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Q2'2022 Economic Outlook:

Can Nigeria Navigate Through The Economic Storm?

Global Economy

- The global economy enters 2022 in a weaker position than previously expected as the new Omicron COVID-19 variant spreads and countries reimposed mobility restrictions.
- In the meantime, rising energy prices and supply disruptions have resulted in higher broad-based inflation than anticipated, notably in the United States and many emerging markets and developing economies. The ongoing Russia/Ukraine crisis, curtailment in China's real estate sector, and slower-than-expected recovery of private consumption also have limited growth prospects.
- Meanwhile, according to the International Monetary Fund (IMF) and World Bank, the global economy is expected to moderate from 5.9% and 5.5% in 2021, respectively, to 4.4% and 4.1% in 2022.

Global Economic Growth Rate (%)	2020	2021e	2022e	2023e
World Bank	-3.4	5.5	4.1	3.2
IMF	-3.1	5.9	4.4	3.8

Source: IMF, World Bank, Atlass Portfolio

Global Economy

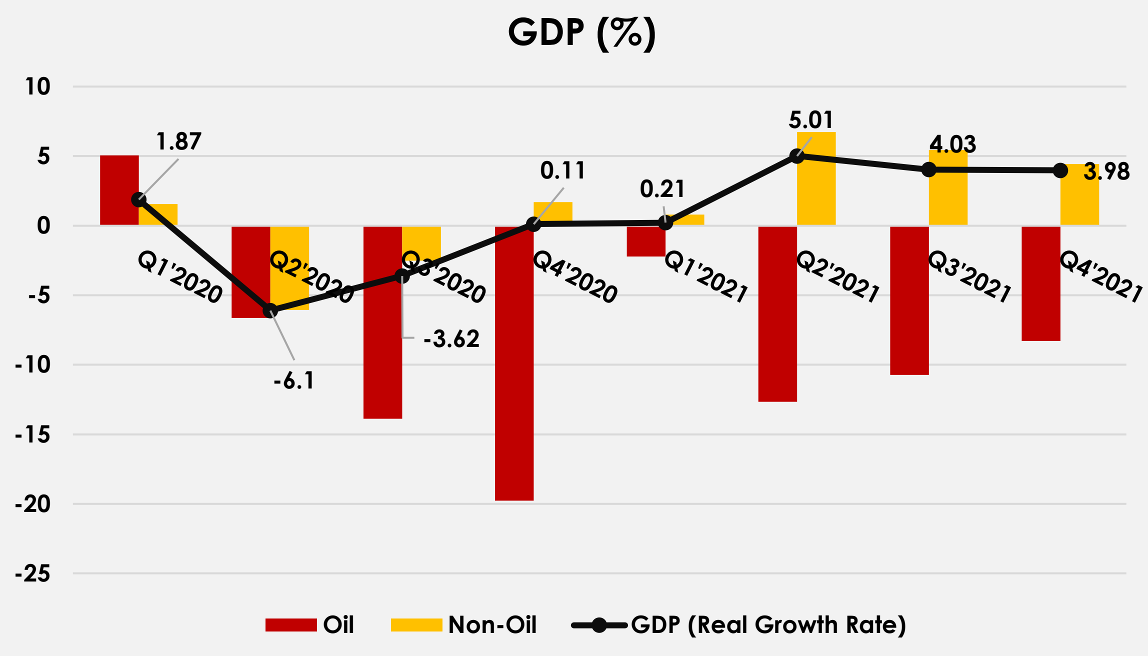
- In the meantime, beyond the suffering and humanitarian crisis from Russia's invasion of Ukraine, the entire global economy will feel the effects of slower growth and faster inflation. The impact will be affected by was of higher demand and low supply of commodities like food and energy which will push up inflation and erode value of income.
- As such, prices of good produced by the two countries (Russia and Ukraine) has begin to skyrocket as the prices of global oil prices rose hit its 14-year high, while the prices of natural gas, wheat and other commodities follow suite.
- This was seen as the U.S. and Euro Area inflation rose to 7.9% (40-years high) and 5.9% in February 2022, respectively.
- However, the Federal Reserve approved its first interest rate hike by 25 basis points to 0.25%-o.50% since 2018, an increment necessary to address the spiraling inflation rate without thwarting economic growth. Similarly, the Bank of England (BoE) increase the Bank Rate by 0.25 basis points to 0.75% from 0.5%

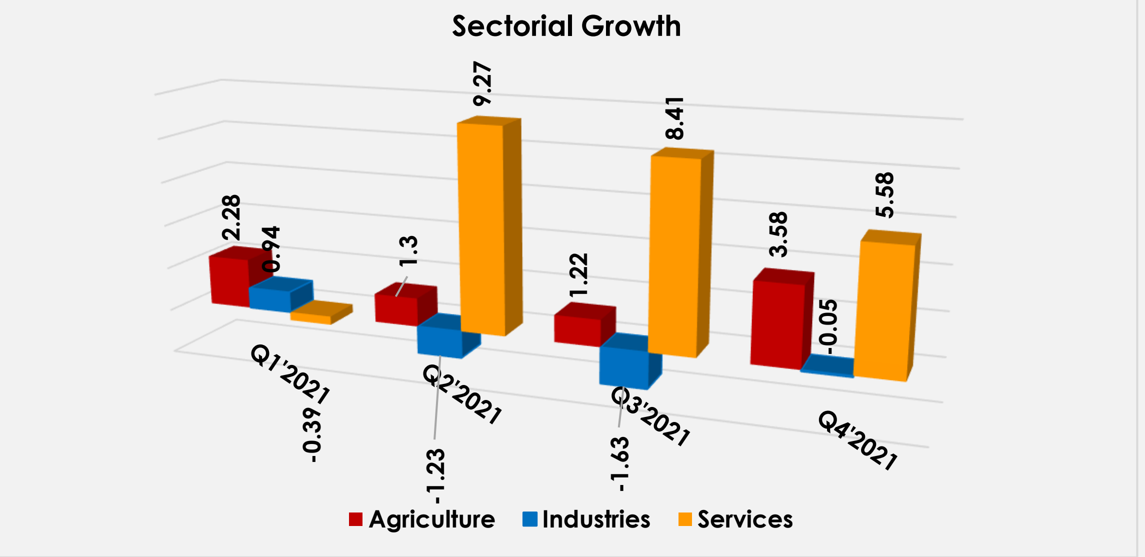
Sanctions Against Russia for Ukraine Invasion	
Military goods and mercenaries	A ban on the export of dual-use goods - items with both a civilian and military purpose, such as vehicle parts - has been imposed by the UK, EU and US.
Flights	All Russian flights have been banned from US, UK, EU and Canadian airspace. The UK has also banned private jets chartered by Russians.
Luxury goods	The UK banned the export of luxury goods to Russia – including vehicles, high-end fashion and art. The EU has already imposed a ban. The UK also put a 35% tax on some imports from Russia, including VOD
Targeting individuals	The US, EU and UK have together sanctioned over 1,000 Russian individuals and businesses, including wealthy business leaders known as oligarchs, who are considered close to the Kremlin. One high-profile oligarch sanctioned by the UK is Chelsea FC owner Roman Abramovich.
Oil and gas	The US banned all Russian oil and gas imports and the UK will phase out Russian oil imports by the end of 2022. The EU, which gets a quarter of its oil and 40% of its gas from Russia, switching to alternative supplies and make Europe independent from Russian energy "well before 2030". Germany has put on hold permission for the Nord Stream 2 gas pipeline from Russia to open.
Financial measures	Western countries have frozen the assets of Russia's central bank, to stop it using its $630bn (£470bn) of foreign currency reserves. This has caused the value of the Rouble to slump by 22% since the start of the year. That, in turn, has pushed up the price of imported goods and led to a 14% rise in Russia's rate of inflation.

Source: CNN, BBC, Al-jazera, Atlass Portfolio

Domestic Economy – GDP

- According to the recent GDP data released by the NBS for Q4'2021 and FY'2021, the GDP grew by 3.98% in Q4'2021, representing the highest growth rate in 7-years and sustaining the economic expansion to four consecutive quarters, after posting -6.10% and -3.62% contraction in Q2'2020 and Q3'2020, respectively, due to the aftermath effect of Covid19 pandemic. Similarly, the overall GPD in 2021 expanded by 3.40%y/y following the base year effect of -1.92%y/y contraction in FY'2020.
- The improved economic growth follows the Non-Oil component expansion by 4.44%y/y in FY'2021 compared to the -1.25%y/y contraction in FY'2020. This was impacted by the 5.61%y/y and 2.13%y/y growths in the services and agricultural sectors, as against the -2.22% contraction and 2.17% expansion in FY'2020, respectively. However, this was a result of the base-year effect and full economic reopening away from the induced Covid-19 pandemic lockdown.
- On the other hand, the Oil component of the GDP contracted by -8.30%y/y in FY'2021, compared to the -8.89%y/y contraction in FY'2021. The oil sector contraction follows the 14.9% decline in average daily oil production to an average of 1.54mbpd in 2021, compared to 1.77mbpd in FY'2020, as Nigeria failed to meet up to the OPEC quota of 1.66mbpd as of December 2021.
- The sectoral contribution to the real GDP in Services, Agriculture and Industries was 55.66%, 23.78% and 20.57% in Q2'2021 compared to 53.90%(53.49% - Q2'2020), 23.75%(24.65% - Q2'2020) and 23.75% (21.87% - Q2'2020) respectively in Q1'2021. This implies that only the Industries sector had a negative growth contribution to the real GDP, quarterly.



