CORONATION

TIGHTROPE,
Balancing Growth:
Mid-year Economic Report

CORONATION

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FOREWORD

CORONATION

Paul Abiagam

Ag. Managing Director

"The first half of 2024 has presented significant shifts in Nigeria's economic landscape, offering both challenges and opportunities for strategic navigation. Our focus remains on delivering value to our clients by providing the insights and tools needed to make informed decisions in this evolving environment.

We observed a notable recovery in the oil sector, with a 5.70% y/y growth in Q1. This is the second consecutive quarter of positive momentum, underpinned by improved production levels. As these developments unfold, we continue to support our clients in capitalizing on the opportunities that arise from this sector's revival. In the non-oil economy, GDP growth stood at 2.8% y/y, with resilient sectors contributing significantly to overall economic performance. Our thorough analysis categorizes these sectors based on their stability, allowing us to better assess where sustainable growth can be expected. However, challenges remain. Inflationary pressures, driven by FX depreciation and supply chain disruptions, continue to exert strain on the economy. With inflation expected to stay above 30% for the remainder of the year, we are closely monitoring these dynamics to guide our clients through these uncertain times. The exchange rate has also seen volatility, with the Naira stabilizing around N1,500/USD by the end of Q2. While we anticipate some fluctuations in the near term, we remain optimistic about the potential for stability as foreign inflows increase and oil production improves.

On the fiscal front, public debt has risen sharply, reaching N121.6 trillion as of March 2024. This significant increase highlights the importance of sound fiscal management and strategic planning in navigating the current economic landscape. Nigeria's monetary policy maintained a tightening stance. As inflationary pressures persist and the economy faces ongoing challenges, the Central Bank has signaled a cautious approach, balancing the need for further rate hikes against the potential impacts on economic growth

Our commitment to excellence drives us to deliver tailored solutions that address the unique needs of our clients. As we look ahead, we will continue to leverage our expertise to provide the strategic guidance necessary to thrive in these complex times".

CHIEF ECONOMIST’S NOTE

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Chinwe Egwim

Chief Economist

In the first half of 2024, the global economy demonstrated resilience, particularly in the services sector and international trade. Emerging markets and developing economies are forecasted to grow by 4.3%, buoyed by China’s economic rebound, while advanced economies are expected to expand at a more modest 1.7%. Oil prices averaged USD85/b, shaped by slower demand from China and strong U.S. supply, alongside geopolitical tensions and OPEC’s production cuts. Agricultural commodities experienced price adjustments, influenced by global supply chain disruptions and varying weather conditions, with wheat and soybeans seeing declines due to improved global stocks and harvests, respectively.

Nigeria’s economic landscape reflects both challenges and opportunities. GDP growth of 2.98% y/y in Q1 2024, down from 3.46% in Q4 2023, highlights ongoing structural issues like inflationary pressures, currency depreciation, and low agricultural productivity. However, the oil sector’s recovery, driven by reforms, offers optimism, and we project a revised full year forecast of 3.2%. Inflation remains a critical concern, expected to stay above 30% throughout the year, significantly eroding consumer purchasing power and squeezing profit margins. The exchange rate could stabilize within the N1,350 – 1,600 range, contingent on increased FX inflows from Foreign Portfolio Investors and the expected USD2.3bn World Bank loan. Nonetheless, the substantial public debt burden, now at N121.6trn, underscores the urgency of fiscal consolidation and strategic debt management to mitigate further currency and inflationary pressures. The evolving macroeconomic environment presents both risks and opportunities. The persistent inflationary pressures and exchange rate volatility are likely to exert upward pressure on interest rates, affecting borrowing costs and potentially slowing down credit growth. However, the banking sector could benefit from higher yields on government securities, with the average stop rate for FGN Bonds reaching 19.9% in Q2 2024. This offers a favorable environment for banks to optimize their investment portfolios, albeit with increased credit risk considerations. In navigating these challenges, the core focus should be on strengthening risk management frameworks, optimizing capital allocation, and leveraging technology to enhance efficiency and customer engagement. The ability to adapt to the dynamic economic landscape will be crucial for sustaining profitability and supporting broader economic stability”.

