premium it pays on its foreign debt issuances but has also seen its debt burden increase because of depreciation in local currency.

The trend playing out following the hawkish stance of the FOMC has reduced activity in the Eurobond market for SSAs. From 2022 onwards, the number of countries issuing Eurobonds has significantly decreased due to the unfavourable conditions in the international debt market. Only a few countries have been able to access the Eurobond market. In 2023, for example, only three African countries (Egypt, Morocco, and Gabon) issued Eurobonds, compared to higher numbers in previous years. The total issuance in 2023 amounted to \$5 billion (Egypt \$2bn, Morocco \$2.5bn, and Gabon \$500m), down from \$6.5 billion in 2022 and \$19.7 billion in 2021.

We expect Nigeria to access the Eurobond market in the later end of Q4 2024 or Q1 2025

Likely Terms of Issuance: Nigeria’s Eurobond Reappearance

The terms of Nigeria’s issuance will be closely watched as a benchmark for other SSA issuers, influencing investor sentiment and the region’s access to international financing. The likely terms of issuance, uncertain as of now can be projected against a backdrop of significant economic reforms and improving fiscal stability, which aim to restore investor confidence and secure more favourable borrowing terms.

Interest Rates and Yields: Given the current high-interest rate environment, Nigeria’s Eurobond is likely to be issued with relatively high interest rates to attract investors. However, if the Federal Reserve begins to cut rates as expected later in 2024, this could lead to more favourable borrowing terms.

The recent defaults by Ethiopia and Ghana have heightened investor scepticism regarding the debt sustainability of Sub-Saharan African (SSA) countries, including Nigeria. This negative sentiment is likely to result in higher risk premiums demanded by investors, thereby increasing the yields on Nigeria's future Eurobond issuances. Compounding this, Nigeria's growing debt-to-GDP ratio and poor debt-to-revenue ratio further exacerbate concerns about its fiscal health and repayment capabilities. As a result, Nigeria may face more stringent borrowing terms, including higher coupon rates and shorter maturities, reflecting the increased perceived risk. The Nigerian government must address these fiscal challenges through robust economic reforms and improved revenue generation to reassure investors and secure more favourable borrowing conditions.

Federal Government of Nigeria Eurobonds							
Description	Issue Date	Coupon (%)	Outstanding Value (\$'mm)	Maturity Date	Tenor	Yield on U.S. Treasury(%)	Credit Spread (%)
7.625 21-NOV-2025	21/11/2018	7.625	1,118.35	21/11/2025	1	2.98	4.645
6.50 NOV 28, 2027	28/11/2017	6.5	1,500.00	28/11/2027	3	2.328	4.172
8.375 MAR 24, 2029	24/03/2022	8.375	1,250.00	24/03/2029	5	2.429	5.946
7.625 NOV 28, 2047	28/11/2017	7.625	1,500.00	28/11/2047	23	2.759	4.866
9.248 JAN 21, 2049	21/11/2018	9.248	750.00	21/01/2049	25	3.317	5.931

Source: Comercio Partners | FMDQ | WSJ

Historical data indicates that the credit risk premium on Nigerian Eurobond coupon rates have predominantly ranged between 4% and 6%. Since 2017, credit spreads have consistently exceeded 400 basis points, and have generally been increasing, with the most recent spread reaching about 600 basis points above U.S. Treasury rates.





Credit Risk Premium on Nigeria's Eurobond (%)



Source: Comercio Partners

Given the current yield on 10-year U.S. Treasury Note hovering around 4.3% as of the time of writing, and projecting a credit spread between 600 and 800 basis points, we anticipate that Nigeria's new Eurobond issuances could feature coupon rates ranging from 10% to 13%. We believe the potential high coupon Nigeria will have to offer on its Eurobond will hold the country back from issuing beyond a 10-year maturity period. Also, the delay in issuance is believed to be because of the potential high yield, we expect the country to offer its new issue to investors in Q4 or Q1 2025 when the yield on the US Treasury Notes must have fallen. Nevertheless, Nigeria's economic stability, influenced by factors such as inflation and oil prices, will remain crucial in determining the final borrowing terms.

We anticipate that new Eurobond issuances could feature coupon rates ranging from 9% to 11%.

Maturity Period: It may be in Nigeria's favour to opt for a longer maturity period to spread out repayment obligations and manage debt servicing costs more effectively. This would align with the practices seen in recent SSA Eurobond issuances, which often feature maturities extending beyond a decade. However, given the elevated risks associated with Nigeria's economic outlook, including rising debt levels and fiscal vulnerabilities, investors might be reluctant to commit to long-term maturities. Instead, they may prefer shorter maturity dates to hedge against potential defaults and economic instability. To compensate for these concerns and attract investors to long-dated bonds, Nigeria could offer higher coupon rates or additional guarantees, such as collateralization with valuable assets or enhancements through multilateral financial support, thereby mitigating perceived risks and incentivizing longer-term investment which we believe to be unlikely. Also, from a Nigeria point of view, the country wouldn't want to lock up borrowing costs of over 10% for longer on a currency it doesn't print.





Ghana Eurobonds: A Restructuring Springboard with Lingerin Risks

Overview

Ghana's Eurobond market presents a fascinating dichotomy in H2 2024. On one hand, substantial strides in debt restructuring offer a glimmer of hope. On the other, economic and financial challenges persist, demanding cautious optimism from investors. As we move into the second half of 2024, Ghana's Eurobond market presents a mixed outlook presenting a story of hope and caution.

Debt Restructuring: A Step Towards Sustainability

Ghana has made substantial strides in addressing its debt sustainability issues, marked by the agreement in principle (AIP) with bondholders on the terms for restructuring its Eurobond debt. This agreement, announced on June 24, 2024, covers \$13.1 billion of Eurobond debt, which constitutes approximately 21% of Ghana's total debt as of 2023. Under the terms of the AIP, bondholders would forego about \$4.7 billion, providing critical cash flow relief of \$4.4 billion during the IMF program period.

The AIP offers bondholders a choice between par bonds maturing in 2037 with a 1.5% interest rate and no haircut, and discount bonds maturing between 2029 and 2035 with a higher interest rate of 5% until mid-2028, then 6%, but with a 37% nominal haircut. This structure aims to balance the need for debt relief with maintaining investor confidence. The restructuring deal also includes non-financial terms such as a most-favoured creditor clause and an obligation for Ghana to publish certain public debt information semi-annually.

Credit Ratings: A Cautious Nod

Credit rating agencies have reacted to Ghana's debt restructuring efforts with cautious optimism. In June 2023, S&P affirmed its 'SD/SD' long- and short-term foreign currency ratings and 'CCC+/C' local currency ratings, citing the country's domestic debt exchange program and its impact on the government's refinancing profile. Similarly, Fitch upgraded Ghana's Long-Term Local-Currency Issuer Default Rating to 'CCC' in November 2023, following the completion of the domestic debt exchange program, while maintaining the foreign currency rating at 'RD'. Moody's, in its June 27, 2024, report, noted that the restructuring implies significant losses for bondholders but aligns with its Ca rating on Ghana's foreign-currency bonds.

The Economic Tightrope Walk

Ghana's economic recovery shows tentative signs of improvement. In Q1 2024, Ghana's Eurodollar bonds exhibited positive performance, buoyed by the government's commitment to fiscal sustainability and progress under the IMF's \$3 billion extended credit facility program. However, inflation remains a thorn in the side, exceeding the central bank's target and clocking in at 23.1% in June 2024.

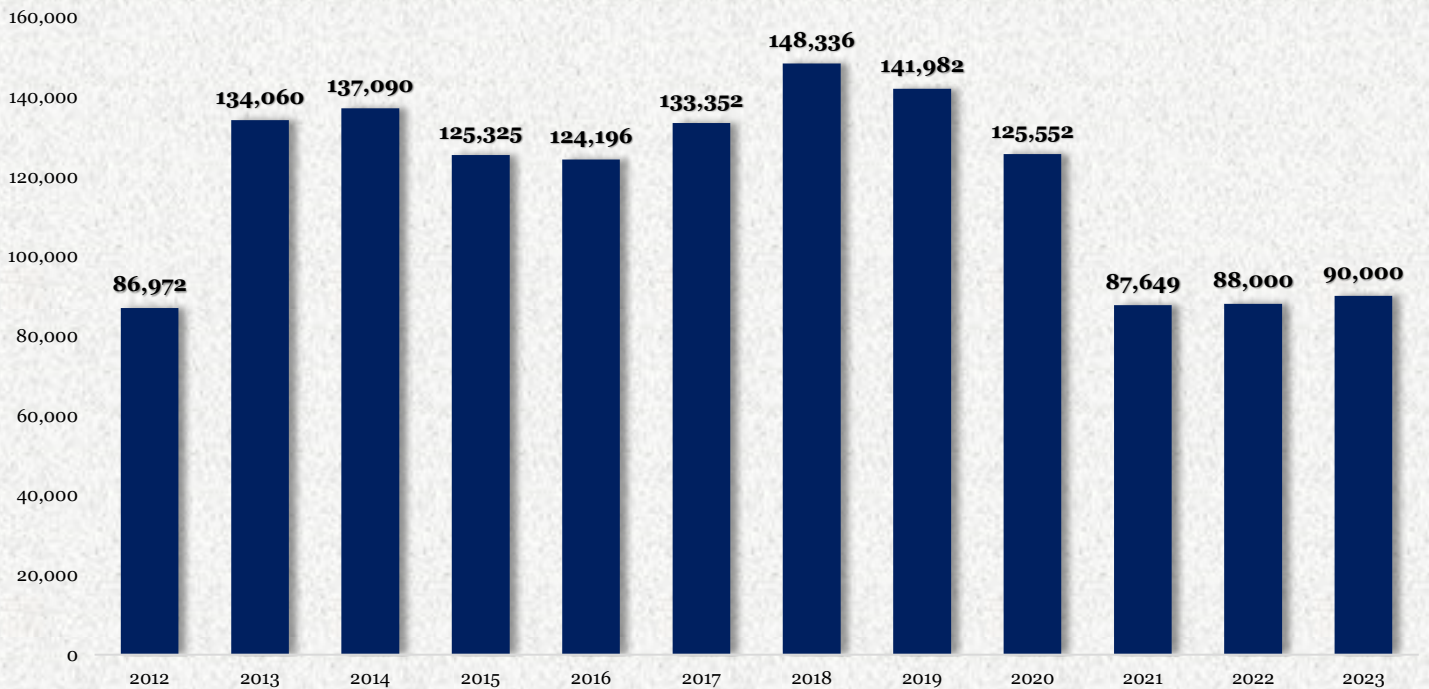
Additionally, the Ghanaian currency's depreciation continues to exert pressure on the economy. The Cedi had lost about 28% to the dollar this year, expanding the country's debt stock in Cedi terms. Limited foreign reserves and delays in finalizing the debt restructuring program contribute to currency instability, which poses a risk to investor sentiment and overall economic stability.

A Glimpse of Light in the Gold Sector

A beacon of hope emerges from Ghana's gold production. The country ascended to Africa's top gold producer in 2023, with production reaching 90,000 kg (according to CEIC Data) or 4 million ounces (based on recent reports). This growth is attributed to government efforts like tax breaks, support for small-scale miners, and an investor-friendly environment.



Ghana's Gold Production (KG)



Source: Comercio Partners | CEIC Data

We expect continued improvement in 2024 due to better collaboration between small and large-scale miners, potentially extended incentives, and rising gold prices which has been up 15% in 2024, which will boost foreign exchange earnings