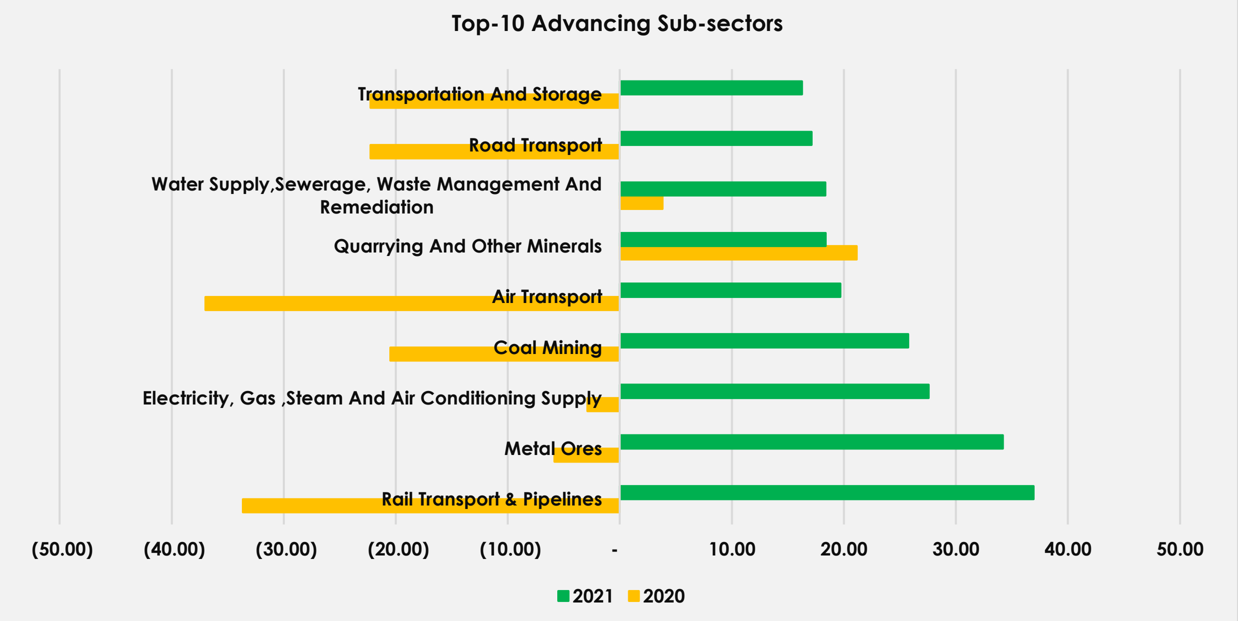


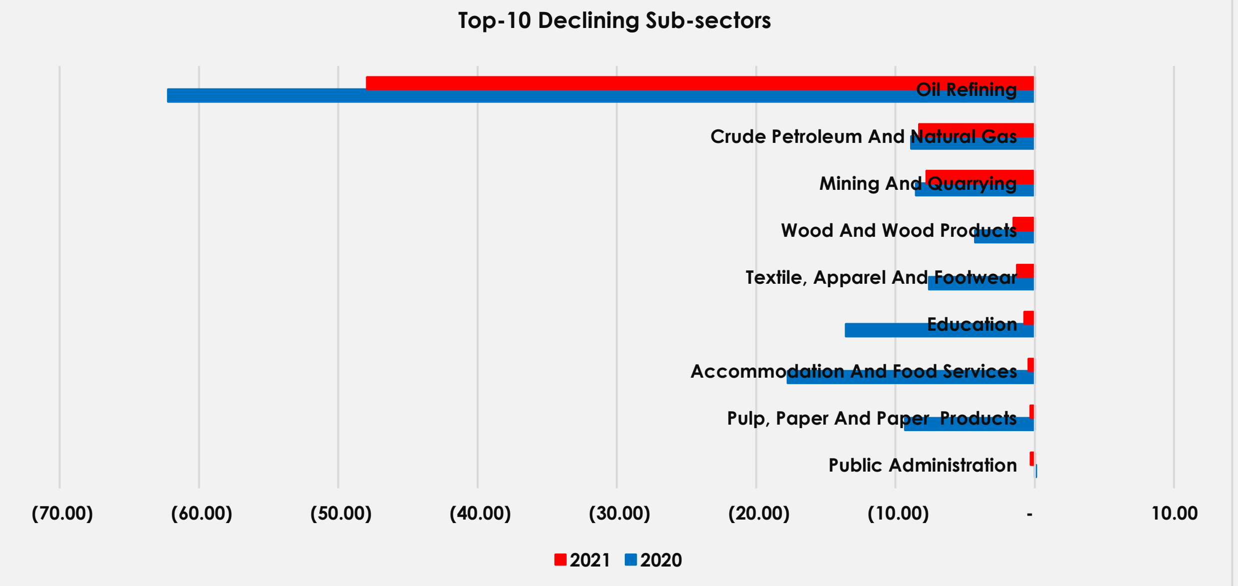
Source: NBS, Atlass Portfolio

Domestic Economy - GDP

- Predictably, Rail Transport and Pipelines came out as the fastest growing sub-sector in 2021 with 36.95%y/y growth from -33.64%y/y contraction in FY’2021. This was due to the revitalization and development of the Nigeria Rail-line system following the commissioning and full operation of the Lagos-Ibadan rail line combined with the base year effect. The growth in Rail Transport was followed closely by the expansion in Metal Ores by 34.19%y/y (vs -5.85%y/y contraction in FY’2020), Electricity, Gas, Steam and Air conditioning supply by 27.57%y/y (vs -2.90%y/y in FY’2020), Coal Mining by 25.75%y/y (vs 20.50%y/y in FY’2020) and Air Transport by 19.70%y/y (vs -36.98%y/y in FY’2020). While the Financial and Insurance sectors expanded by 10.07%y/y (vs 9.37% in FY’2020) and Telecommunications & Information Services expanded by 7.28%y/y (vs 15.90%y/y in FY’2020). Other sub-sectors that saw expansion was the Agricultural sector with 2.13%y/y expansion from 2.17% in FY’2020 due to heightened rate of insecurity across the country, and Trade with 8.62%y/y growth, compared to -8.49%y/y contraction in FY’2020 when there was Covid-19 lockdown measure.

- On the flipside, Oil Refining recorded the highest contraction of -47.94%, followed closely by the Crude Petroleum & Natural Gas with -8.30%, Wood and Wood Products with -1.54%, Textile, Apparel and Footwear with 1.27%y/y and Education sector with -0.75% contraction. While Accommodation & Food Services and Public Administration contracted by -0.45%y/y and 0.30%y/y respectively.