GLOBAL

GEOPOLITICAL TENSION

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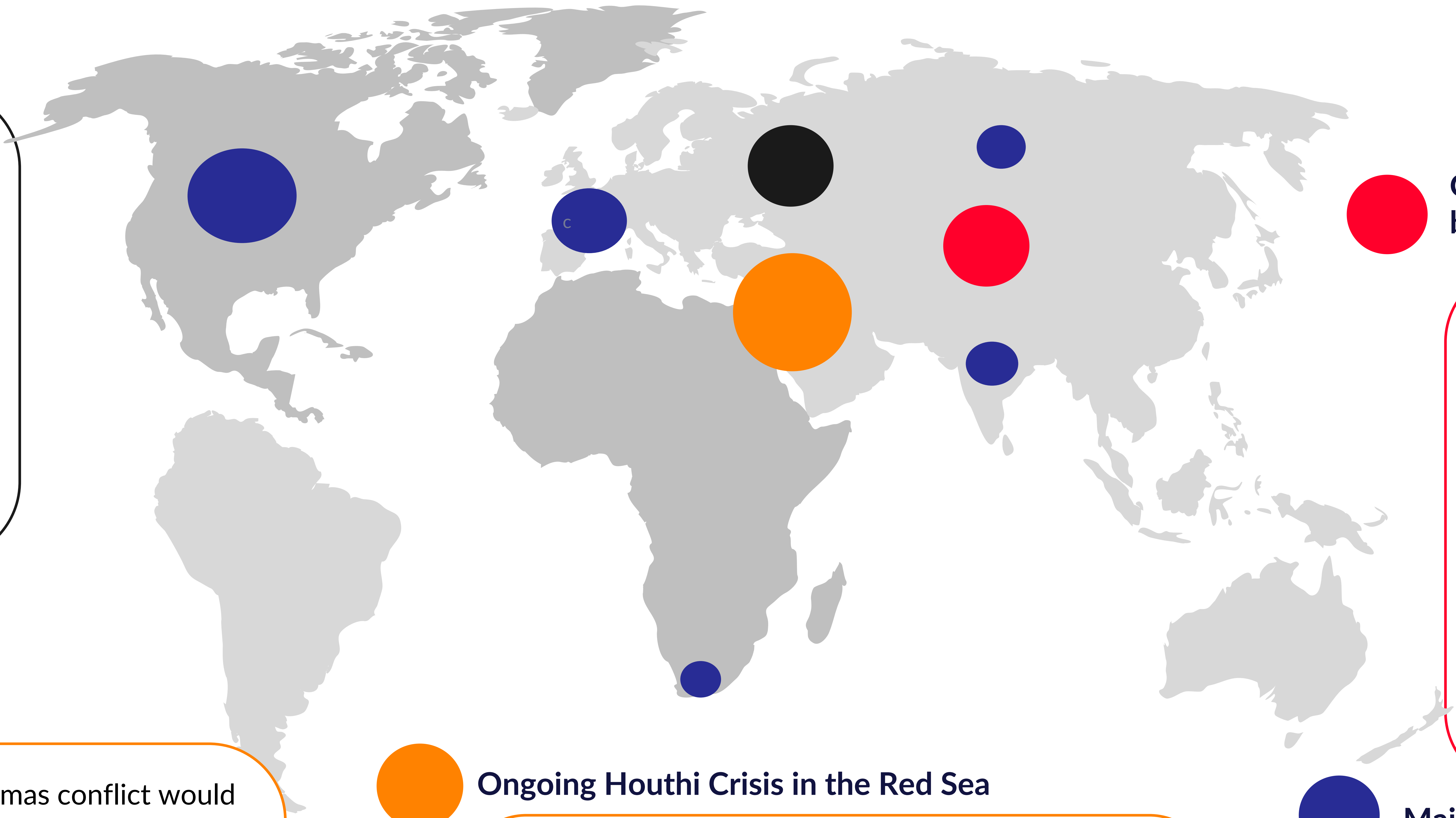

Russia –Ukraine Crisis

- ✓ Intensified assaults on Ukraine's infrastructures could further disrupt food supply chains and exacerbate prices of global commodities.
- ✓ Potential escalation poses downside risks to Nigeria and other sub-Saharan countries' food import bills.

Geopolitical tensions to remain between China and Taiwan.

The China-Taiwan tension is anticipated to evolve over the coming years. While an immediate conflict seems unlikely at this stage, escalations could have significant implications for global supply chains and geopolitical dynamics, warranting careful consideration and monitoring.