Cocoa Blues

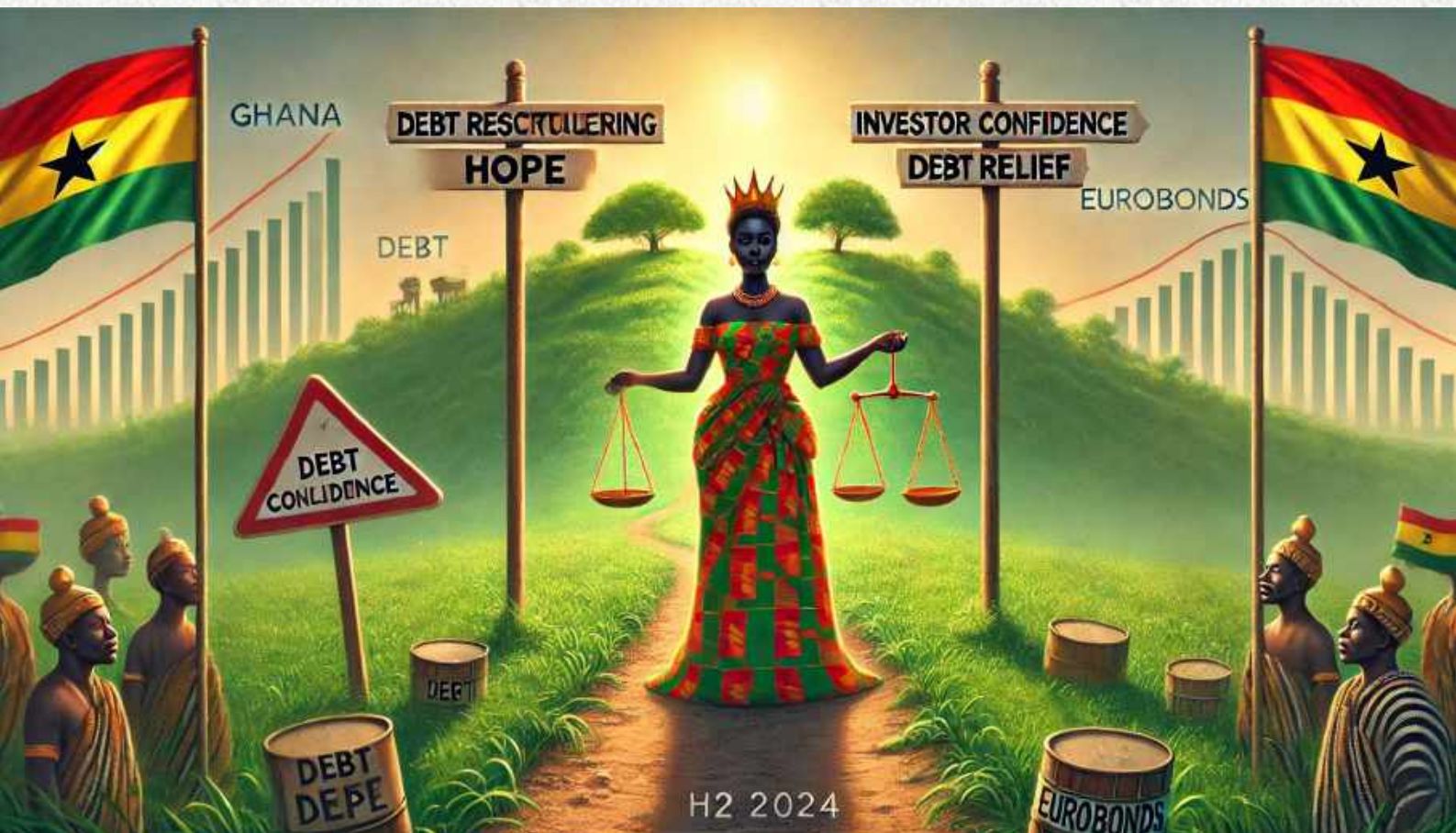
The cocoa sector, however, presents a contrasting picture. Declining output due to adverse weather, smuggling, and plant disease threatens to erode gains from surging cocoa prices. This limits Ghana's benefits from the commodity's price appreciation this year as Cocoa prices had increased by over 100%.

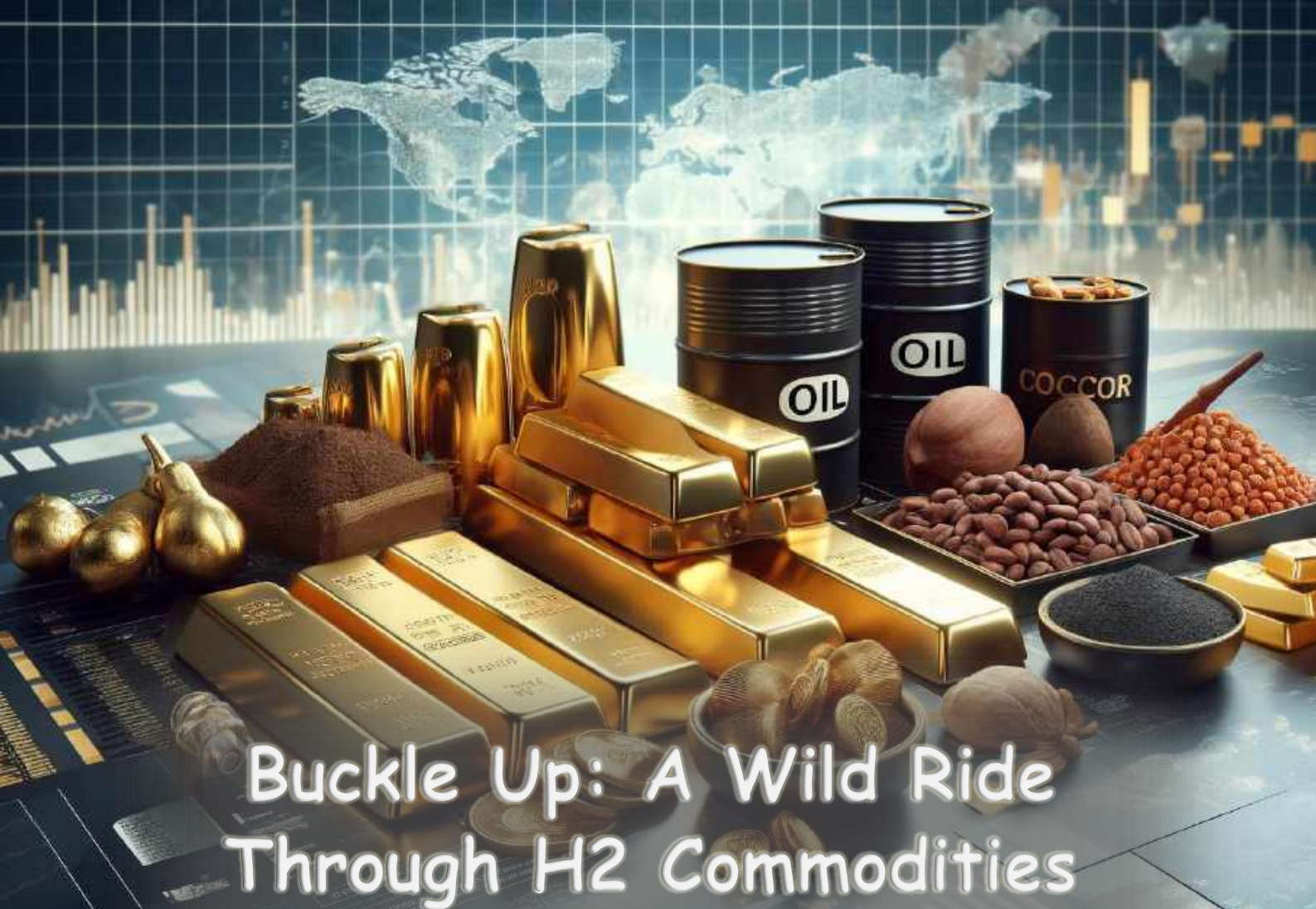


Investment Considerations: A Cautious Approach

The outlook for Ghana's Eurobonds in H2 remains cautiously optimistic, yet fraught with risks. The successful implementation of the debt restructuring agreement is paramount. Broad bondholder consent and continued adherence to IMF program criteria could bolster investor confidence, potentially leading to Eurobond price stabilization and recovery.

However, navigating high inflation, currency depreciation, and sector-specific challenges necessitates a prudent investment approach. Close monitoring of developments in debt restructuring, fiscal policy adjustments, and economic performance indicators is crucial.





Buckle Up: A Wild Ride Through H2 Commodities



Overview

The first half of 2024 has been a whirlwind for commodities. While the overall market trended positively, individual sectors experienced dramatic swings. The S&P GSCI and Bloomberg Commodity Index saw respectable gains of 7% and 4% year-to-date, but the true story lies beneath the surface. Geopolitical tensions, central bank policy shifts, and China's economic performance all played a hand in this market volatility. These same forces will continue to shape the landscape in the crucial second half of the year.

March emerged as the turning point, fueled by the Federal Open Market Committee's (FOMC) surprising dovish stance. Their dot plot hinted at a potential 75-basis point rate cut, sparking interpretations of three cuts throughout 2024. This, in turn, caused a muted appreciation of the US dollar index (DXY) – a mere 0.38%, its weakest gain this year. This contrasted with the earlier gains of 2.15% and 0.16% in January and February, respectively. Adding to the positive sentiment was China's Q4 GDP report, aligning with market expectations of 1% growth.



Gold: A New Dawn Breaks for the Yellow Metal

Introduction

Gold's story in the first half of 2024 has been a captivating narrative of unexpected twists and record-breaking rallies. After a subdued start, the yellow metal ignited in March gaining 9% in the month propelling the precious metal above its previous record of \$2,149 set in December 2023. This dramatic turnaround can be attributed to a confluence of factors beyond the Federal Reserve's dovish pivot and China's anticipated economic recovery.

Central Banks Become Kingmakers

Central banks have emerged as the most significant conductors in the gold market's recent orchestra. Traditionally, these institutions hold gold for its unparalleled liquidity, stability, and long-term returns, solidifying its role as a cornerstone of any diversified reserve portfolio. However, the recent buying spree by central banks, particularly those within the BRICS bloc, suggests a more strategic motive. Central bank gold demand remains healthy so far in 2024 as of April:



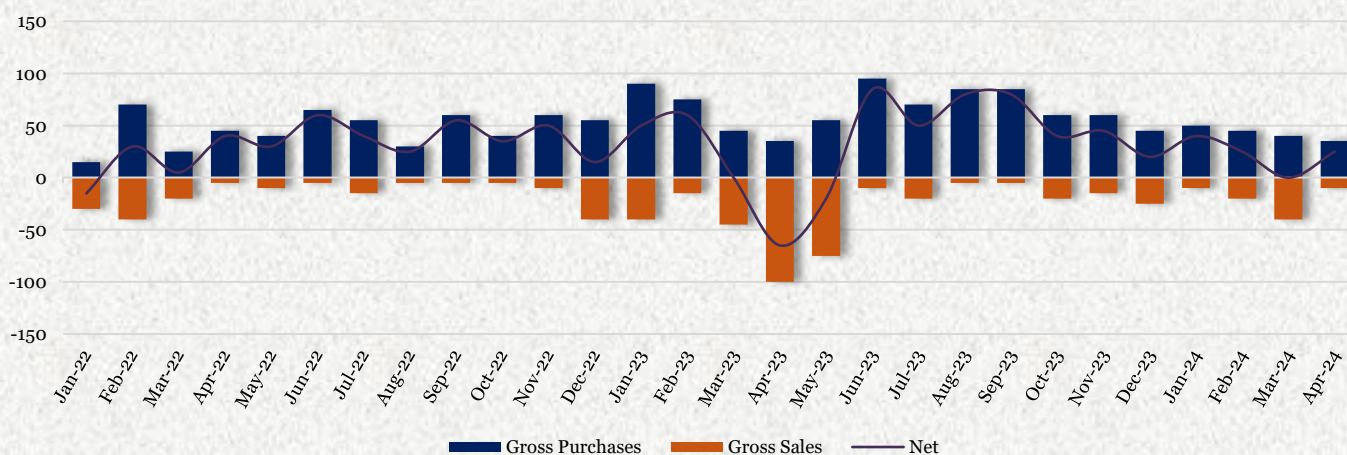


Top Movements in Gold Reserves



Source: World Gold Council. | Comercio Partners

Central Banks Net Gold Buyings (Tonnes)



Source: World Gold Council. | Comercio Partners

A Finite Resource: Supply Constraints on the Horizon

The narrative around gold's future is further bolstered by supply-side constraints. The World Gold Council (WGC) has reported that mine production peaked in 2018, with limited growth since. Furthermore, large-scale gold mining is a capital-intensive and time-consuming endeavour, with new mines taking up to 20 years to become operational. This limited and potentially shrinking supply chain, coupled with the ever-increasing demand from central banks and private investors, creates a compelling case for long-term gold price appreciation.

Gold: A Second Half Poised for Continued Ascent

While China's recent pause in gold accumulation has sparked short-term speculation, we believe this is a strategic intermission, not a curtain call. According to the PBOC, China held 72.80 million troy ounces of gold at the end of May remaining a constant from the end of April ending its 18 consecutive months of accumulation. The unprecedented price surge in May likely prompted the PBOC to take a breather, but the underlying drivers for gold remain firmly in place. We anticipate China's return to the market once prices experience a correction, aligning with the sentiments expressed by David Tait, CEO of the World Gold Council (WGC).



China isn't alone in its pursuit of gold diversification. Central banks across the globe are expected to continue accumulating the yellow metal as part of a broader strategy to reduce their dependence on the US dollar. This shift is fuelled by ongoing geopolitical tensions and the upcoming US elections' uncertainties. The Federal Reserve's revised stance of only one rate cut this year, coupled with the potential for a stronger dollar, might offer some temporary support to the greenback. However, the historical correlation between a strong dollar and weak gold prices seems to be decoupling in 2024. The sheer volume of demand from central banks and private investors has trumped the headwinds of a potentially appreciating dollar, pushing gold prices up by an impressive 11% year-to-date. We expect this trend to persist as a stronger dollar is likely to have a muted impact on gold's price trajectory.

Adding further fuel to the fire is the looming spectre of a limited gold supply. The World Gold Council (WGC) has highlighted the increasing difficulty in locating high-grade gold deposits. Mine production appears to have peaked in 2018, with minimal growth since. The capital-intensive nature of large-scale gold mining, with new mines taking up to two decades to become operational, paints a picture of a potentially shrinking supply chain. While this factor might not significantly impact the market in the immediate term, it bodes well for gold prices in the long run.

In conclusion, our forecast for the second half of 2024 remains bullish on gold. We anticipate prices to remain elevated, ranging between \$2,230 and \$2,450. The confluence of central bank buying, geopolitical tensions, and a potentially constrained supply chain suggests that the "yellow king" will continue to reign supreme.