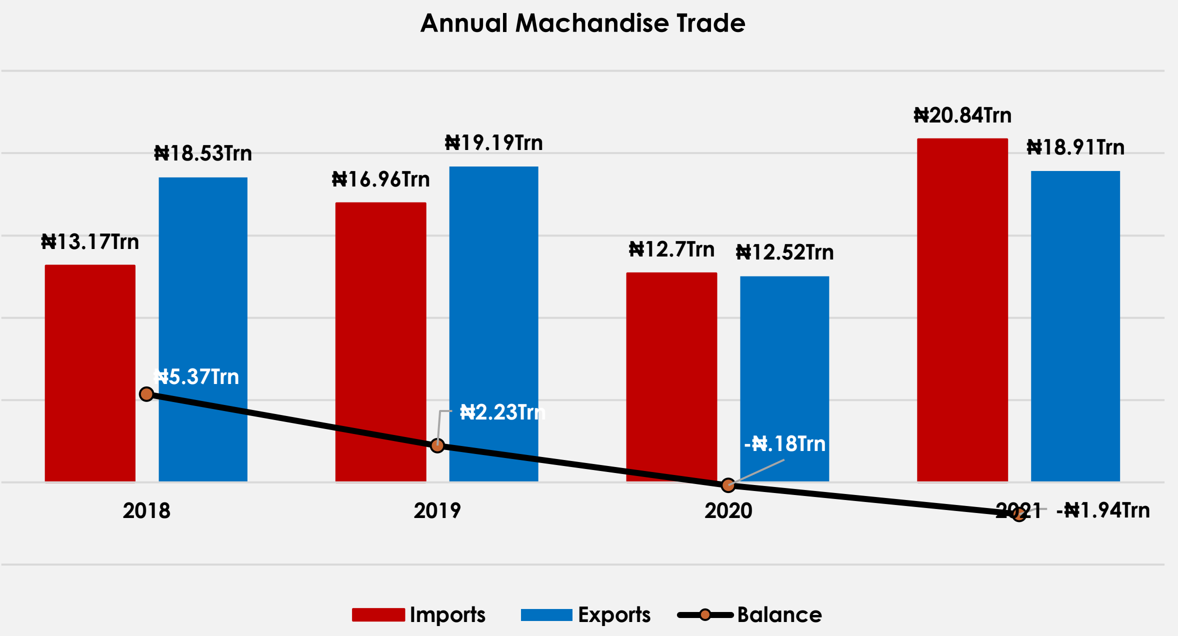


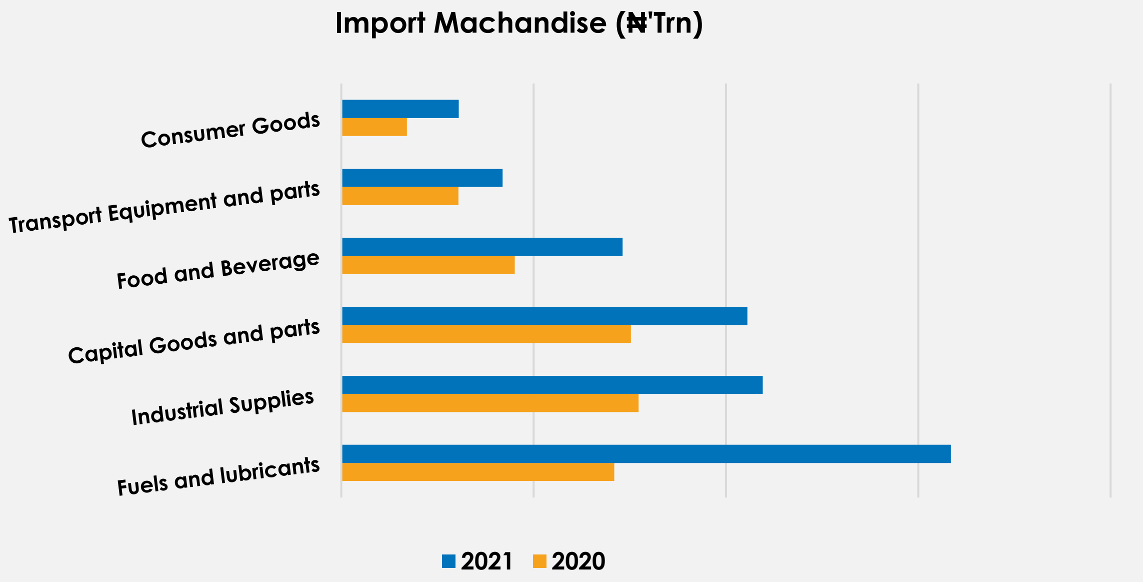


Source: NBS, Atlass Portfolio

Domestic Economy – Foreign Trade

- Nigeria's trade balance worsened to a deficit of ₦1.94tn in FY:2021 — the worst since NBS started tracking trade performance in 2010 — as imports (₦20.84tn) outpaced exports (₦18.91tn). We attribute this partly to a stronger rebound of trade in 2021 (Imports: 64.11% y/y, exports: 50.99% y/y) and an uptick in global inflation.
- The higher export earning recorded in 2021 was spurred by an increase from crude oil sales (up 52.58% to ₦14.41Trn) as well as surge in non-crude oil exports (up 46.10% to ₦4.50Trn). The increase is attributed to the global oil price appreciation to and average of $70.68bpd in 2021, compared to $41.96bpd in 2020, despite the decline in production output.
- In the meantime, the rise in import earnings was driven mainly by 123.20% increase in Fuels and Lubricants (Motor Spirit (Petrol) and Others) to ₦6.34Trn from ₦2.84Trn in 2020. This was followed by an 79.42% increase in Consumer Goods (Durum Wheat Mackerel) to ₦1.22Trn (vs ₦681.57Bn in 2020), 62.08% surge in Foods & Beverages (Primary & Processed) to ₦2,92Trn (vs ₦1.80Trn in 2020) and 41.81% upsurge in Industrial Supplies to ₦4.38Trn (vs ₦3.09Trn in 2020)
- The increases to the uptick can be linked to the global crude oil prices, weak Naira exchange rate which depreciated by 10.32% from ₦394/USD to ₦435/USD in 2021.

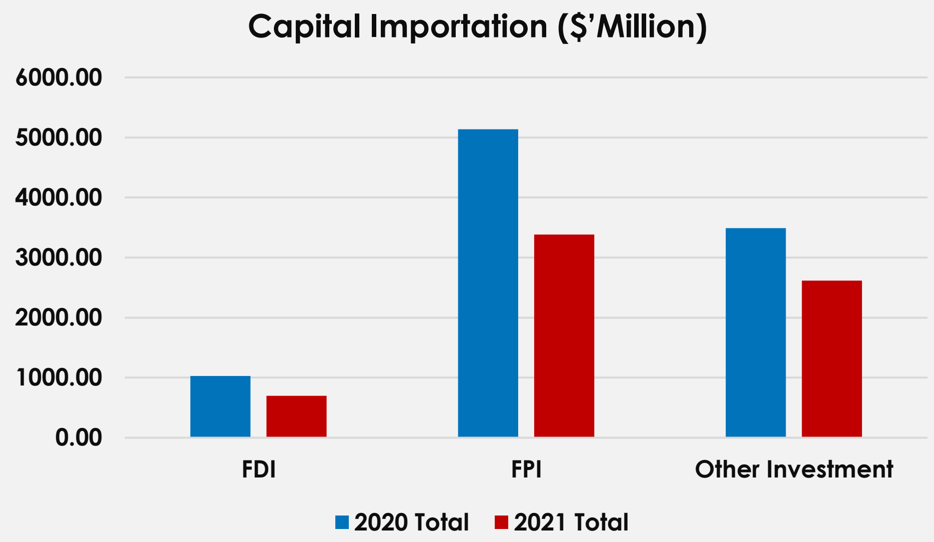


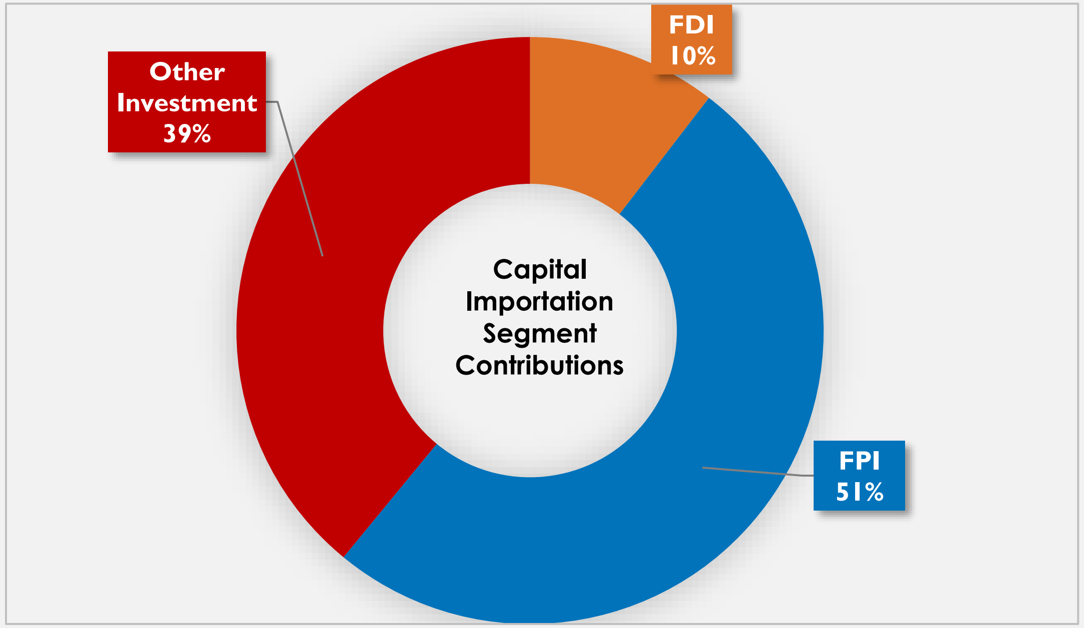


Source: NBS, Atlass Portfolio

Domestic Economy – Capital Importation

- The total foreign investment inflow into Nigeria in 2021 stood at $6.70 billion, representing a 30.61%y/y contraction compared to $9.66 billion in the corresponding of 2020. The decline represents the lowest capital inflow in 5-years ($5.12 billion in 2016).
- Specifically, all the components witnessed capital flight in 2021, as the Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI) and Other Investment dropped by 34.10%y/y, 32.00%y/y and 25.07%y/y, respectively to $3.39 billion, $698.78 million and $2.62 billion compared to $5.14 billion, $1.03 billion and $3.49 billion the prior period of 2020.
- Meanwhile, some of the sub-component of foreign investment in Nigeria had expansion while many others contributed to the decline of foreign investment into Nigeria in 2021.