Israel-Hamas Conflict

- ✓ Initial expectations that the Israel-Hamas conflict would be resolved quickly waned, resulting in heightened regional risks, which adversely impacted market risk sentiments and have impacted oil prices.
- ✓ The recent assassination of Hamas's political leader, Ismail Haniyeh, following the death of Hezbollah's top commander in a Beirut airstrike could lead to potential retaliatory actions from Iran and its allies. This could heighten tensions in the Middle East and exacerbate disruptions in crude oil supply chains.

Ongoing Houthi Crisis in the Red Sea

- ✓ Trading activities have been restricted along major shipping routes, including in the Suez Canal due to attacks by Houthi rebels at the Red Sea and Gulf of Eden.
- ✓ Consequently, the Cape of Good Hope canal, which is a longer route, has been used to redirect most trade shipments, leading to improved global trade flow.

Major Economies hold elections

- ✓ The US political election is set to hold in November 2024. The outcome of the election could lead to a significant adjustment of trade and global economic policies.

GLOBAL ECONOMIC REVIEW

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GDP

GDP growth in select economies remained resilient in the H1 '24, driven by stronger growth momentum in the service sector, and improved trade activities. The IMF Global GDP growth is projected at 3.2%y/y for 2024. Furthermore, the 2024 growth projection for the advanced economies remains stable at 1.7%. Meanwhile, the growth projection for emerging markets and developing economies was revised upward to 4.3% driven by a rebound in China economic activity.

OIL

Oil price movements in first half of the year was largely influenced by slower demand growth from top oil importers like China, amid strong oil supply from the United States. Geopolitical tension in the Middle East and the extension of production cuts by OPEC members continue to impact price movements. We currently see oil price at an average of USD85/b for FY2024.

AGRIC COMMODITIES

In the first half of the year, prices of agricultural commodities under our preview were largely influenced by factors such as global supply chain disruption and adverse weather conditions.

Wheat: The price of wheat declined in the first half of the year. This can be attributed to improved global stocks of wheat on the back of increased grain exports from Ukraine.

Maize and Soybeans: Improved harvest in the US, Brazil, and Argentina along with decreased demand from China, exerted downward pressure on prices.

Cocoa: Prices declined partly due to expectations of improved weather conditions in top producing countries.

INFLATION AND MONETARY POLICY

For most economies, headline inflation maintained a downward trajectory in the first half of the year. Given the slowdown in inflation seen in these select economies, some central banks have initiated policy rate cuts. Nonetheless, a cautious stance on monetary policy easing prevails. We note that current global financial conditions continue to exacerbate fiscal pressure, necessitating fiscal recalibrations in emerging and developing economies.

GDP GROWTH IN SELECT ECONOMIES

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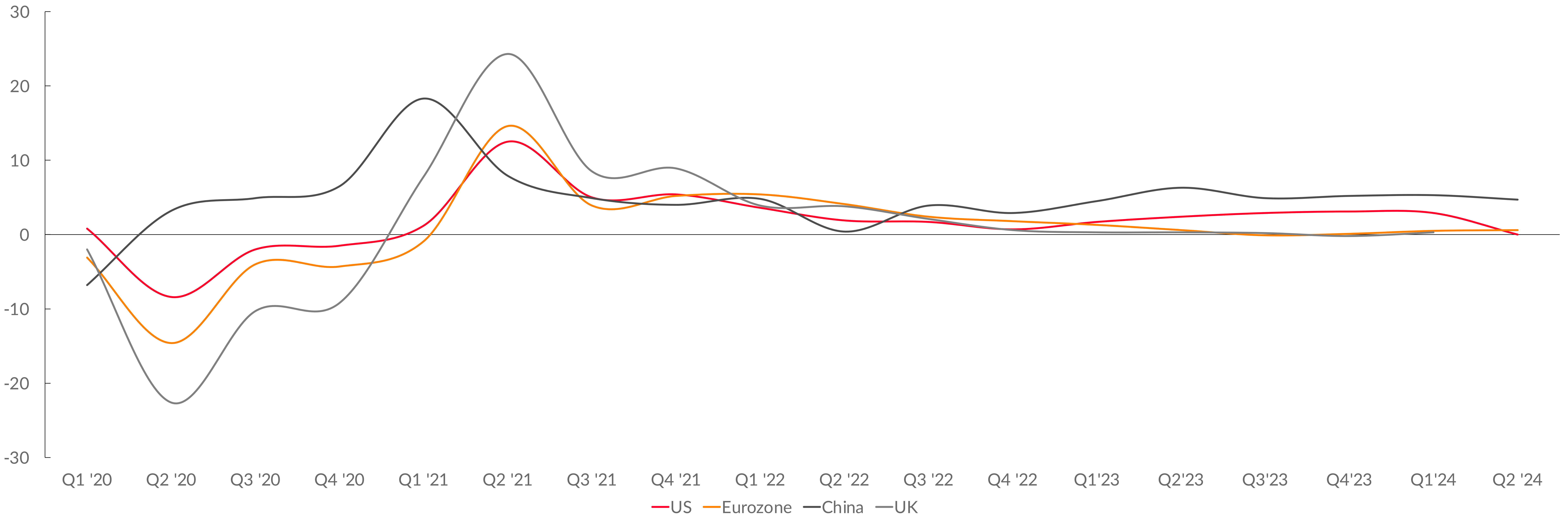
Country/Region	GDP growth Q2 '24 (y/y)	GDP growth Q1 '24 (y/y)	Variance
United States	2.8%	2.9%	-0.1%
Eurozone	0.6%	0.5%	+0.1%
United Kingdom	0.3%	0.2%	+0.1%
China	4.7%	5.3%	-1.4%