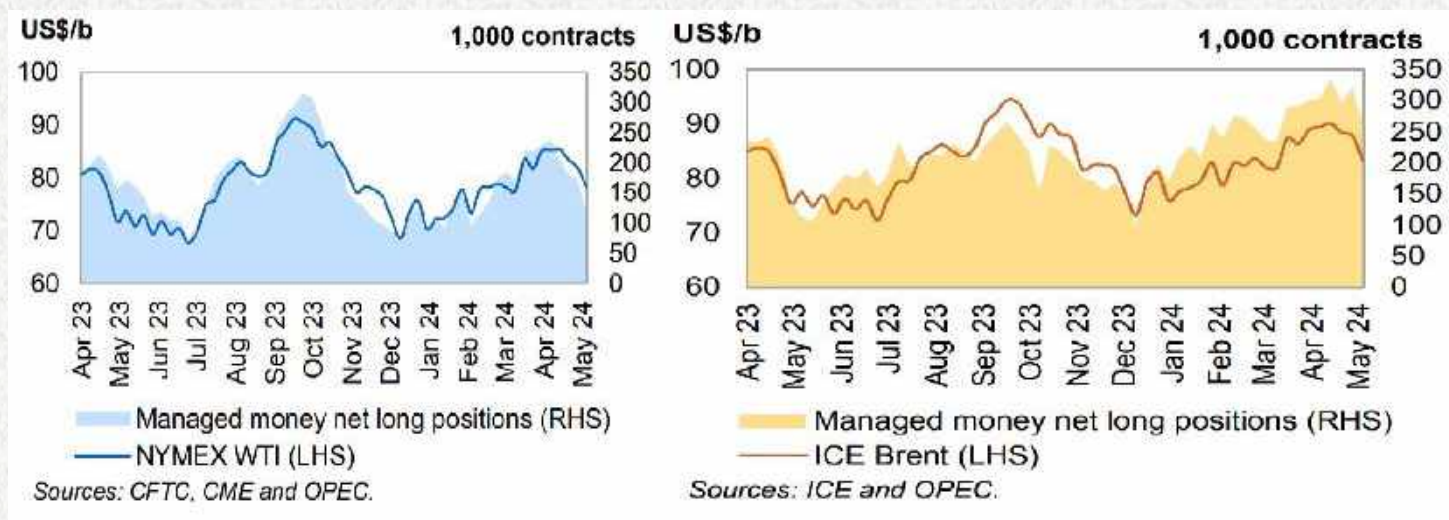


Oil's First Half of 2024: A Tale of Two Markets

Overview

The first half of 2024 was a period of dramatic swings in the global oil market. The year opened with a sense of unease as the war in Ukraine raged on, threatening to disrupt crucial crude supplies from Eastern Europe. This tension was compounded by another conflict in the Middle East, further fuelling fears of a supply squeeze. These anxieties sent oil prices skyrocketing, with Brent crude reaching a scorching \$92 a barrel by April.

This price surge was further amplified by strategic manoeuvres from OPEC+. The oil producer group, acting as a market stabilizer, implemented production cuts to tighten the global crude spigot. This decision, coupled with the ongoing geopolitical turmoil, created a perfect storm that pushed oil prices to around \$92 in mid-April.



Several factors contributed to this price plunge. Investors, having enjoyed the initial surge, cashed in their profits, a phenomenon known as "profit taking." The graph above shows money managers being bullish earlier this year before turning bearish in Mid-April. Furthermore, a slowdown in refining activity in both the US and Russia, impacted by the war in Ukraine, further dampened the demand outlook. Additionally, news of potential ceasefires in the Middle East eased some supply disruption fears, contributing to the price decline. Also, continuous appreciation in the dollar value due to the Federal Reserve's hawkish stance also weighed on oil prices.

Navigating the Second Half: What Lies Ahead for Oil?

The first half of 2024 presented a dynamic and volatile landscape for the global oil market, influenced by fluctuating demand, variations in supply from both OPEC+ and non-OPEC+ countries, geopolitical tensions, and economic headwinds.



As we head into the latter half of 2024, the oil market remains an intricate puzzle with several key pieces still falling into place. Here's a closer look at what we can expect:



Demand: Oil demand growth is projected to pick up slightly, driven primarily by non-OECD countries like China and India, according to OPEC. However, the rise of electric vehicles and increasing focus on energy efficiency efforts are likely to keep a lid on this growth. The International Energy Agency (IEA) has revised its 2024 growth projections downward to 960,000 barrels per day (kb/d), reflecting weaker-than-expected deliveries in developed economies.

Supply: On the supply side, global production is expected to continue its upward trajectory. OPEC+, while maintaining its commitment to market stability, is planning a gradual easing of production cuts starting in the fourth quarter of 2024. This strategic move aims to balance supply and demand, avoiding a scenario of oversupply that could further depress prices. Non-OPEC+ producers, particularly the US, are also expected to contribute to the supply increase.

Here's where things get interesting: we expect oil (Brent) prices to hover between \$85 and \$91 per barrel. This sweet spot reflects the interplay of supply and demand. If prices dip below \$85 and linger there for a while, we anticipate OPEC to re-evaluate its strategy on unwinding production cuts. They might even consider reducing output to nudge prices back up.



Geopolitical Wild Card: The ever-present threat of conflict in the Middle East remains a significant wild card. Renewed tensions or disruptions to supply routes could cause price spikes.

For investors navigating this complex market, a balanced approach is crucial. The long-term outlook for oil demand remains uncertain with the ongoing energy transition towards cleaner technologies. Diversifying portfolios to include both traditional and renewable energy assets can help mitigate risks associated with market fluctuations. As the world charts its course towards a more sustainable energy future, the oil market, though less volatile in the short term, is likely to remain a fascinating and ever-evolving landscape.



Walking the Tightrope: A Price Forecast for Oil

The future of oil prices resembles a tightrope walk – some volatility is inevitable, but the overall range is expected to remain relatively stable. This stability hinges on a delicate balancing act between two forces: increasing supply and modest demand growth. Any major geopolitical disruptions, however, could send prices teetering precariously.

In this scenario, the International Energy Agency (IEA) acts as a safety net. Their substantial emergency reserves offer a buffer against unexpected supply shocks, helping to stabilize the market and prevent dramatic price swings.

We believe that if oil prices remain consistently above \$91, OPEC may need to reassess its production strategy. At such high price levels, OPEC risks losing market share as non-OPEC countries might offer oil at lower prices, thereby increasing their market influence. Additionally, higher prices could make alternative energy sources more appealing. This potential loss of market share incentivizes OPEC to act and bring prices back down to a more sustainable level. We also expect improved oil demand during the summertime to create support for oil prices and continue to contribute to oil price resurgence from the 4-month-low it got to in early June.

Generally, we believe both high and low prices will likely trigger adjustments from OPEC, ultimately steering oil prices back towards the projected \$85-\$91 range. This creates a market with some inherent self-correction mechanisms, although external factors like geopolitical tensions could still throw a wrench into the works.





A Bittersweet Brew: The Cocoa Market's First Half and a Turbulent Future

Introduction

The first half of 2024 has been a tumultuous period for the cocoa market. Prices have skyrocketed to record highs, leaving a bitter taste in the mouths of both producers and consumers. This surge is not merely a passing fancy; it's a culmination of several factors brewing a perfect storm of supply constraints and market volatility.

Cocoa prices have been on an upward trajectory since the beginning of 2024, reaching record highs due to a combination of adverse weather conditions, supply chain issues, and market speculation. As of June 14, cocoa was trading above \$10,000 per metric ton, having more than doubled since the start of the year.

In April, prices peaked at an all-time high of \$12,216 per ton on the Intercontinental Exchange (ICE) before experiencing a significant correction. However, the fundamental issues impacting supply have kept prices elevated, with projections suggesting further increases as the year progresses.

Perfect Storm at Origin: Weather Woes and Logistical Logjams

The epicentre of this cocoa crisis lies in West Africa, the heart of global production. Here, the harsh realities of climate change have unfolded. Extreme weather events – relentless rains, scorching droughts, and heatwaves – have ravaged cocoa crops in Ghana and Ivory Coast, the powerhouses that account for 60% of global cocoa. This environmental onslaught has been further exacerbated by the El Niño phenomenon, leading to the rampant spread of crop diseases like black pod rot.

Adding fuel to the fire are logistical bottlenecks. Ghana, grappling with poor crop yields, has postponed the delivery of a staggering 350,000 tons of cocoa beans. Similarly, Ivory Coast has slammed the brakes on cocoa exports for June and halted forward sales for the next season, further squeezing an already strained supply chain. Ivory Coast's move was aimed at satisfying local demands.

The Speculative Maelstrom and the Farmer's Dilemma

The cocoa market is not immune to the whispers and anxieties of speculators. Anticipating continued shortages, traders have piled in, driving prices even higher in a self-fulfilling prophecy. This speculative frenzy further complicates the situation. Another price driver was speculation in the futures market.

Meanwhile, farmers face a heart-wrenching dilemma. The economic pressures they endure have fuelled an increase in cocoa bean smuggling to neighbouring countries with more lucrative prices. This illegal trade, while offering short-term financial gain, further depletes legitimate supplies and contributes to market instability.



Structural Weaknesses: A Recipe for Long-Term Trouble

The current crisis exposes deeper structural weaknesses within the cocoa industry. Years of underinvestment in cocoa farms, particularly in Nigeria, have resulted in declining yields and a chronic inability to meet global demand. Many smallholder farmers lack the resources to adequately cultivate their land, leading to a vicious cycle of low productivity.

The sharp rise in cocoa prices has already begun to translate into higher costs for chocolate and other cocoa-based products. This trend is expected to continue, potentially impacting consumer demand. Major confectionery companies will likely re-evaluate their pricing strategies in response to changing market conditions.

The Cocoa Conundrum: A Second Half of Uncertainty

As we peer into the second half of 2024, the cocoa market remains shrouded in uncertainty. The key actors who will shape its trajectory include:

The Fickle Hand of Nature: The unpredictable nature of weather patterns is a major concern. Continued adverse conditions could inflict further damage on crops and exacerbate supply constraints. The potential for another El Niño event hangs heavy, threatening even more extreme weather and agricultural devastation. The International Cocoa Organization (ICCO) expects these challenges to push the global deficit to even wider margins according to their revised forecast. The organization expects the Global deficit to increase from their early forecast of 374,000 tons to 439,000 tons.

Summary of Revised Estimates					
Cocoa Year (Oct-Sep)	2022/2023	2023/2024		Year-on-Year Change	
	Revised estimates	Previous estimates	Revised estimates		
	(thousand tonnes)			(Percent)	
World gross production	5,047	4,449	4,461	-586	-11.70%
World grindings	5,073	4,779	4,855	-218	-4.30%
Surplus/Deficit	-76	-374	-439		
End-of-season stocks	1,767	1,395	1,328	-439	-24.80%
Stocks/Grindings ratio	34.80%	29.20%	27.40%		

Source: ICCO | Comercio Partners

Policy Decisions and Trade Dynamics: The export bans and forward sales decisions of major cocoa-producing countries will significantly impact market stability. If Ivory Coast extends its export ban beyond June, and Ghana continues to roll forward large quantities of beans, the market could face sustained supply shortages.

Market Adaptations: Chocolate manufacturers and processors will be forced to adapt to this high-price environment. Exploring alternative sources of supply or investing in technologies that boost productivity are some potential strategies. However, ramping up production in new regions like Brazil and Ecuador will take time and offer no immediate relief.