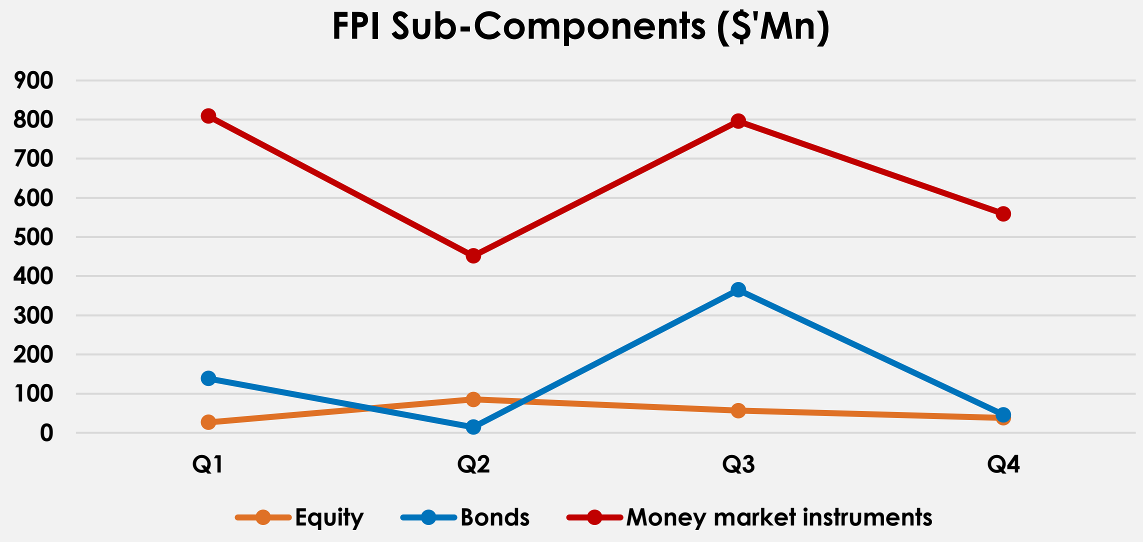


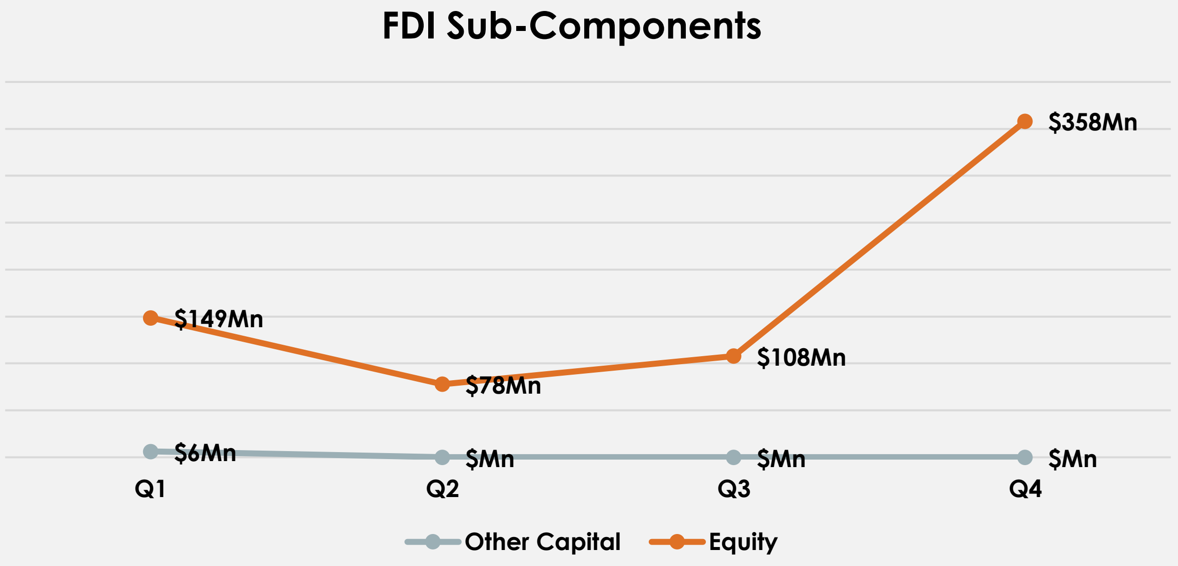


Source: NBS, Atlass Portfolio

Domestic Economy – Capital Importation

- Explicitly, on the Foreign Direct Investment (FDI), the Equity Investment contracted by 32.41%y/y to $692.58 million (vs $1.02 billion in 2020), while Other Capital rose by 110.50%y/y to $6.20 million (vs $2.95 million in 2020). Both the Equity and Money Market Instruments in the Portfolio Investment dipped by 72.65%y/y and 37.00%y/y, respectively, to $206.54 million (vs $755.12 million) and $2.61 billion (vs $4.15 billion in 2020).
- The sharp decline in the size of foreign investment inflows into Nigeria in 2021, can be linked to the high inflation rate leading to the negative return on investment, the decline of Naira value in the FX market and high insecurity rate especially in the northern part of the country.





Source: NBS, Atlass Portfolio

Domestic Economy – Capital Importation

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Headline Inflation

Dec'2021 15.63%

Feb'2022 15.70%

All Items Less Farm Produce

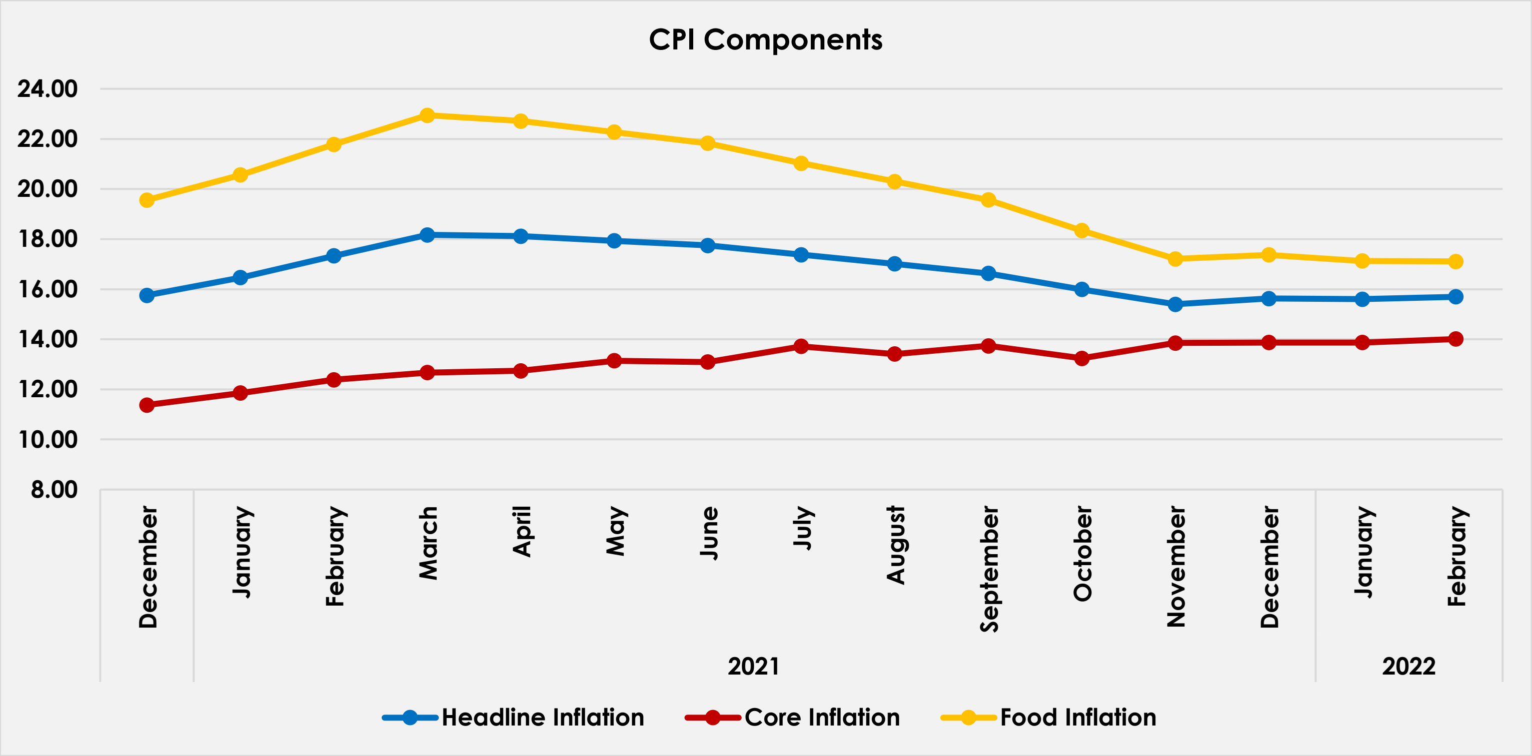
Dec'2021 13.87%

Feb'2022 14.01%

Food Items

Dec'2021 17.37%

Feb'2022 17.11%



Source: NBS, Atlass Portfolio

- The Nigeria Inflation rate soared in February 2022 amidst fuel scarcity and high electricity tariff.
- The Food inflation declined to 17.11% from 17.37% in Dec'21, impacted by the base year effect and CBN agriculture interventions. While the Core Inflation grew from 13.87% in Dec'21 to 14.01% following importation of dirty fuel in the early part of February and the complete removal of subsidy on electricity tariff by the federal government.