Real GDP of select economies (y/y %)



Sources: Eurostat, National Bureau of Statistics of China, U.S. Bureau of Economic Analysis, Coronation Merchant Bank Economic Research

GLOBAL - OIL

Commodity	End-June '24 (USD/b)	End-June '23 (USD/b)	Variance
UK Brent	85.25	74.89	+13.8%
WTI	81.54	70.23	+16.1%

Avg monthly oil prices Brent and WTI (USD/b)

Sources: Bloomberg, Coronation Merchant Bank Economic Research

GLOBAL - INFLATION IN SELECT ECONOMIES

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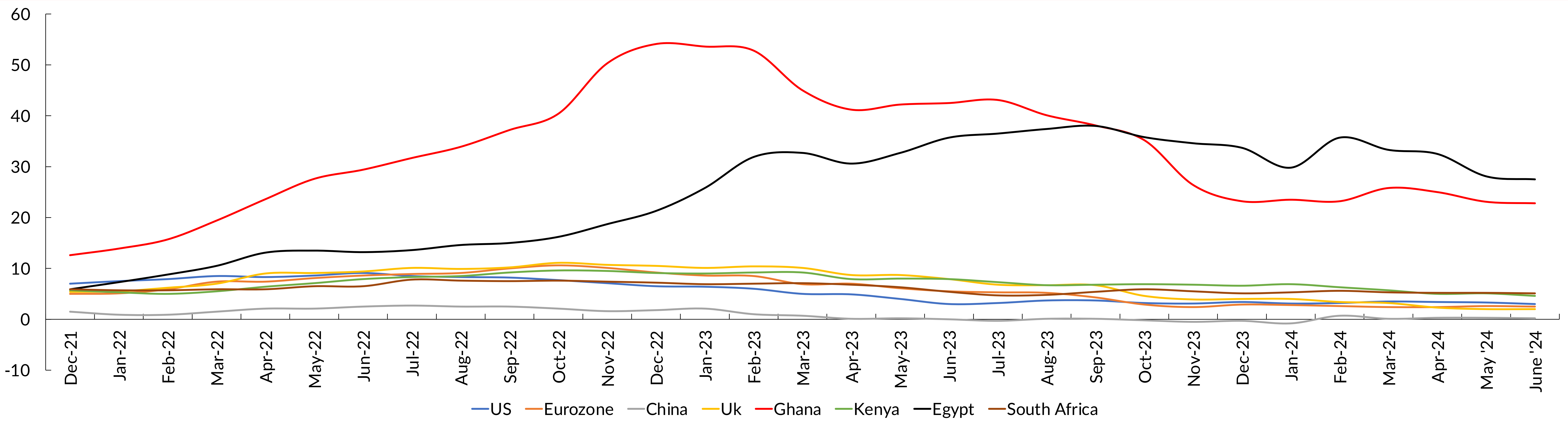
Country/Region	June '24 (y/y)	May '24 (y/y)	April '24 (y/y)	Change (bps)
United States	3.0%	3.3%	3.4%	↓3bps
Eurozone	2.5%	2.6%	2.4%	↓ 1bp
United Kingdom	2.0%	2.0%	2.3%	No change
China	0.2%	0.3%	0.3%	↓ 1bp
Egypt	27.5%	28.1%	32.5%	↓ 6bps
Kenya	4.6%	5.1%	5.0%	↓ 5bps
Ghana	22.8%	23.1%	25%	↓ 3bps
South Africa	5.1%	5.2%	5.2%	↓ 1bp