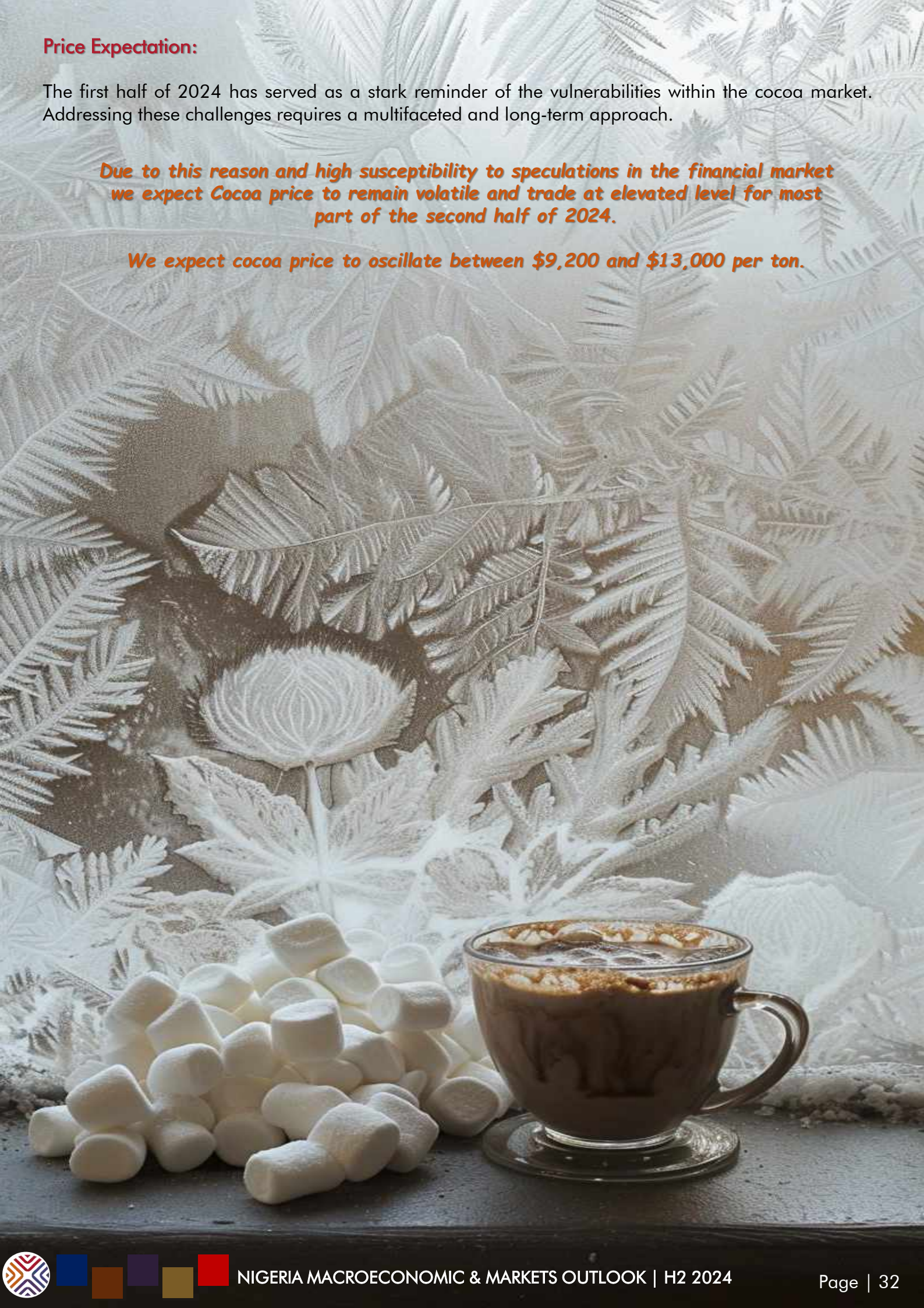


Price Expectation:

The first half of 2024 has served as a stark reminder of the vulnerabilities within the cocoa market. Addressing these challenges requires a multifaceted and long-term approach.

Due to this reason and high susceptibility to speculations in the financial market we expect Cocoa price to remain volatile and trade at elevated level for most part of the second half of 2024.

We expect cocoa price to oscillate between \$9,200 and \$13,000 per ton.



An aerial, high-angle view of a modern city skyline. Several tall, glass-clad skyscrapers are the central focus, with a prominent one in the middle ground. The buildings are surrounded by a mix of greenery, including trees and landscaped areas with blue water features. In the foreground, there are lower-rise buildings with a modern, geometric design. The background shows a vast cityscape extending to a coastline with a bright blue sea under a dramatic, cloudy sky. The overall scene conveys a sense of urban development and progress.

Domestic Outlook - Fuel Cuts and FX Flux: Nigeria's Bold Economic Moves



Fiscal Policy Outlook

Overview

The dawn of 2024 brought a wave of sweeping reforms that have reshaped Nigeria's economic landscape, significantly impacting its citizens and businesses. As these reforms took hold, global economic forces further complicated the picture, amplifying the country's existing inflation challenges. Central to these changes were the removal of fuel subsidies and the unification of exchange rates, both of which have had profound effects on the economy.

The government's twin reforms of fuel subsidy removal and exchange rate unification triggered a sharp depreciation of the naira. This depreciation, in turn, intensified inflationary pressures and led to a more restrictive interest rate environment, both of which have weighed heavily on economic growth. Additionally, the removal of the exchange rate peg created problems of FX illiquidity and eroded investor confidence. However, recent Moody's ratings suggest that these issues have begun to improve.

The exchange rate unification reform, which caused a significant depreciation of the naira, compounded the inflationary effects of the fuel subsidy removal. This created a challenging environment for the Central Bank of Nigeria (CBN), as it struggled to stabilize prices.

As a result, headline inflation surged from 22.22% in April 2023 to a staggering 33.69% in April 2024.

By May 2024, inflation had climbed further to 33.95%, with food inflation reaching 40.66%—the highest level in nearly two decades. Despite the CBN's efforts to curb inflation through continuous rate hikes, raising rates to 26.25% in 2024, inflation remained stubbornly high, underscoring its supply-side dominance.

In Q1 2024, Nigeria's GDP grew modestly by 2.98%, driven primarily by significant gains in the financial services sector (31.24%) and the mining sector (6.30%). However, oil production in May 2024 averaged only 1.25 million barrels per day (mbpd), falling short of the budgeted 1.78 mbpd. This shortfall was largely due to pipeline vandalism and high production costs.

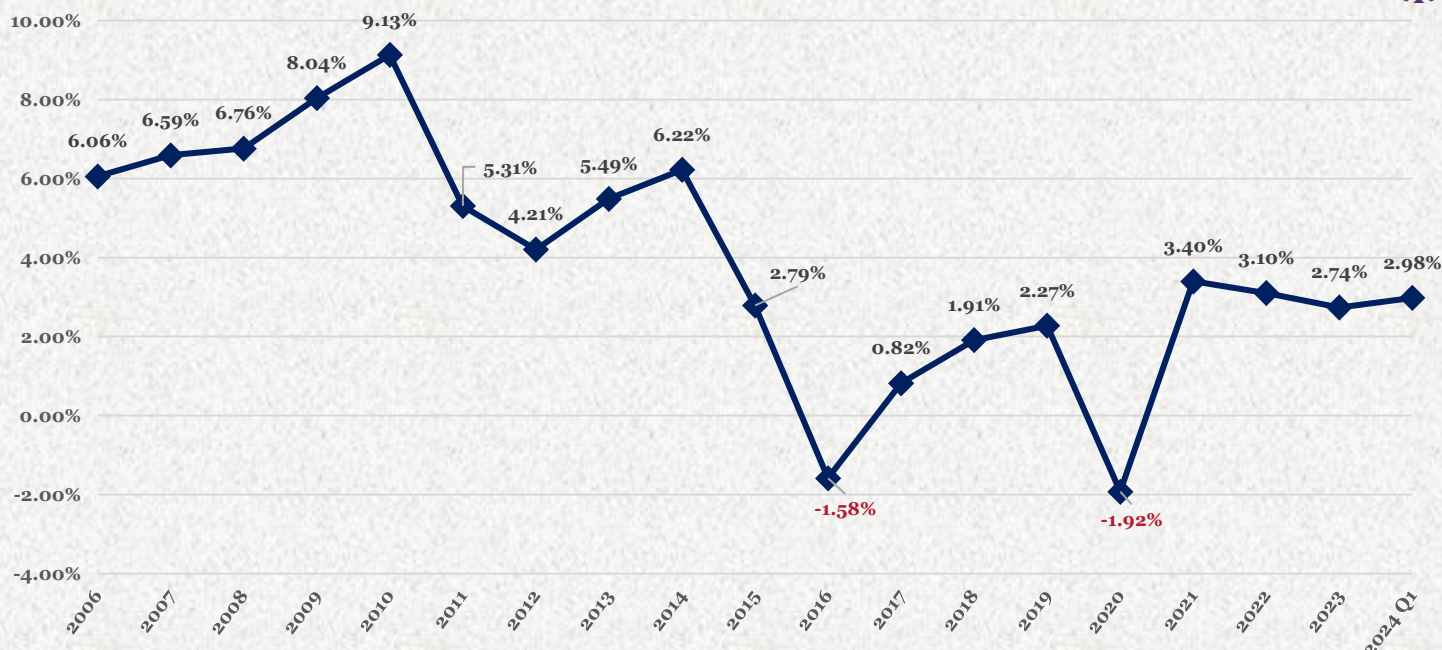
Amid these economic shifts, monetary authorities have also expanded the money supply. Broad money supply surged from N55.5 trillion in May 2023 to N98.9 trillion in May 2024, marking a 78.2%



year-on-year increase, a 4.5% increase in H1'24 (as of May). This expansion followed the transition to a new government, reflecting the ongoing adjustments in Nigeria's economic policies. The economic reforms implemented in 2024 have introduced significant challenges and brought about modest gains for Nigeria's economy.



GDP Growth Rate (Real) YoY



Source: Comercio Partners Research | NBS

Fiscal Policy - Caught in the Web

From 2023 through the first half of 2024, Nigeria's fiscal environment experienced significant shifts driven by pivotal reforms and economic challenges. Key reforms included the removal of fuel subsidies, hikes in electricity tariffs, and adjustments to exchange rates, all occurring amidst fluctuating oil prices, rising debt levels, and increased debt servicing payments.

Key Reforms and Revenue Performance

The government's decision to eliminate fuel subsidies and unify exchange rates had notable impacts on revenue performance. These reforms were expected to ease the fiscal burden by redirecting resources previously allocated to subsidy payments. Also, the unification of exchange rates led to substantial revenue gains, evidenced by a 151.15% increase in Federation Account Allocation Committee (FAAC) allocations, which rose from N872.55 billion in April 2023 to N2.19 trillion as of June 2024.

Higher oil prices, driven by global geopolitical tensions, also improved revenue performance. However, oil theft, insecurity, and operational inefficiencies hindered production efforts. Despite these setbacks, non-oil revenue exceeded targets, with significant growth in Corporate Income Tax (CIT) and Value Added Tax (VAT) revenues between Q1 2023 and Q1 2024. The finance and insurance information and communication, mining and quarrying and manufacturing sectors were major contributors to this growth.

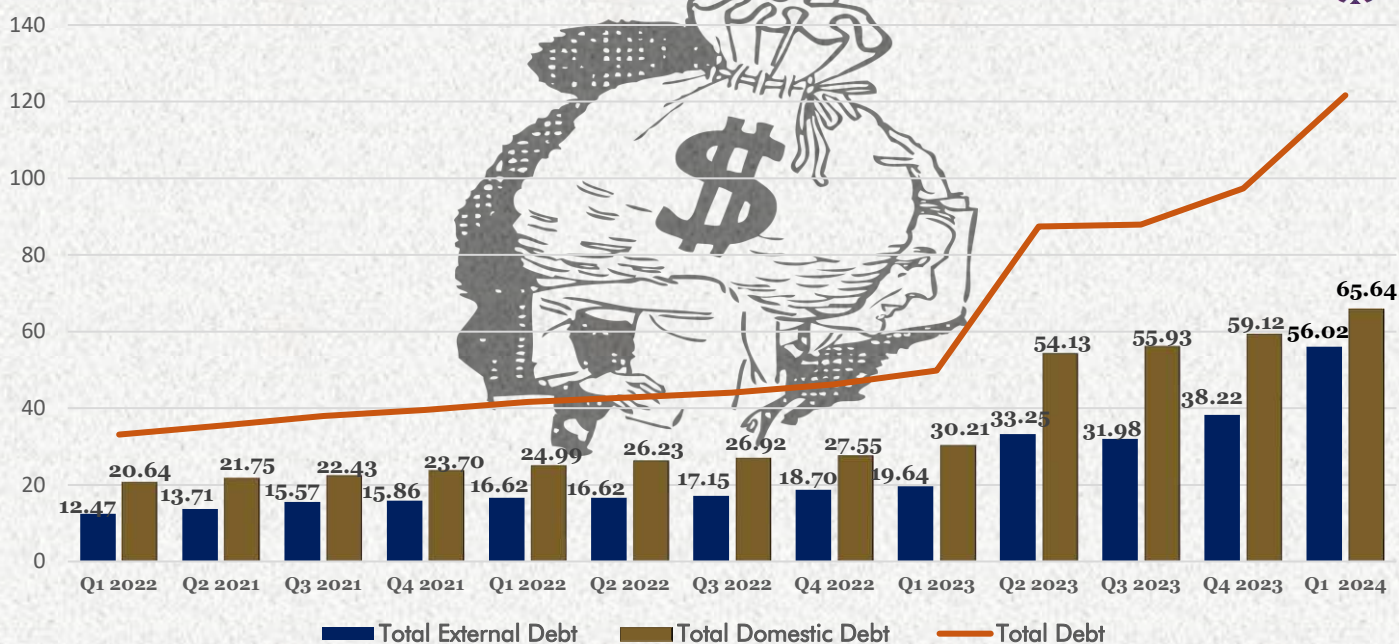
Debt and Fiscal Challenges

Despite these revenue windfalls, Nigeria's debt stock and debt servicing profile deteriorated significantly. By Q1 2024, the country's debt obligations had soared to N121.67 trillion, up from N49.85 trillion in Q1 2023. The government aims to reduce the budget deficit to around 3.9% of GDP (N9.18 trillion) in 2024, down from 6.1% in 2023. This goal relies heavily on increased oil prices and improved revenue collection.



As of Q1 2024, the growing public debt and associated servicing costs continue to constrain fiscal space for critical infrastructure investments and essential public services.

Nigeria's Public Debt (Trillion Naira)



Source: Comercio Partners Research | DMO

For 2024, the budget proposes a revenue target of N18.32 trillion, with N7.94 trillion expected from oil and N3.52 trillion from non-oil sources. Historically, actual revenue has averaged less than 70% of the total budgeted amount. Achieving the 2024 oil revenue target will depend on several factors, including OPEC quotas, international oil prices, security conditions in oil-producing regions, and broader geopolitical dynamics.