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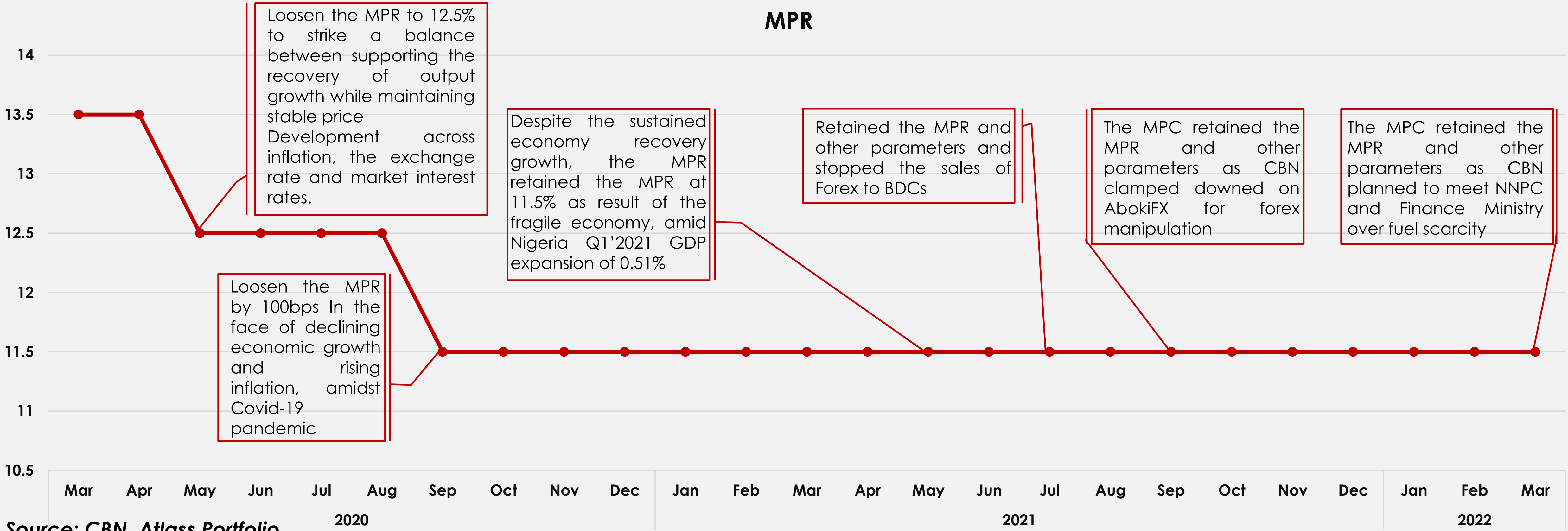
Monetary Policy – MPR



Source: CBN, Atlass Portfolio

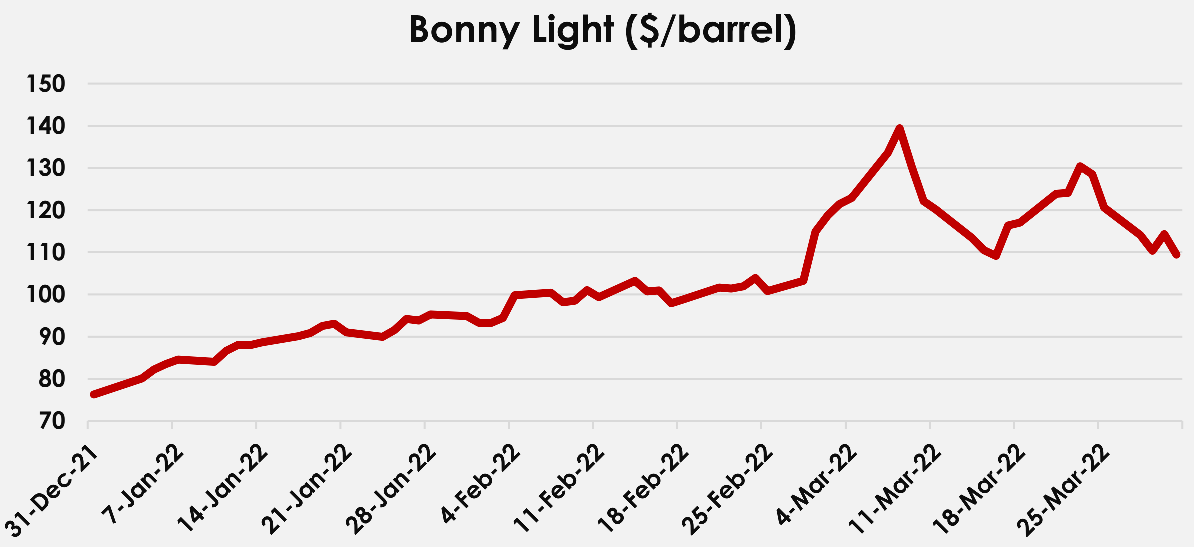
Despite the rising rate of inflation, the Monetary Policy Committee (MPC) decided to hold the Monetary Policy Rate (MPR) at 11.5% for the nineth consecutive time, while other parameters such as Cash Reserve Ratio, Liquidity Ratio and Asymmetric Corridor remained unchanged.

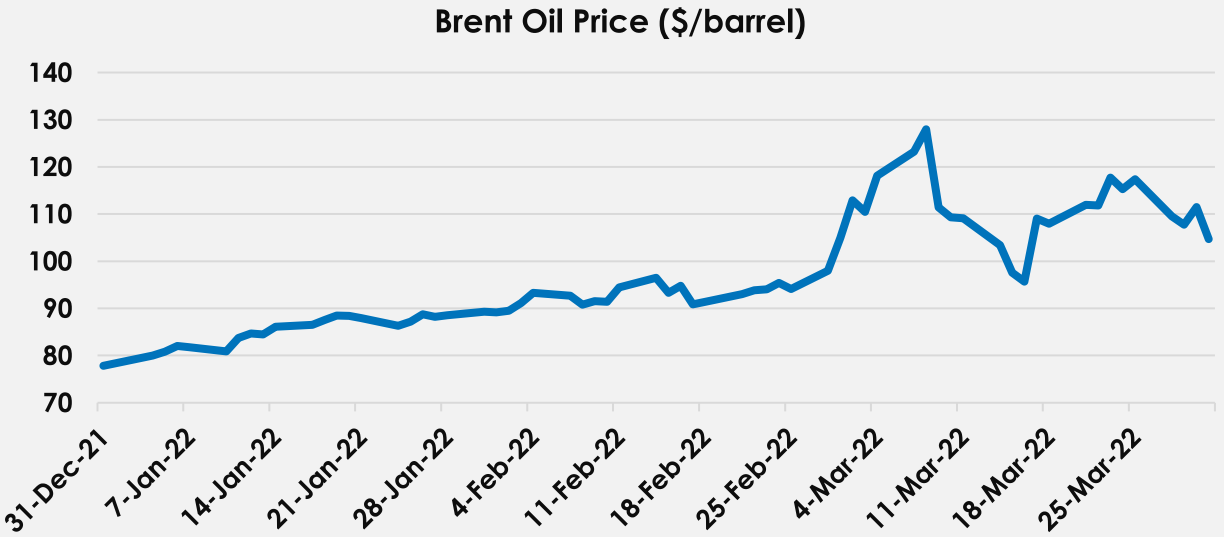
The CBN believes the rising inflation rate was not driven by too much money chasing too few goods as purchasing power remained low, but as a result of temporary changes such as the importation of dirty fuel and external factors beyond the CBN.

Domestic Economy – Oil Price

As the U.S. and the European countries imposing several economic sanction on Russia (world's largest exporter of oil to global markets and the second largest crude oil exporter behind Saudi Arabia), the global oil price appreciated by $20.75 from $87.18/barrel on Dec'20, to close at $107.93/barrel as of March 31, after reaching 14years high of $140/barrel on March 7, following the escalating Russia-Ukraine conflict.