Inflation in select economies (y/y %)

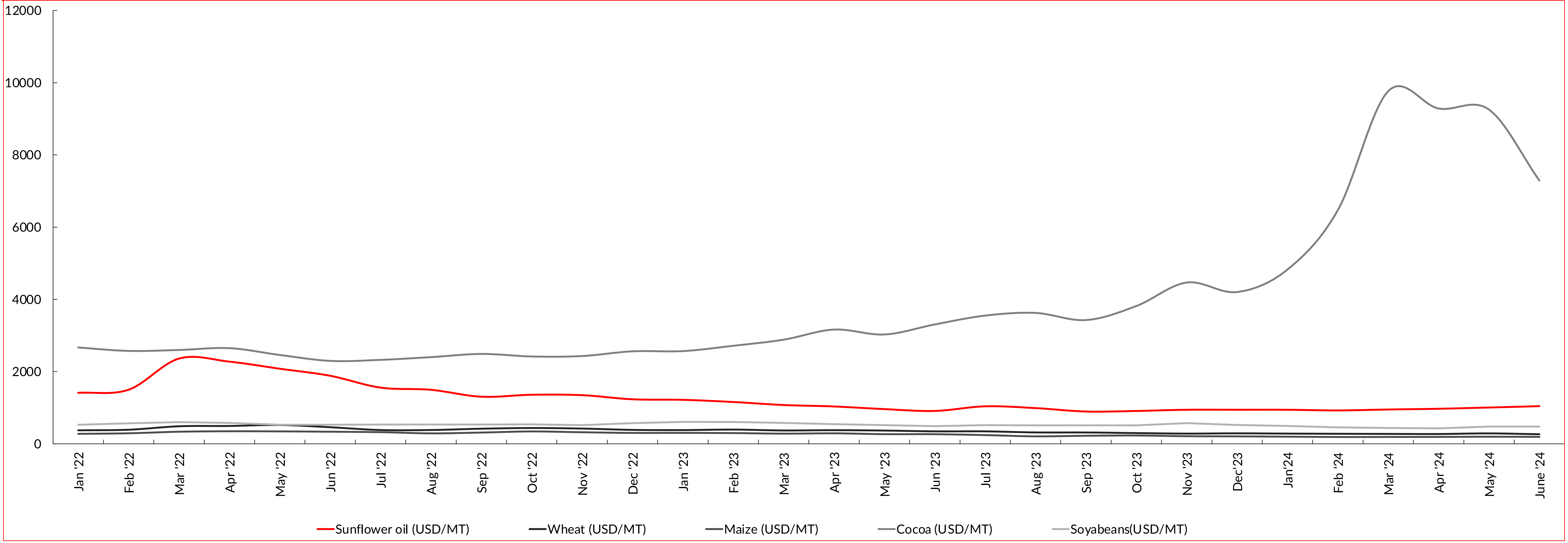


Sources: Eurostat, National Bureau of Statistics of China, U.S. Bureau of Labor Statistics, Ghana Statistical Service, CAPMAS, Kenya National Bureau of Statistics, Statistics South Africa , Coronation Merchant Bank Economic Research

GLOBAL – AGRIC COMMODITIES

Commodities	End-Q2 '24	End-Q1 '24	Variance (%)
Wheat (USD/MT)		274.83	-3.4
Maize (USD/MT)	192.51	190.57	+1.0
Cocoa (USD/MT)	7289.7	9766.0	-25.4
Soyabeans (USD/MT)	480.70	441.29	+8.9
Sunflower oil (USD/MT)	1043.05	950.93	+9.7