The proposed budget for 2024 is N28.78 trillion, which includes N8.77 trillion in recurrent expenditure and N9.99 trillion in capital spending.

Historically, actual expenditure has not exceeded 85% of the budgeted figure due to low revenue realization.

The main constraints for 2024 include low revenue realization, high debt servicing costs, and poor fiscal discipline. Addressing these issues through targeted fiscal reforms is essential for improving Nigeria's economic stability and growth prospects.

Outlook

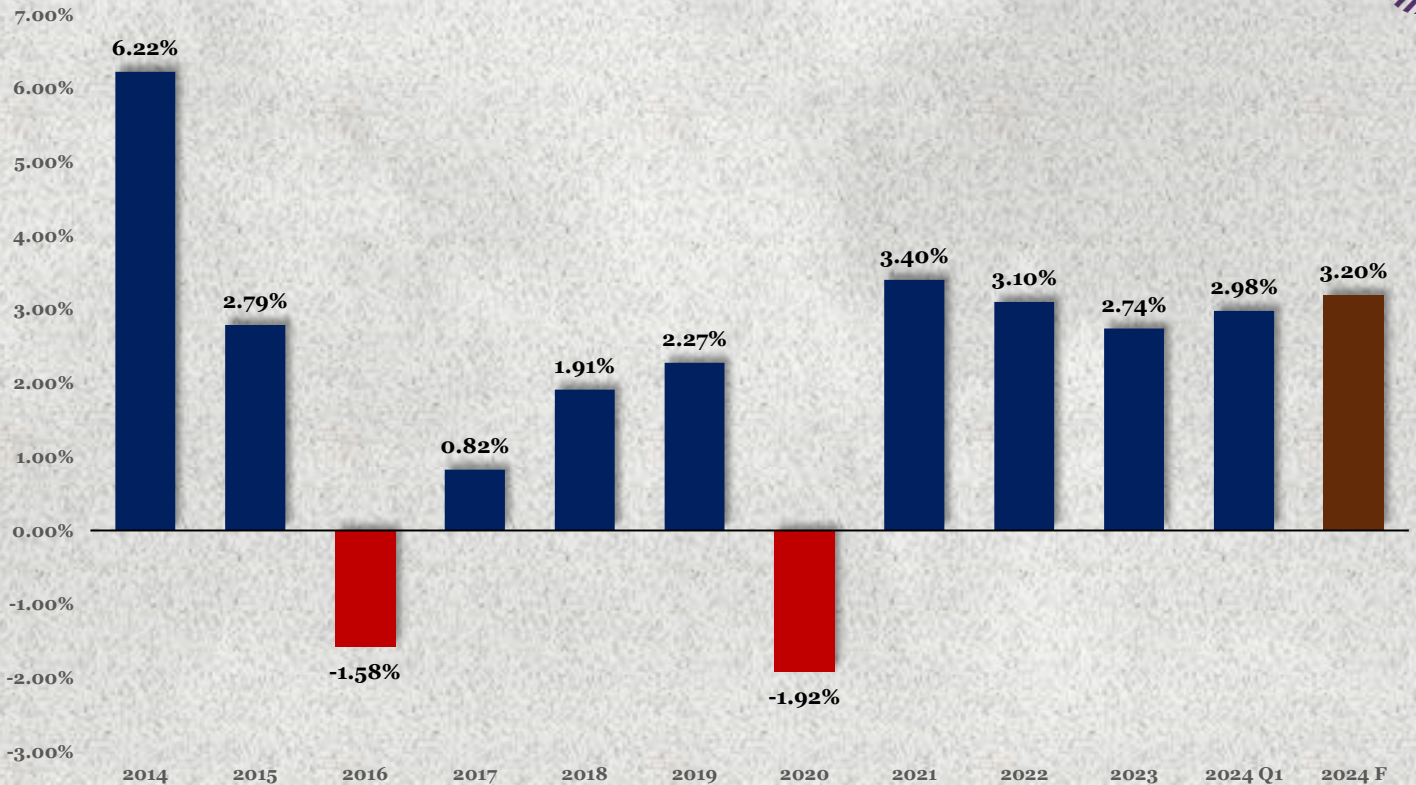
Nigeria stands at a critical inflection point, necessitating decisive strategic actions beyond superficial plans. A coherent economic framework is completely important. The servicing of external debt in 2024 is projected to face substantial challenges due to exchange rate volatility and the potential devaluation of the naira.

We anticipate that Nigeria's growth will strengthen to 3.2% in 2024.

This growth will be driven by a rebound in business activities within the non-oil sector as the effects of the twin reforms—fuel subsidy removal and exchange rate unification—begin to fade. Additionally, improved oil production and favourable oil prices in the global market are expected to contribute to this growth.



Projected GDP Growth Rate (Real) YoY



Source: Comercio Partner Research | DMO

Public debt is projected to rise further in 2024 as the government aims to finance a fiscal deficit of N9.18 trillion. This increased reliance on domestic borrowing raises significant concerns about competition for limited local capital with the private sector, especially in an environment of rising interest rates. Such competition could drive up the cost of capital for businesses, potentially stifling private sector growth. Also, the new proposed minimum wage rate will also aggravate the debt burden.

Effective implementation of proposed fiscal reforms is critical for improving fiscal performance and fostering economic growth. Key reforms include addressing redundancy in public service functions, ensuring prudent management of government assets, introducing a spending framework for subsidy removal and forex reform windfall, and creating a national portal for tracking government spending at all levels.

While fiscal policies may introduce short-term shocks, it is crucial that acquired debt is utilized to promote sustainable growth. Additionally, there needs to be a balance in monetary policies, which are currently contractionary with rising interest rates. To mitigate the adverse effects, complementary measures such as adjusted tax tariffs, increased government expenditure, and enhanced transparency in the policy framework are essential.





Monetary Policy Outlook: Naira Drama, Inflation, Interest Rates, and Investor Fears



Monetary Outlook

Overview

Nigeria's monetary authorities faced the dual challenge of maintaining domestic price stability and external stability amidst prolonged negative external sentiment and waning investor confidence. These issues kept the Central Bank of Nigeria (CBN) on high alert throughout the year.

The Central Bank Governor, Dr. Yemi Cardoso reiterated the three key monetary policy objectives outlined in the National Policy Council Report: anchoring the money market rate to the Monetary Policy Rate (MPR), transferring the CBN's quasi-fiscal roles to relevant authorities, and transitioning to a unified and market-determined exchange rate.

The situation evolved significantly when the new administration swiftly adopted a market-reflective exchange rate by allowing the naira to float against other currencies in the FX market. This reform aimed to promote greater price discovery and ensure a willing-buyer-willing-seller basis for FX transactions.

In response to rising inflation, the MPR committee, led by Cardoso, increased the MPR from 18.75% in July 2023 to 26.25% in the first half of 2024. This orthodox measure was intended to rein in domestic inflation, reduce the negative real rate of return, and attract foreign portfolio inflows. However, despite these efforts, the general price level remained stubbornly high, reaching its highest level in 18 years. This weak transmission from monetary policy to inflation was not unexpected, as monetary policy is more effective in addressing demand-pull inflation. Nevertheless, there was a modest month-on-month decrease in inflation.

Additionally, the Standing Deposit Facility rate (SDF) was increased to 23.25% from 19.75% in July 2023, resulting in higher returns on bank deposits and subsequently higher stop rates at the Primary Market Auctions.

Money supply by the monetary authorities as broad money supply climbed rapidly from N55.5trillion in May 2023 to N98.9 trillion in May 2024 after the transition to a new government, representing about 78.2% y-o-y increase in money supply.

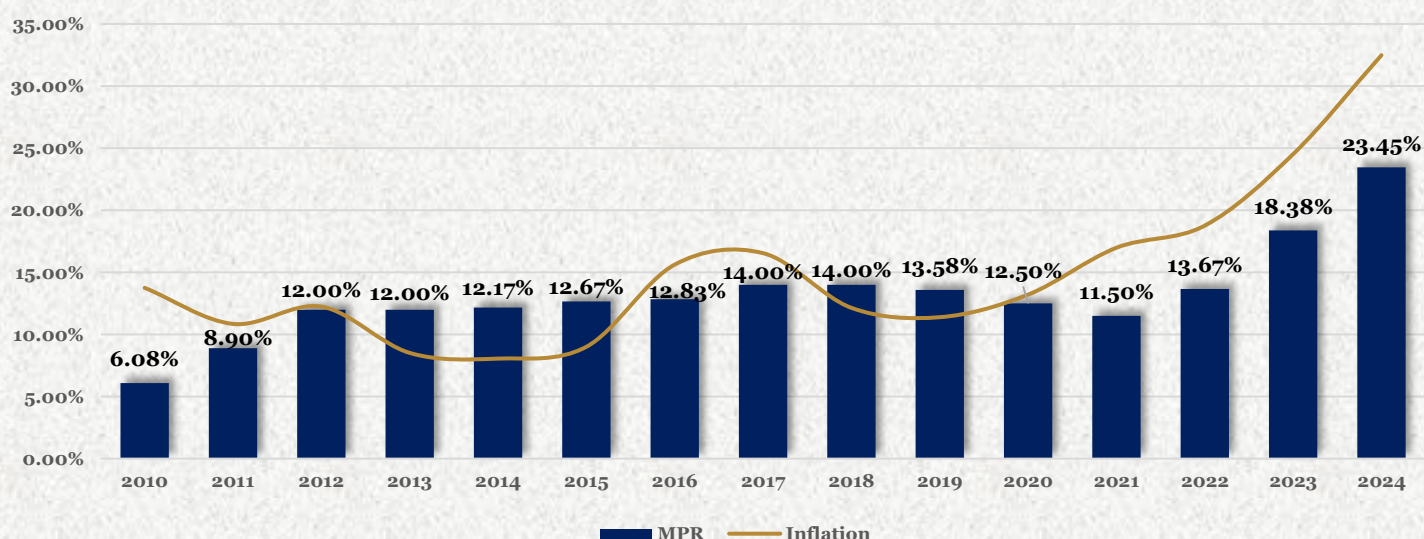


In 2022, foreign reserve were relatively stable, averaging around \$38.82 billion. However, the situation worsened in May/June 2023 when the exchange rate began to depreciate dramatically, leading to a steady depletion of reserves, which stood at \$32.74 billion by June 1, 2024.

Although the governor acknowledged the payment of some backlog, these initiatives, while commendable for providing short- to medium-term stability in the FX market, may only temporarily alleviate FX pressures. Moreover, they could potentially strain future expenditure and increase debt if the exchange rate volatility persists.



Nigeria's Average MPR and Inflation Rate



Source: Comercio Partners Research | CBN, NBS

Outlook

As we enter the second half of 2024, three key variables are expected to influence interest rate decisions: moderation in inflation, accretion to foreign reserves, and exchange rate stability.

We anticipate that inflation may also moderate in H2 2024 due to high base effects.

Nigeria continues to experience a negative real rate of return and needs to attract and retain foreign portfolio flows in Q3 2024. As a result, there is a need to offer high-yielding securities in the market. We expect investors to increasingly allocate funds to these attractive money market securities, including Open Market Operations (OMO) instruments, treasury bills, and money market funds.

Our projection for interest rates suggests that the Central Bank of Nigeria (CBN) may maintain its hawkish stance and implement one additional MPR hike in 2024.

This anticipated rate hike aims to tighten the money supply and further drive down inflation. The decision to limit the hike to one instance takes into consideration its potential impact on businesses and overall economic growth.

Inflation - Cost Crunch: The Role of Reforms in Nigeria's Inflation Hike

Inflation has become a pervasive topic among Nigerians in all spheres as businesses and individuals in the country faces significantly rising rates. The substantial inflation observed in 2023 and the first half of 2024 is primarily attributed to the market reforms initiated by the new administration since its inception in May 2023 among other prolonged and underlying structural deficits.

The increase in fuel price and the transition to a floating foreign exchange (FX) system have been major factors driving the increase in price levels, alongside other persistent underlying structural deficits. The skyrocketing fuel prices have notably impacted transportation and logistics costs, driving



up overall inflation. Food inflation has hit record highs, becoming the main contributor to the inflation rate.

Inflation grew from 29.90% in January 2024 to 34.19% in June 2024. This sharp increase reflects the compounded effects of both fuel price hikes and the depreciation of the Naira under the managed float regime. Core inflation, which excludes volatile agricultural produce and energy prices, stood at 27.40% in June 2024, slightly up from 20.06% in June 2023. Year-on-year, core inflation rose significantly by 7.34%.

Food inflation, a major contributor to headline inflation, reached 40.87% in June 2024, up from 25.25% in June 2024. On a year-on-year basis, food inflation surged by 15.62%.