The global oil benchmark (Brent) rose by 26.93% to close in March at $104.71 per barrel. While the Nigeria oil (Bonny Light) surged by 33.2% to close at $109.45 per barrel



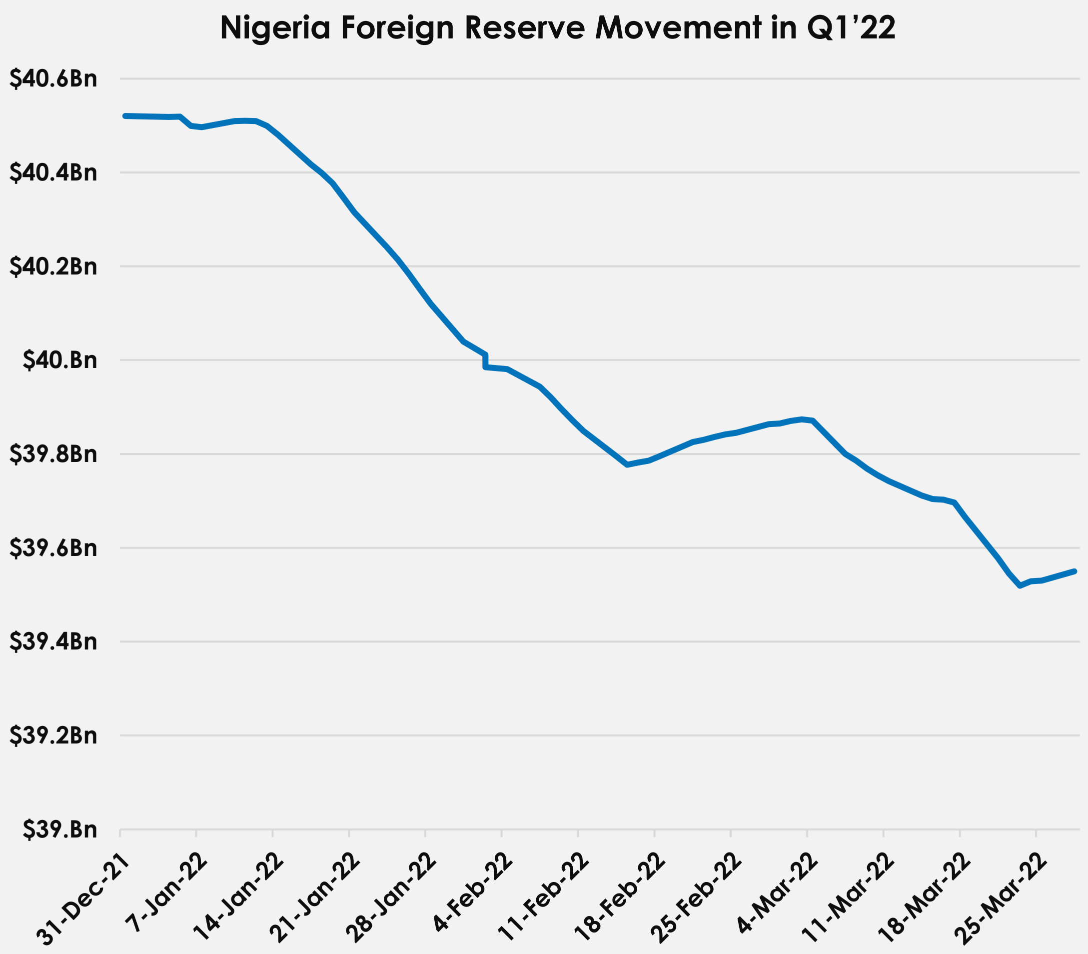


Source: Oilprices.com, CBN, Atlass Portfolio

Foreign Reserve

Despite the increasing crude oil prices, the Nigeria foreign reserve remained on the downward trend following the FX market intervention by the apex bank, in a bid to ensure the stability of the Naira by selling FX in the official market at a conservative rate to manage the volatility in the currency.

Consequently, the nation's Foreign Reserve closed the Q1'2022 at $39.55 billion to decrease by $973.78 million compared with Q4'2021 closing of $40.52 billion



Source: CBN, Atlass Portfolio

Domestic Market – Foreign Exchange

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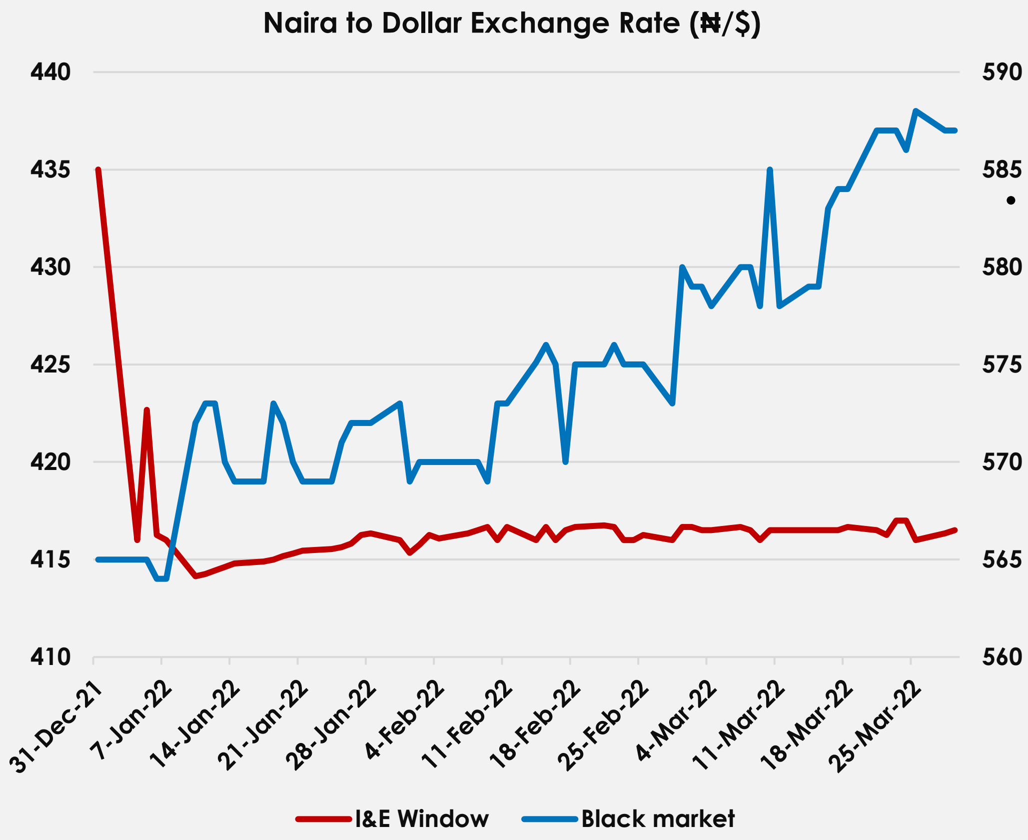

Source: FMDQ, BDCs, Atlass Portfolio

- The Central Bank of Nigeria (CBN) in reaction to the repatriation-related demands reacted with an unorthodox policy measures within Q1'21, such as temporary suspension of international ATM withdrawals and POS system, downward review of spending limits on cross-border payment.
- Also, announced the introduction of e-valuator and e-invoice for import and export in Nigeria to eliminate over-invoicing and mispricing of goods and services. And, the introduction of RT200 Non-Oil Export Proceeds Repatriation Rebate Scheme to reduce exposure to volatile sources of foreign exchange and earn more stable and sustainable inflows of FX as the CBN aims to raise $200Billion in FX from non-oil proceeds over the next 3-5years by incentivizing exporters in the Non-Oil export sector to encourage repatriation and sale of export proceeds into the FX Market.
- Meanwhile, the Naira in Q1'2021 depreciated by ₦18 to close Q1'2022 at ₦417/$ in the I&E Window. While it (Naira) lost ₦23 in value to close at ₦588/$, according to the BDCs.