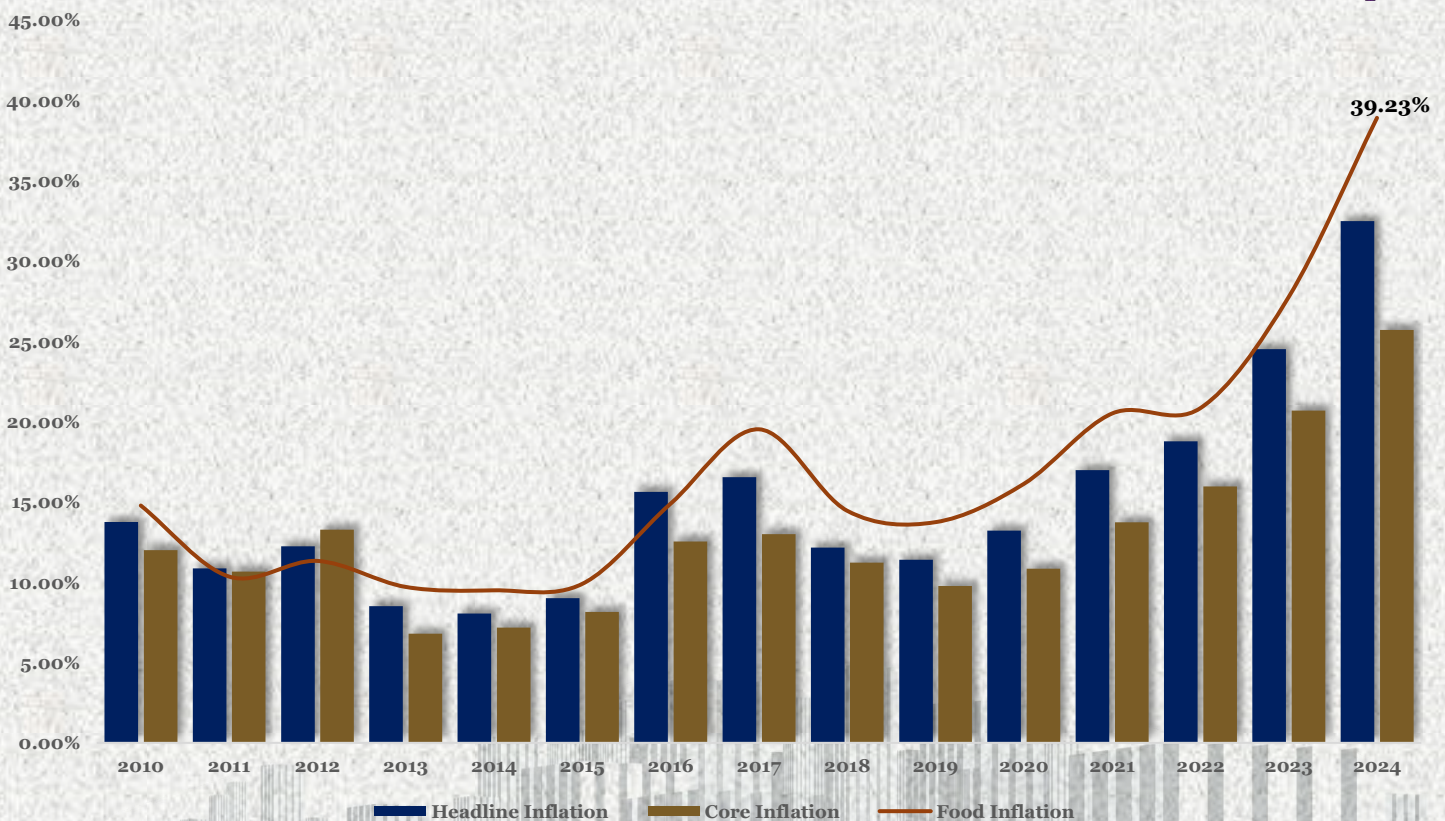
In response to the inflation surge, the Central Bank of Nigeria (CBN) has tightened financial conditions by raising the Monetary Policy Rate (MPR) four times, from 18.75% in 2023 to 26.25% in the first half of 2024.

Additionally, the CBN has engaged in open market operations to mop up liquidity and allowed rates on long-term bills to rise. Despite these measures, inflation has remained stubbornly high, underscoring the challenges in curbing price levels through monetary policy alone.

Parallel to these efforts, there has been a significant expansion in the money supply by the monetary authorities. Broad money supply surged from N55.7 trillion in May 2023 to N98.98 trillion in May 2024, representing a 77% year-on-year increase. This rapid increase in money supply has further complicated the inflationary landscape.

High inflation, particularly in food prices, has eroded purchasing power, negatively impacting consumer spending – a critical driver of economic growth. Persistent core inflation suggests underlying cost pressures remain, influencing business costs and investment decisions.

Nigeria's Average Inflation



Source: Comercio Partners Research | NBS



Outlook

While inflation seems to be cooling off, increasing at a decreasing rate, we still anticipate it will remain elevated in H2'24, around 40%. The persistently elevated price regime is expected to continue due to the Increase in Minimum wage

Despite signs of a slight slowdown in inflation, it remains at a high level, and significant relief from high prices is unlikely in the immediate future for Nigerians. Additionally, ongoing discussions about increasing the minimum wage could lead to further inflationary pressures. Increased consumer spending may drive up prices, potentially offsetting the benefits of higher wages.

To stabilize the macroeconomic environment and foster conditions conducive to business operations, more robust and targeted fiscal interventions from the government is necessary. These policies should aim to:

- Provide tax relief and incentives for manufacturers.
- Improve infrastructure to reduce production and distribution costs.
- Implement measures to stabilize the currency.
- Enhance supply chain efficiencies.

While monetary policy has shown some effectiveness in controlling inflation incrementally, the overall economic situation remains challenging. Business closures and rising unemployment underline the need for comprehensive fiscal strategies to create a sustainable and growth-friendly economic environment.

Exchange Rate- Forex Twists and Economic Turns in Nigeria

The outlook for Forex in Nigeria is as intricate as a Nollywood plot twist, shaped by a confluence of domestic policy challenges and the ever-unpredictable global market.

Since the exchange rate shifted to a free float, the Naira has experienced significant volatility ranging from as low as N800/\$1 as of January 2024 to N1,500/\$1 in May at the official market. In response, the Central Bank of Nigeria (CBN) has implemented measures to stabilize the currency aimed at curbing illicit practices and speculation.

From January to May 2024, the official exchange rate saw a marked decline, falling from N890/\$1 to N1,430/\$1. During the same period, the parallel market rate reached N1,207/\$1, highlighting a significant disparity between the official and parallel rates. However, signs of convergence and stability began to emerge in the latter part of 2024 due to CBN interventions, such as policies on the International Monetary Transfer Operators (IMTO).

This recent appreciation can be attributed to the CBN's ongoing foreign exchange reforms aimed at stabilizing the exchange rate by curbing illicit practices and speculation.

Simultaneously, the parallel market recorded a rate of N1,200/\$1 in January 2023 compared to 1,500/\$1 in the same period of 2024 a stark disparity between the official and parallel rates. However, they seem to be a converge and stability in the latter part of 2024 due to CBN intervention to reduce speculations such as policies on the International Monetary Transfer Operators (IMTO), Cash Reserve Requirement (CRR) debits, and the inauguration of a new liquidity management committee. These efforts have already shown positive results, with reduced excess liquidity in the banking system, an increase in the Overnight Bank Borrowing (OBB) rate, and a decline in month-on-month inflation.

The Naira is poised at a crossroads, eagerly awaiting the right catalysts and positive policy directions to chart a more stable course. Our base estimate for FY'24 stands at N1,600, but this could very well be a conservative figure. Should Nigeria ramp up oil production, boost export earnings, and successfully curb market speculation, the Naira might surprise us all with a stronger performance especially factoring an anticipated weaker dollar due to the expected rate cuts





NGX 2024 – From Profits to Pressures

 **NGX**
Nigerian Exchange Group

Nigeria Exchange Group

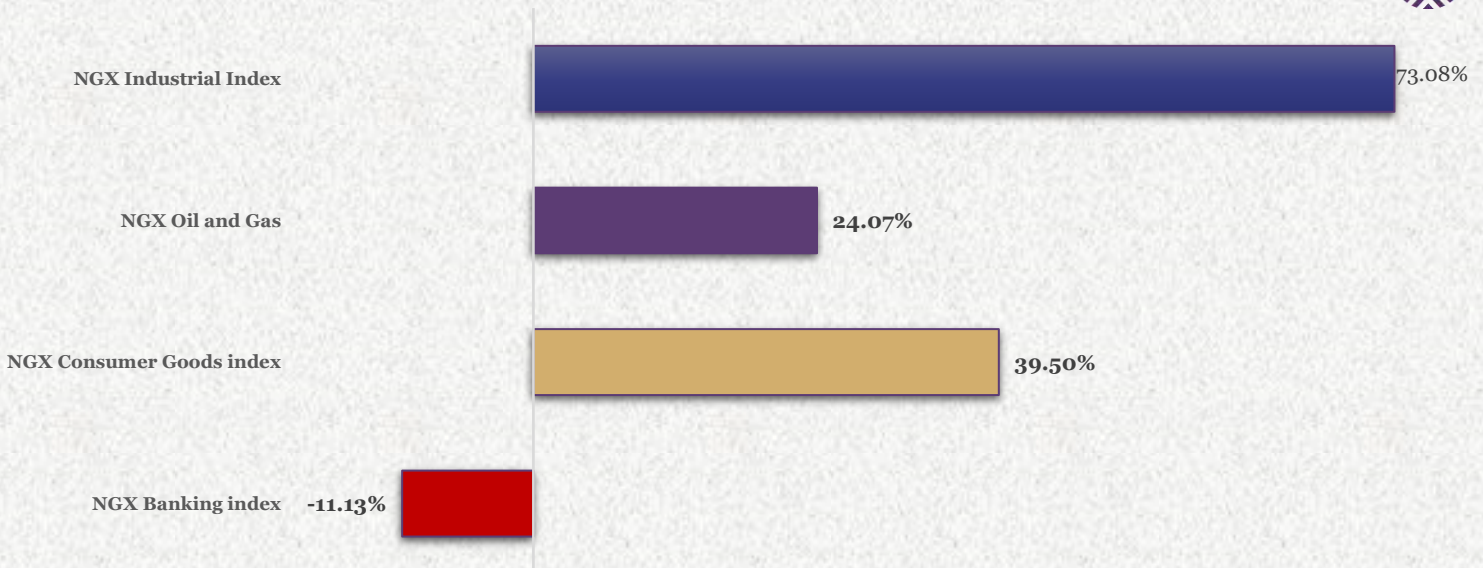
Introduction

The first half of 2024 was a whirlwind for the Nigeria Exchange Group (NGX), with macroeconomic shifts and policy changes stirring up the market. The banking sector stole the show, grappling with its recapitalisation saga, which drove much of the market's ups and downs.

NGX banks reported record-breaking profits fuelled by soaring interest revenues and hefty gains from revaluing foreign exchange assets. Yet, questions linger about their core operational performance once these forex windfalls are stripped away. The recapitalization efforts have injected a cocktail of excitement and uncertainty, keeping investors on edge.

In contrast, the unification of exchange rates dealt a harsh blow on other firms across various sectors, resulting in substantial revaluation losses. The economic landscape, rife with devaluation and stringent conditions, continues to strain these sectors as they navigate the aftermath.

Sectoral Indices YTD Performance



NB: Data as of May 2024

Source: Comercio Partners Research | Bloomberg | NGX



Looking Ahead:

As we move into the latter part of the year, the potential public listing/dual listing of Dangote Refinery on the NGX could be a game-changer. This major industrial project could significantly boost the total market capitalization, attracting more investors and enhancing the overall perception of the Nigerian stock market, potentially pushing it back towards the 100,000 mark.

There would be more activities in the equity space, as banks given the ongoing recapitalisation would raise more capital to meet the benchmark.

Also, earnings of firms across board will be daunted by the spill over of the exchange rate volatility and pressures from macroeconomic environment impacting their books. In addition, we have witnessed increased sentiments in the fixed-income market primarily driven by the 750bps hike in the Monetary Policy Rate (MPR) to 26.25% which has pushed bond yields from the 15% handle to the 20% region. As of January 2024, stop rate on the 364-day bill has risen by 146.22% from 8.399% to 20.68% as of the last auction as at the Print time. This is expected to continue in the latter part of the year, as the governor of the central bank has continuously clamoured for higher interest rates in a bid to tame inflation.



Banking Sector

The NGX banking sector has navigated a series of twists and turns, from the initial boost of foreign exchange revaluation to the challenges posed by the Central Bank's recapitalization policy and FX restrictions.

At the dawn of 2023, the banking sector experienced a promising uplift, largely driven by the revaluation of foreign exchange. This initial boost was reflected in the banks' financial statements, propelling stock prices upward by 93% year-to-date (YTD) from January 2023 to January 2024. However, the ride was far from smooth.

Olayemi Cardoso, the Central Bank Governor introduced a sweeping recapitalization policy, requiring banks to increase their minimum paid-in common equity capital based on their license category within a set period. This unexpected move sent shockwaves through the sector, ushering in bearish sentiments and triggering profit-taking activities. The market reacted swiftly and sharply: banking stocks tumbled from a high of N1,029 at the end of March 2024, post-Q1 results, to N790.64 by June 2024.