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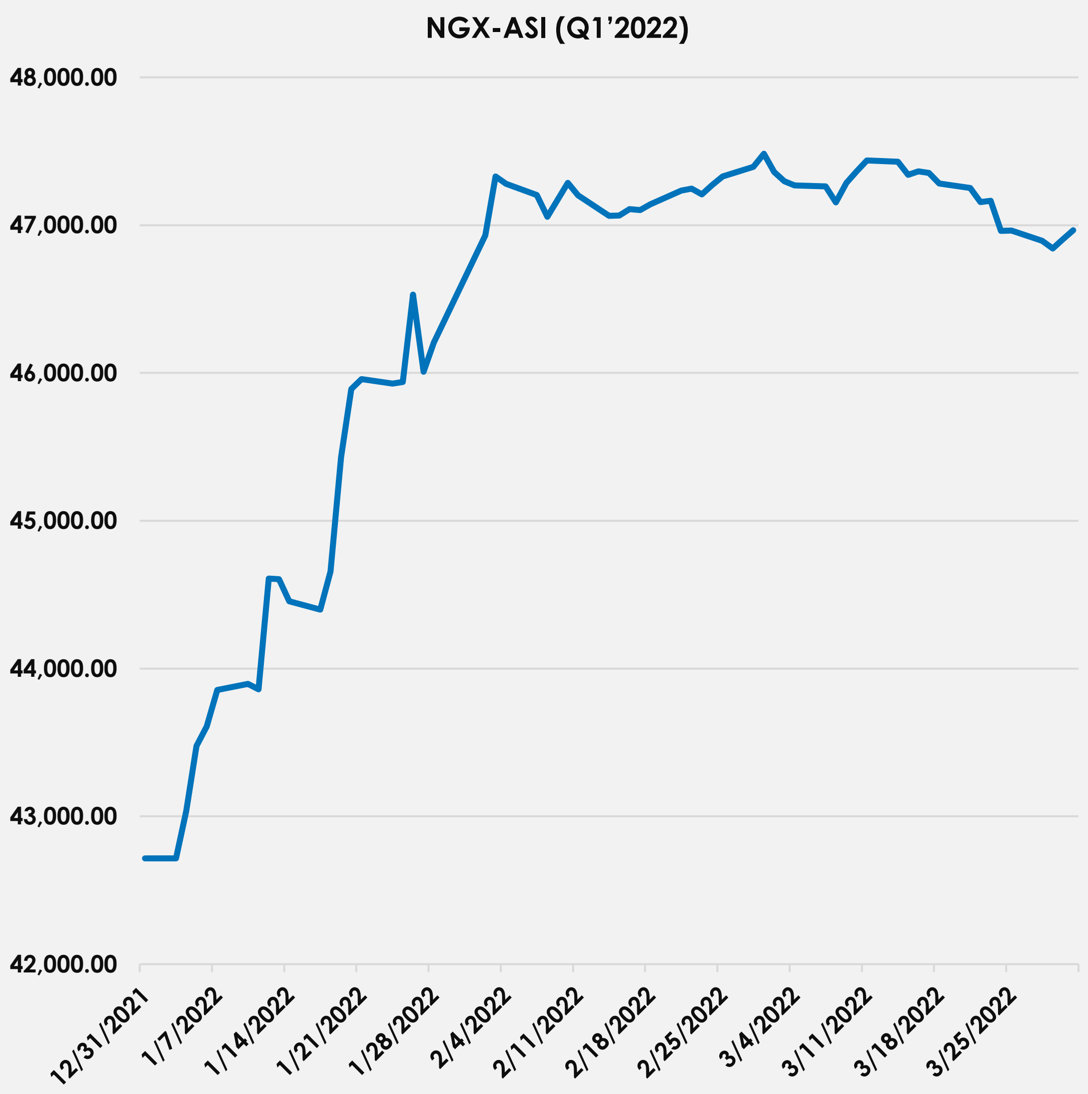
- ✓ Recovery of shares trapped in inactive/suspended and dead firms
- ✓ Recovery of shares and dividend of late relatives
- ✓ Dematerialization of lost/damaged share certificates
- ✓ Consolidation of multiple shareholding accounts.
- ✓ Consolidation of CSCS accounts in multiple houses.

Domestic Market – Equity Market



Source: NGX, Atlass Portfolio

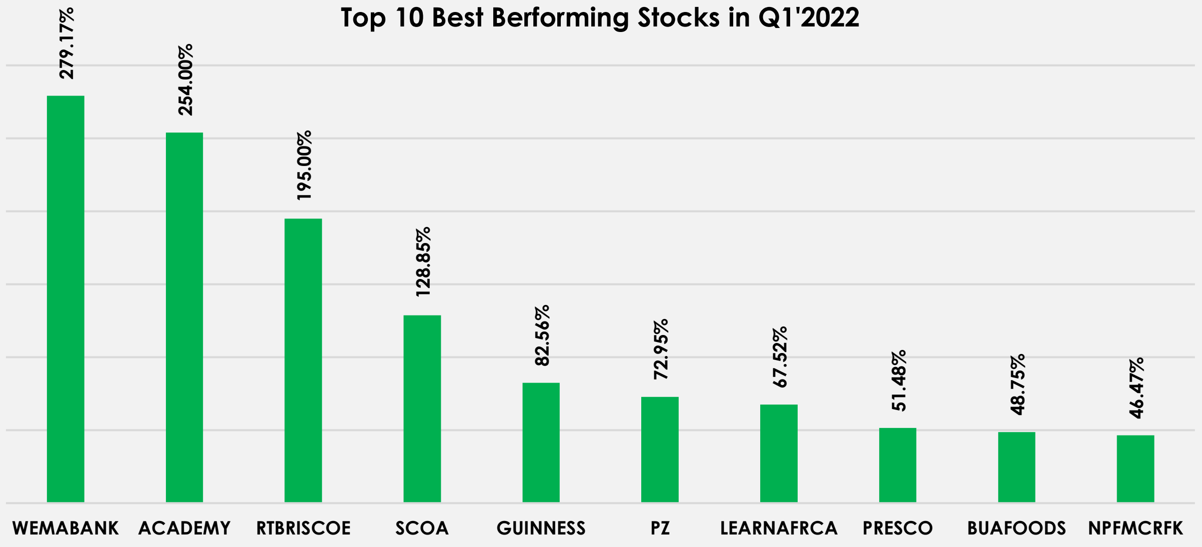
- The Nigeria equity market kick-started 2022 in bullish sentiment as investors sustained the previous year's bullish sentiment. The growth follows the investors' appetite for fundamental viable stocks that drove the market index to as high as 10% gain within the first two months of 2022. However, the market began to retardate in march as investors began profit-taking despite the announcement of impressive corporate earnings and declaration of dividends from the fundamental stocks.

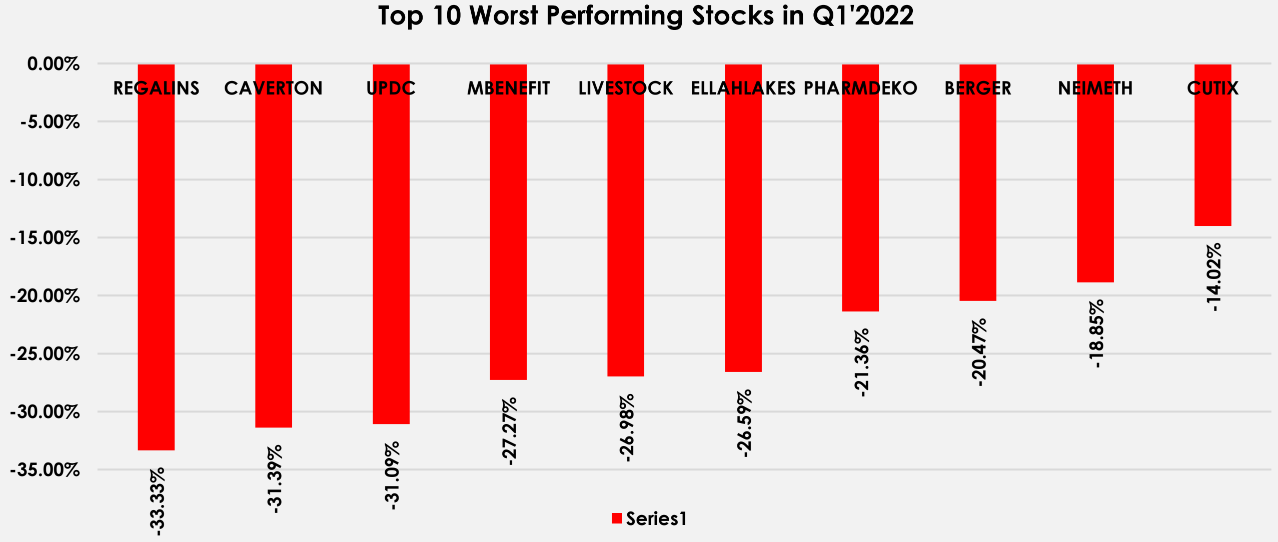
- Consequently, the All-Share Index rose by 4,249.04 basis points, representing 9.95% growth to close at 46,965.48 points in Q1'2022. While the Market Capitalization gained ₦3.01 trillion to represent a 13.52% increase and closed the Q1'2022 at ₦25.31 trillion as BUA Foods Plc listed on the exchange.