Following the foreign exchange windfall, the Central Bank Governor imposed restrictions such as the Net Open Position requirements stating that both the on and off-balance sheet should not exceed 20% short or 0% long of shareholders' funds impaired by losses in a bid to drive focus on core banking activities. Despite these headwinds, banks leveraged the prevailing high-interest rates to bolster their interest income.

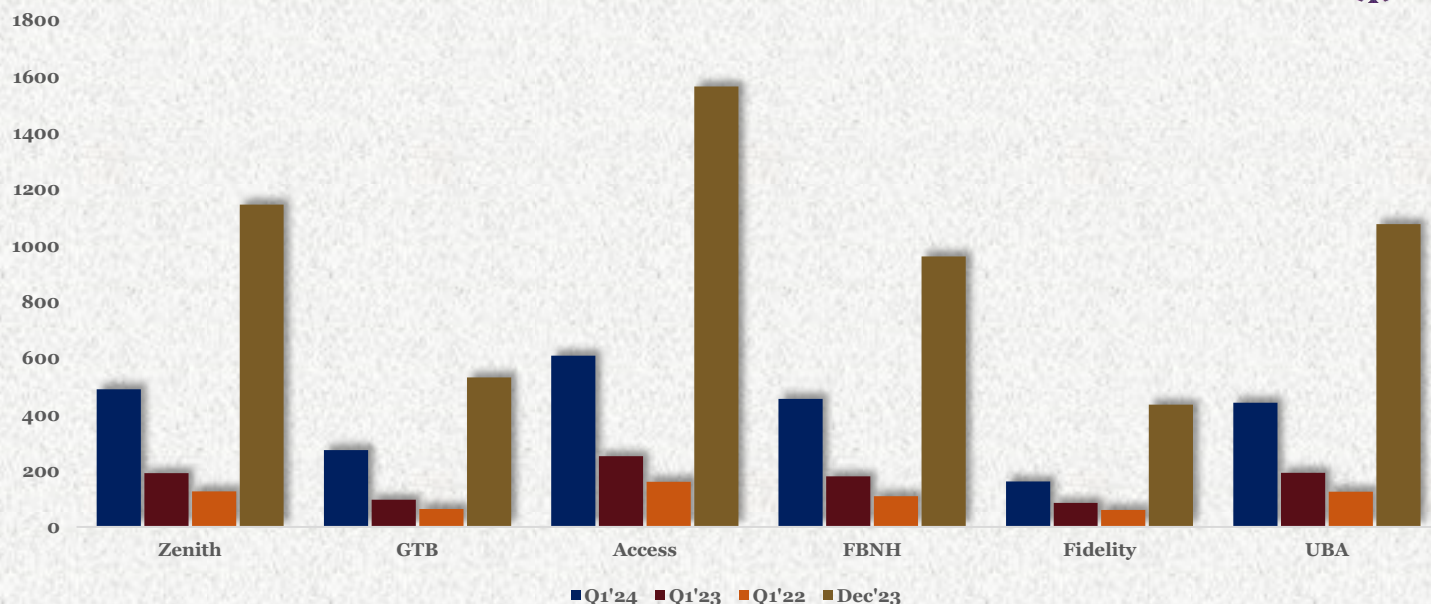
High-interest rates have also played a role in supporting deposit growth. When banks offer attractive returns on savings, customers are more likely to park their money in deposit accounts. This environment naturally encourages savings, as people seek to maximize their returns.



The devaluation of 2023 continues to reverberate through the loan books of banks, driving significant growth in the first quarter of 2024. Zenith Bank exhibited a strong increase in loan growth in Q1'24, marked by a 114% surge. Guaranty Trust Bank (GTB) showed moderate growth in Q1'24. While there was an increase, it was not as significant compared to other banks. UBA bank led the pack with the highest loan growth in Q1'24, boasting a 120% rise. FBNH maintained consistently high growth in Q1'24 and December 2023 by 46%. Fidelity Bank demonstrated modest growth of 73%, indicating a more cautious lending approach. Access Bank recorded growth in Q1'24 amounting to 91% highlighting the effects of devaluation and increased loan demand.



Interest income



Source: Comercio Partners Research | NGX

Outlook

Foreign currency-denominated loans, which constitute a significant portion of total loans and deposits, substantially increased in 2023.

While a similar steep devaluation is not anticipated for 2024, the existing foreign currency loans will continue to play a crucial role in the overall loan growth. The combination of maintaining asset quality, meeting regulatory capital requirements, and leveraging opportunities from government asset sales will shape the loan growth trajectory in the upcoming period.

Despite the FX restriction such as the Net Open Position (NOP) requirements, banks will continue to leverage the prevailing high-interest rates to bolster their interest income.

Increased activities in the capital market, including the issuance of treasury bills, commercial papers, and government bonds, will significantly contribute to interest income. Banks actively participating in these markets with diversified portfolios will continue to thrive.

Despite a declining rate, persistent high inflation continues to erode individuals' purchasing power, making it difficult for households and corporations to save or keep money for the long term. The strain on purchasing power, coupled with slower economic activities, is likely to dampen the growth of domestic deposits.

As inflation climbs, the immediate needs and consumption priorities of individuals take precedence over long-term savings, potentially leading to a deceleration in deposit growth.



Domestic loan demand is also indifferent as businesses and consumers seek to finance higher operational and living costs. High inflation may lead to increased interest rates, raising the cost of borrowing, which could negatively impact loan demand.

Economic stability and growth will be crucial in shaping loan demand. If the economy shows signs of recovery and expansion, businesses are likely to increase their borrowing for growth and investment. Conversely, if economic conditions deteriorate, loan growth may be driven by the need to manage cash flow challenges, albeit with higher default risks.

The prevailing high rates in the fixed income market remain relatively attractive, drawing capital away from riskier loan portfolios. Furthermore, loan demand is anticipated to remain modest given the fragile macroeconomic environment and high borrowing costs.



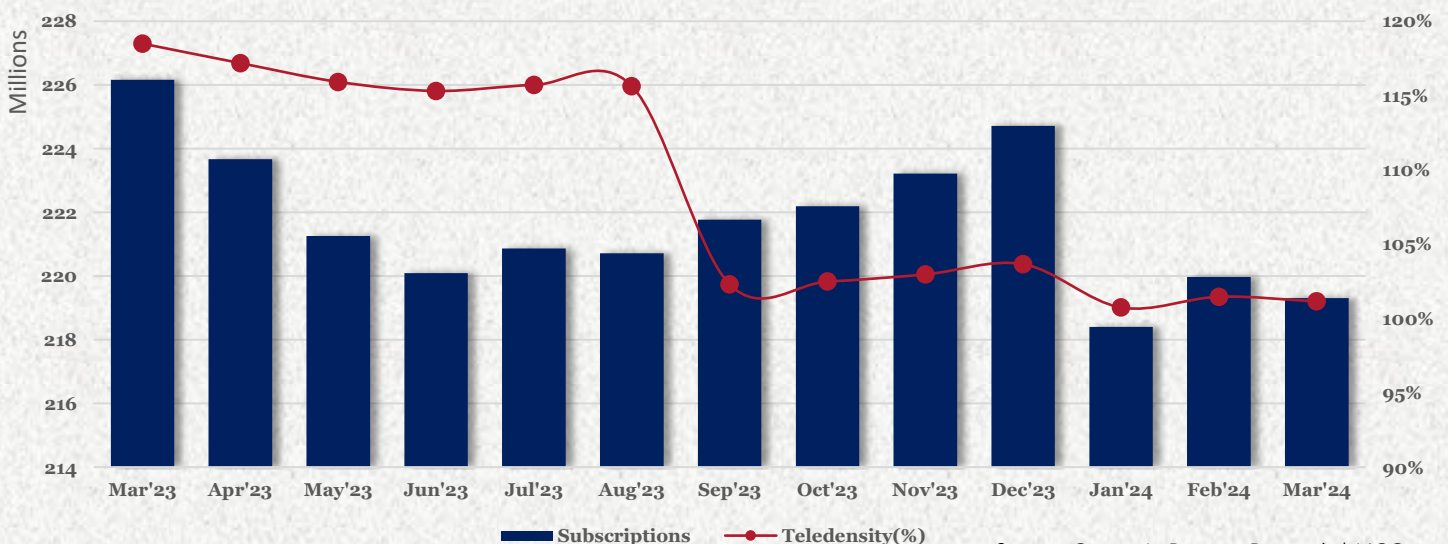
Telecommunications Sector

Despite the ICT sector's efforts to keep up with the times, it experienced a 13.8% drop in growth YTD, according to the National Bureau of Statistics. Telecom growth plummeted 46.8% year-on-year to 6.23% in real terms, even with a booming population, rising digital awareness, and expanding 4G and 5G networks. Inflation and Naira devaluation eroded consumer purchasing power.

Tariffs increased revenue, but macroeconomic woes hit hard. December 2023 saw a peak in mobile users at 225 million, dropping to 220 million in January 2024 due to a government SIM card policy.

By February, users modestly rebounded to 219.6 million but slightly dipped again to 219 million in March, a marginal 0.31% fall.

Nigeria's Monthly Subscription Trends and Teledensity Rates



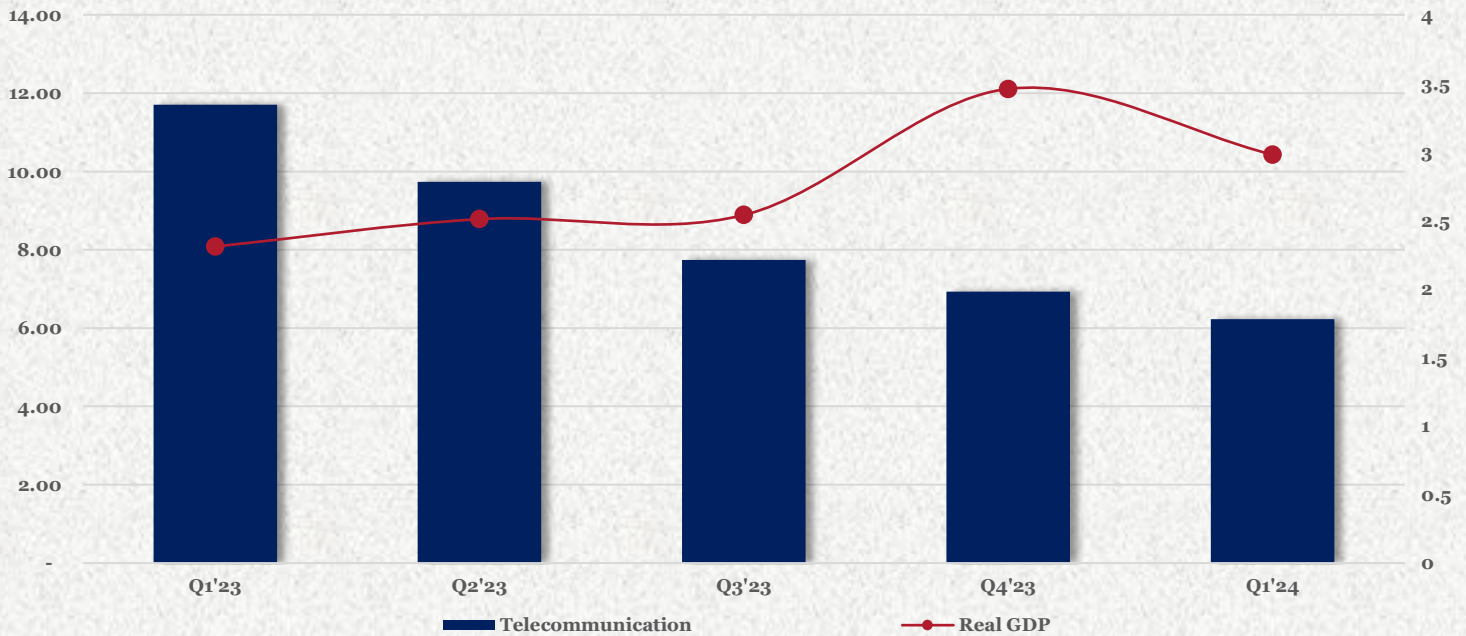
Source: Comercio Partners Research | NCC



Airtel Africa (AAF) and MTN Nigeria Communications (MTNN), Nigeria's telecom giants, are fiercely competing for market share. As of March 2024, MTN leads with 81,799,666 subscribers (37.35% of the market), while Airtel has 63,357,061 subscribers (28.93%). MTN's lead is likely due to better network coverage, superior service offerings, or more aggressive marketing. Both companies are heavily investing in 4G, 5G, and broadband infrastructure.



Telecommunication Sector (YoY % growth) vs. Real GDP (YoY % growth)



Source: Comercio Partners Research | NBS

Financial Snapshot

However, naira devaluation has hit their finances hard. MTN reported a Q1 2024 loss of N392.69 billion, and Airtel recorded a loss of \$89 billion, down from a profit of \$750 million in 2023. Data revenue remain a top tier impacting their revenue, with data revenue of MTN in Q1'24 increased to N349 billion from N227.6 million recorded in the same quarter of 2023, however Airtel Africa saw a modest decline to \$1.73 billion from \$1.79 billion in 2023. Voice revenue recorded modest growth for MTN, increasing by 14% while Airtel Africa recorded a modest decline of 12.5%.