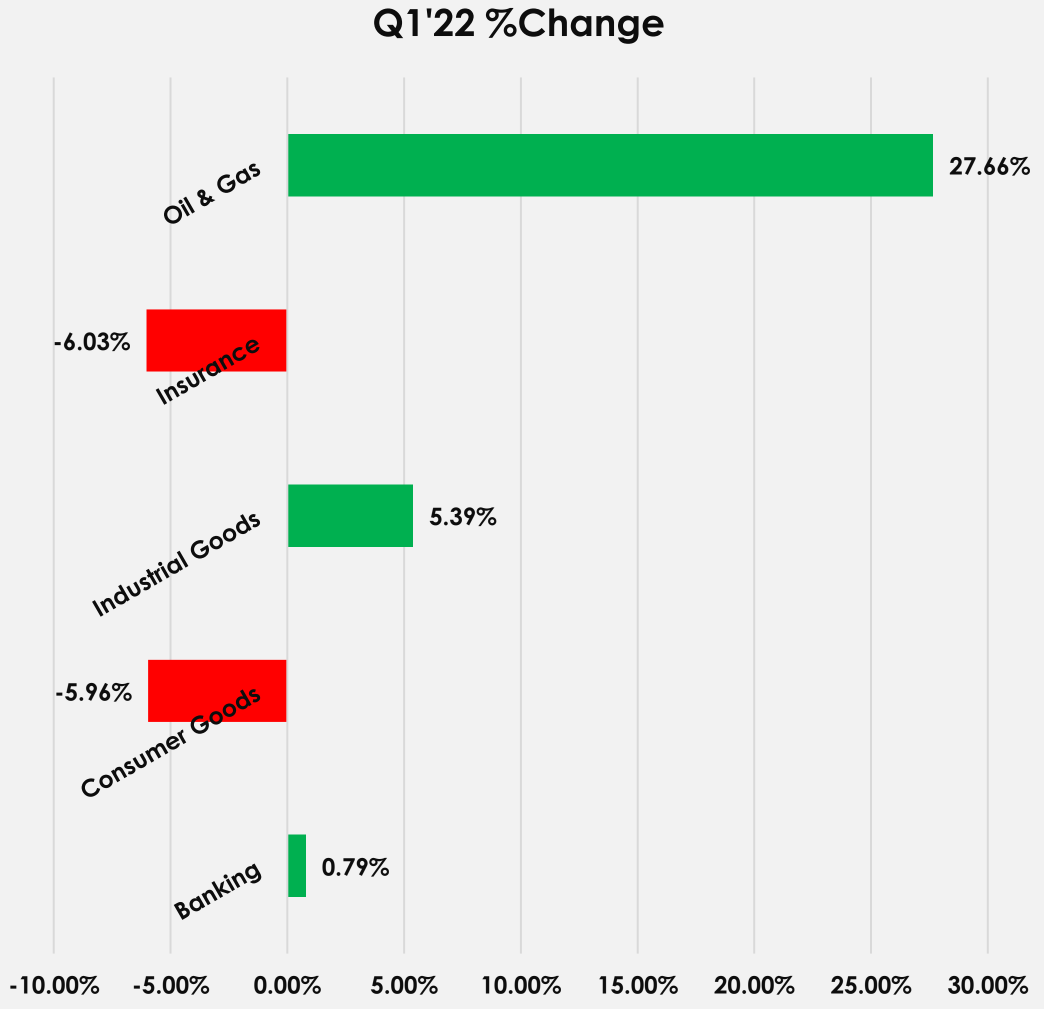
- In the meantime, a total turnover of 22.27 billion shares valued at ₦346.55 billion in 295,435 deals was traded in Q1'2022, compared to 24.50 billion volume of shares worth ₦282.80 billion in 264,001 traded in Q4'2021.

- Meanwhile, the Oil & Gas Sector emerged as the best performing sector with an upsurge of 27.66% YTD, trailed by Industrial Goods (5.39%) and Banking (0.79%), respectively. While investors dumped the Insurance and Consumer Goods sectors as they declined by 6.03% and 5.96%, respectively.

Domestic Market – Equity Market







Source: NGX, Atlass Portfolio

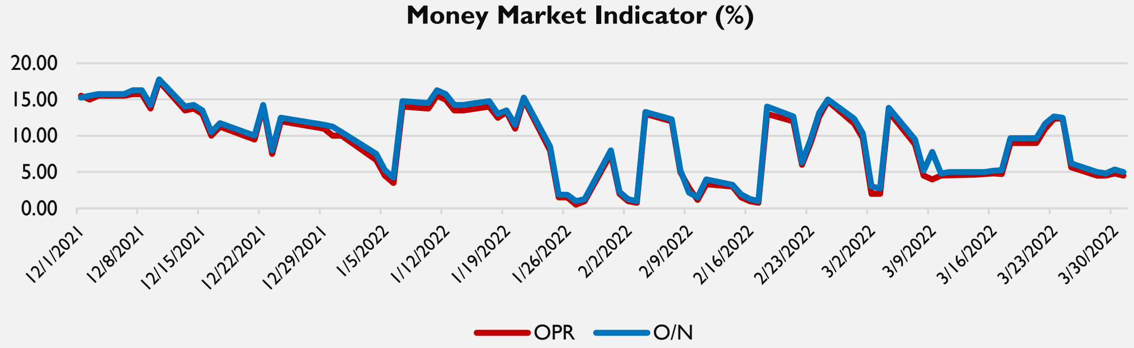
Domestic Market – Fixed Income

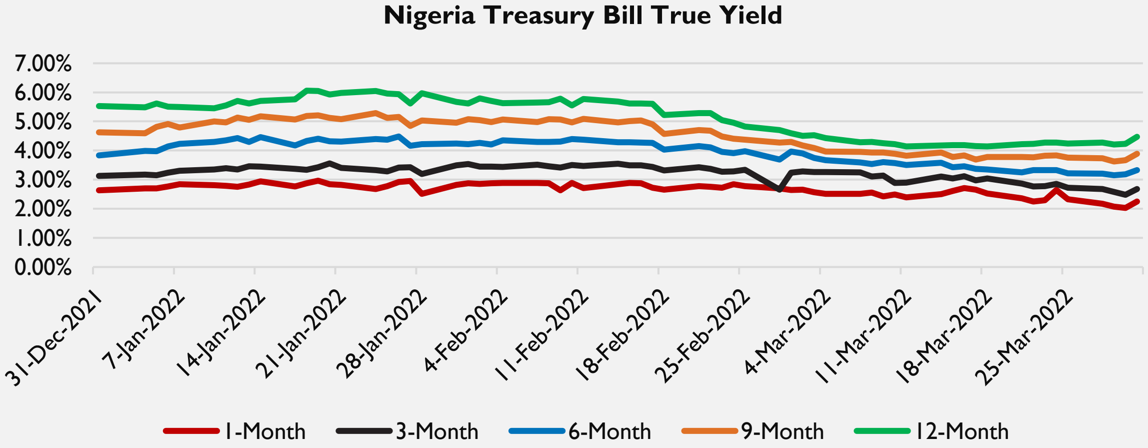
Lending rates declined in Q1'2021 due to the Open Market Operations (OMO) maturity of ₦328.21 billion and FAAC disbursement to both States and LGs, which boosted system liquidity despite the NTB sales and OMO auction of ₦100 billion.

Consequently, the short-term instruments Such as the Open Repo Rates (OPR) and Over Night (O/N) rates plunged to 4.50% and 5.00% from 10.00% and 10.50%, respectively, in Q4'2021.

In the secondary T-bills market, the average yield on the 12-month instrument plunged to 4.47% from 5.53%. Also, the 91-day and 180-day declined to 2.68% and 3.33% from the previous quarter's close of 3.13% and 3.83%, respectively.

Also, the average bond yield declined on the medium and long term instruments as the 1yr, 4yr, 7yr, and 10yr closed the Q1'2022 at 3.20%, 10.15%, 10.67%, and 10.87% from 7.46%, 710.55%, 12.43 and 12.60%, respectively in Q4'2021.





Bond Yields	Q1'2021			Q4'2021			Q1'2022		
	Close	Open	% Change	Close	Open	% Change	Close	Open	% Change
1YR	4.80%	0.63%	▲ 4.17%	7.46%	6.26%	▲ 1.20%	3.20%	7.46%	▼ -4.26%
2YR	6.34%	2.30%	▲ 4.04%	7.50%	8.12%	▼ -0.62%	7.72%	7.50%	▲ 0.22%
4YR	8.92%	4.27%	▲ 4.65%	10.55%	9.60%	▲ 0.95%	10.15%	10.55%	▼ -0.40%
7YR	10.49%	6.48%	▲ 4.01%	12.43%	11.55%	▲ 0.88%	10.67%	12.43%	▼ -1.76%
10YR	10.72%	7.19%	▲ 3.53%	12.60%	12.02%	▲ 0.58%	10.87%	12.60%	▼ -1.73%

Source: FMDQ, Atlass Portfolio

Outlook

- We expect the global economy to point lower around 3%, lower than the World Bank and IMF expectations. This was influenced by the Russia-Ukraine conflict which is directly affecting trade, energy, and commodity prices due to the sanctions imposed on Russian for invading Ukraine by the U.S. and European countries, which are currently affecting investments, and policy responses, across the Euro Area and the U.S.

- We expect the Q1'2022 GDP growth to grow around 3.2%, despite the uptick in the inflation rate, the decline in ease of doing business due to the increased energy prices, and the high insecurity rate.

- The inflationary rate to sustain uptick Q2'2022, following the impact of the Russia-Ukraine conflict and pressure on Naira in the FX market to continue to affect the living of an ordinary citizen.

- Despite the increasing global crude oil prices and the recent increase of Nigeria's production quota by the OPEC from 1.66mbpd, we expect the external reserve to be further pressured in Q2'2022, following the continued intervention in the FX market by the CBN.

- We expect the equity market to reverse the current bearish trend after the closure of ex-dividend as the price moderation would trigger investors' bargain-hunting in Q2'2022. However, as we approach further to the election period, the uncertainty surrounding who will be the next president may disturb investors' confidence.

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