MTNN has shown underperformance compared to the NG Wireless Telecom industry, which returned -18.1% over the past year, and the NG Market, which saw a return of 91.4%. MTNN, currently unprofitable, is valued using a Price-To-Sales (P/S) ratio of 1.7x, with minimal price volatility in the past 3 months.

MTNN has a total shareholder equity of N-434.7billion and total debt of N1,143.4 billion which brings its debt-to-equity ratio to -263%. Its total assets and total liabilities are N3,459. billion and N3,893.8 billion respectively. MTN Nigeria Communications' EBIT is N751.0 billion, making its interest coverage ratio 3.1. It has cash and short-term investments of N254.1billion.

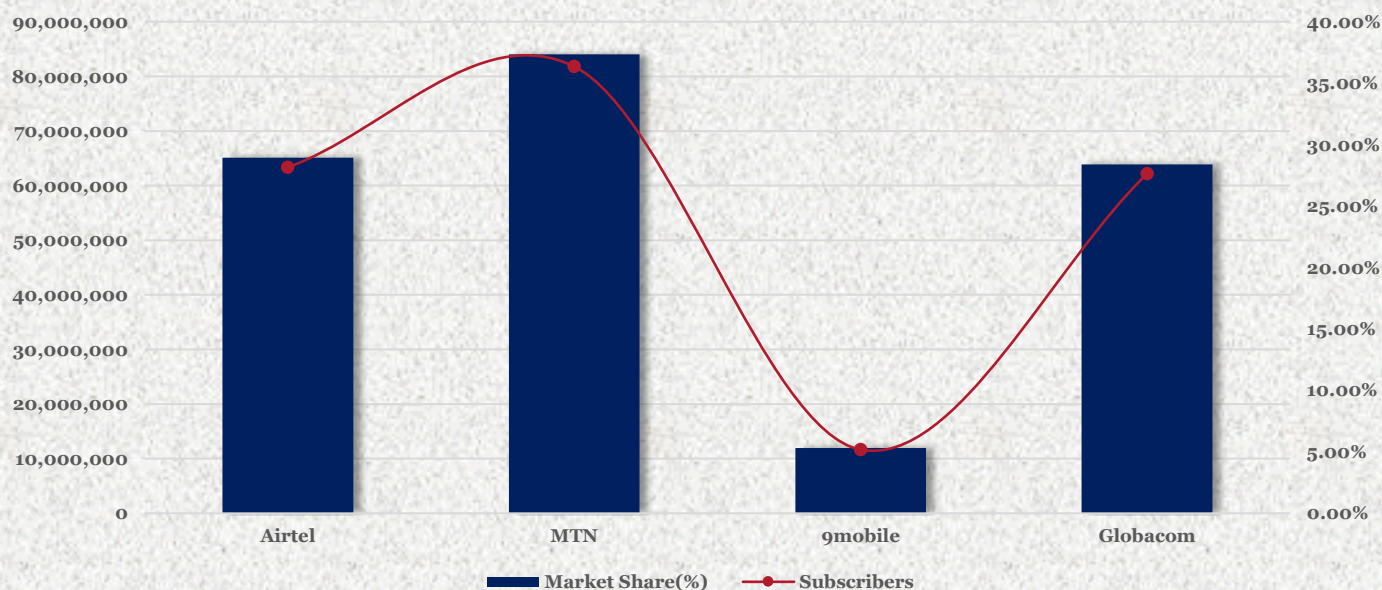
In contrast, AAF forecasts more modest growth with expected earnings and revenue growth rates of 39.8% and 10.2% per annum respectively, alongside an EPS growth rate of 39.7% annually. Return on equity is forecasted at 42.5% in 3 years. AAF has experienced declining earnings at -1.7% annually, compared to industry growth rates of 9.5% in earnings and 12% in revenues.

Financially, AAF has reduced its debt-to-equity ratio from 149.3% to 103.2% over the past 5 years, with debt well covered by operating cash flow at 95.2%. Interest payments on debt are comfortably covered by EBIT at a ratio of 4.1x. AAF maintains a strong balance sheet with total shareholder equity of \$2.3B, total debt of \$2.4B, and cash and short-term investments amounting to \$966.0M.





Market Share and Number of Subscribers of Nigerian Telecoms (March 2024)



Source: Comercio Partners Research | NCC

Outlook

Looking forward, MTNN is forecasted to achieve significant earnings and revenue growth at rates of 76.4% and 17.1% per annum respectively, with an expected EPS growth of 18% annually. Return on equity is expected to reach 146.1% in 3 years. The company aims to become profitable within this timeframe, outpacing the current savings rate of 12.9% and showing potential for above-average market growth upon profitability.

While MTNN shows promising growth potential upon achieving profitability, AAF navigates challenges with declining earnings offset by strong financial restructuring and solid debt coverage ratios.

Also, the shift from cash to digital payments across Nigeria presents a promising outlook for telcos, however, sustained growth in telcos' mobile money ventures is expected to face headwinds, including potential declines in telecom profits due to currency fluctuations and operational costs arising from incidents such as cable cuts. Nonetheless, by Q4'24, we anticipate a rebound in the profitability of these companies.

Data revenues are poised to receive a significant boost from robust growth in subscriptions, ongoing expansion of 4G LTE coverage, and the continued rollout of the 5G network. Looking ahead, data is projected to play an increasingly pivotal role in total revenue streams compared to voice services next year.

In the realm where data reigns supreme, with a new contender, Starlink entered the Nigeria's ISP arena in January 2023, swiftly becoming the third-largest provider with 23,897 subscribers, trailing only Spectranet Ltd (113,869) and FiberOne Broadband Ltd (27,000). Starlink's growth reflects the surge in remote work demand for reliable data services. However, persistent inflation and reduced consumer purchasing power pose potential growth constraints.





The Nigeria Power Sector

Overview

This update not only unlocked the gates to decentralization but also introduced a bright spark for renewable energy incentives.

Yet, despite these strides, the sector faces ongoing challenges. The average generation capacity in 2023 dipped by 2.5% from the previous year, following a hefty 14.0% decline in 2022, clocking in at 5254.03 MW. Issues like gas constraints, maintenance woes, and technical glitches continue to cast shadows over the sector. The persistent headache of liquidity and payment woes, especially with gas suppliers, keeps the lights flickering.

However, amidst these sparks, there's a glimmer of hope. Power distribution companies are seeing brighter days in revenue collection, thanks to clever escrow setups that shed light on payment transparency.

Snapshot

Geregu Power and Transcorp Power are electrifying Nigeria's power sector with their dynamic growth and strategic manoeuvres. Geregu Power, focusing on electricity generation and distribution within Nigeria, now faces formidable competition from Transcorp Power, which recently entered both domestic and international markets.

Transcorp Power made a significant splash on March 4, 2024, when it joined the NGX main board. The company's debut included 7.5 billion shares priced at N240 each, catapulting its market capitalization to an impressive N1.8 trillion. This move caused a stir in the market, with Transcorp's shares surging by 10% on their first trading day. This positions Transcorp Power as a major rival to Geregu Power, which debuted two years earlier with 2.5 billion shares priced at N100 each on its listing day.

While Geregu Power has established itself as a leader in Nigeria's electricity generation and sales sector, Transcorp Power's rapid expansion domestically and internationally signals a new phase of competition in the industry.

Geregu & Transcorp Power's Financial Pulse:

Geregu Power has demonstrated solid financial performance with earnings growing annually at 6.7%, slightly below the Electric Utilities industry average of 6.8%. However, its revenue has surged impressively at 175% annually. The company boasts a strong return on equity at 68.1% and net profit margins that have improved to 22.6% from 19% last year.

Geregu Power significant earnings spike of 228.3%



over the past year, albeit with a 5-year average growth rate of 6.7%, slightly trailing the industry's average of 74.9% earnings increase over the same period.

Financially, Geregu Power maintains a manageable net debt-to-equity ratio of 15.1%, despite an increase from 3.2% to 146.1% over the past five years. Debt remains comfortably covered by operating cash flow at 81.3%, supported by a robust interest coverage ratio of 19x based on EBIT of N46.9 billion. The company holds substantial total assets of N195.8 billion and maintains a healthy liquidity position with N51.9 billion in cash and short-term investments.

On the other hand, Transcorp Power stands out with a formidable market capitalization of N2.804 trillion and 7.5 billion outstanding shares.

Despite carrying a debt of N37.3 billion against shareholder equity of N57.9 billion, resulting in a more moderate debt-to-equity ratio of 64.5%.

It reports total assets of N223.4 billion and liabilities of N165.5 billion, with an EBIT of N64.7 billion and a solid interest coverage ratio of 13.8. However, its cash and short-term investments are more modest at N6.4 billion.

In terms of growth, Transcorp Power has been on a rapid trajectory, with earnings growing annually at 74.9% and revenues up by 57.3%. The company boasts a return on equity of 52.3% and net margins of 21.3%, reflecting its strong market performance.

Despite their differences, both companies are strategically positioned in the market. Geregu Power leverages its efficiency with a strong return on equity of 68.1% and higher net margins of 22.6%. Meanwhile, Transcorp Power's aggressive expansion and higher recent earnings growth underscore its ambition and market prowess, despite a higher debt burden.

As these powerhouses vie for supremacy in Nigeria's power generation industry, their robust financials, impressive growth metrics, and strategic manoeuvres highlight the dynamic evolution of the sector. Investors are advised to closely monitor these developments as Geregu and Transcorp Power continue to redefine the landscape.

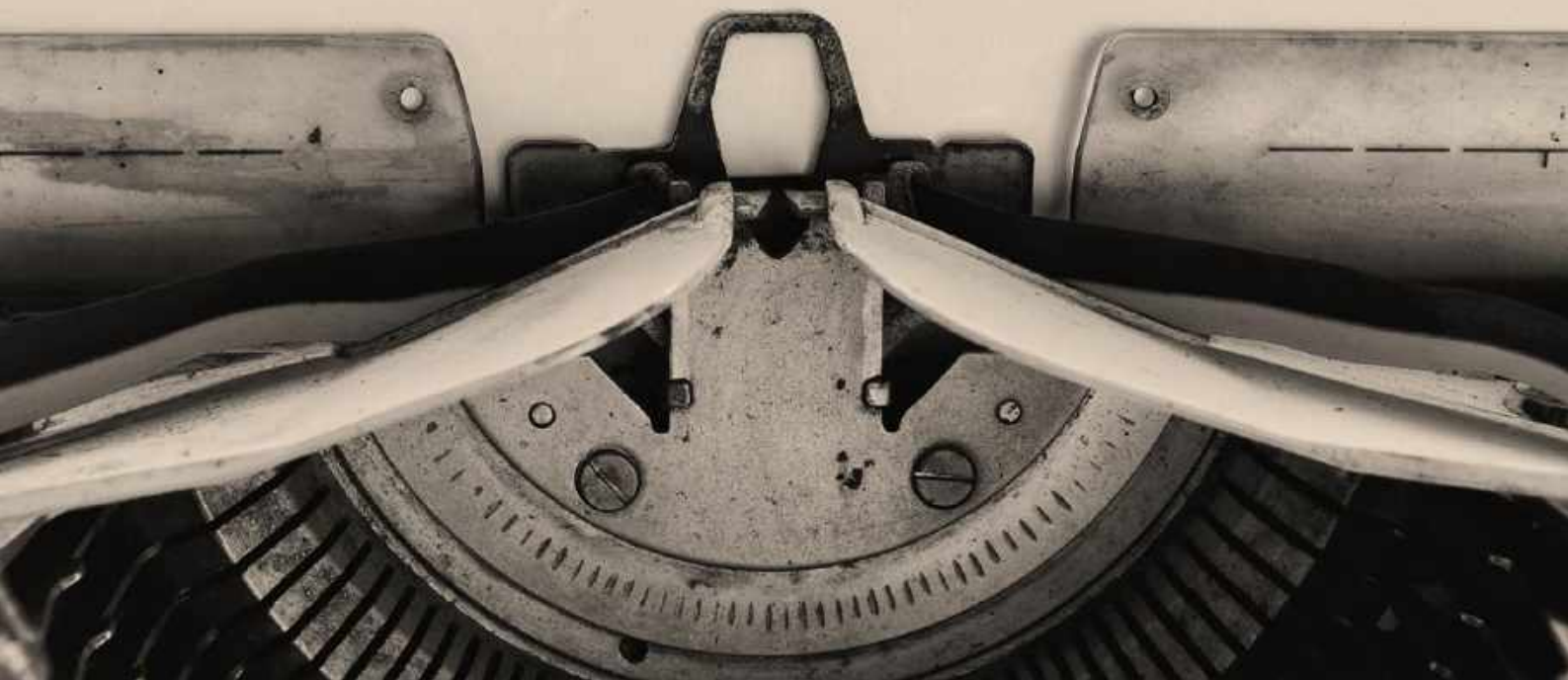
Outlook

In terms of opportunities, potential exists in exporting spare capacity through the West African Power Pool (WAPP) for foreign exchange earnings and strategic partnerships under the new Electricity Act of 2023. The African Continental Free Trade Area (AfCFTA) may expand export opportunities.

However, challenges include regulatory uncertainties, transmission constraints, grid reliability issues, foreign exchange volatility, gas supply challenges due to legacy debts, fluctuating fuel prices, and non-cost reflective tariffs.



The End.



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