Avg monthly prices for select Agriculture commodities



Sources: World bank, Coronation Merchant Bank Economic Research

AGRIC COMMODITIES OUTLOOK

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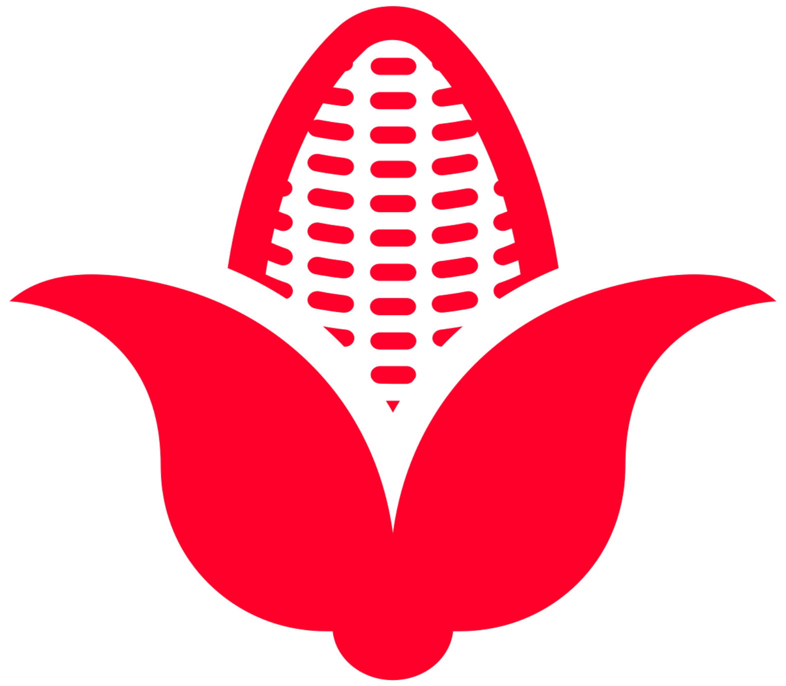

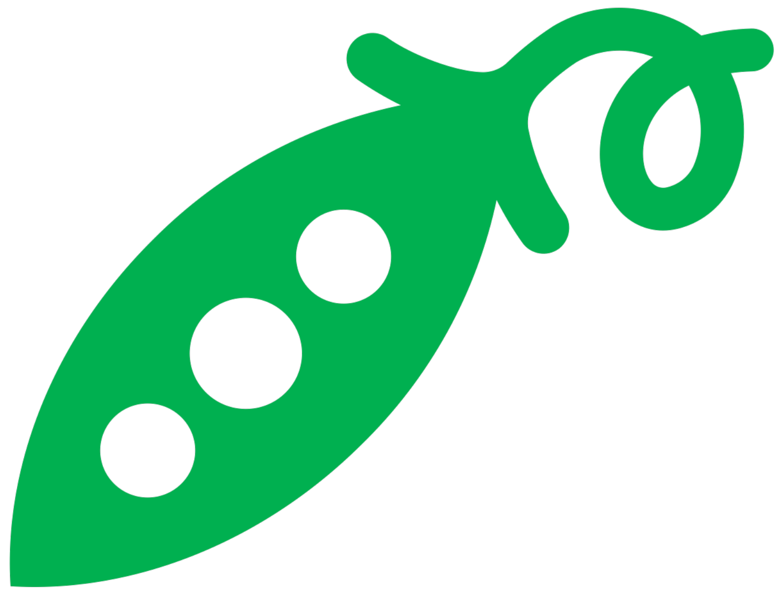

Maize

- The growing demand for maize for both human consumption and industrial sectors will cause maize prices to be elevated in 2024. However, production is expected to improve due to an expansion in cultivated land and enhanced utilization of agricultural inputs.

- For example, fertilizer prices are expected to decline in 2024 as more supply comes online. This will support maize production.

Wheat

- Wheat prices are expected to decline in 2024 due to improving global supply from major producing counties Russia, US, Australia and Canada.

- Although Russia’s withdrawal has disrupted the Black Sea Grain Initiative, the forecast assumes that grains will continue to flow out of Ukraine. However, if hostilities escalate further or the Danube River becomes unnavigable wheat prices could rise.

Cocoa

- We expect cocoa prices to continue to trend upwards as tight supply continues to persist.
- In west Africa (notably Ghana and Ivory Coast) due to crop diseases and unfavorable weather conditions which have impacted harvests.

- We expect cocoa prices to remain elevated by end of 2024, driven primarily by adverse effect from EL-Nino.

MONETARY POLICY DECISIONS IN SELECT ECONOMIES

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The US FED: Held its policy rate steady at 5.25 – 5.5% in H1 '24. Speculations around potential rate cut in September '24, given the current inflation trend. The committee affirmed that further policy adjustment would be data-dependent.

The ECB: Trimmed by -25bps in H1 '24. The main financing rate, marginal lending facility and deposit facility rate stood at 4.25%, 4.50% and 3.75%, respectively.

The BOE: Maintained benchmark rate at 5.25% in H1 '24. In its July meeting, the BOE trimmed its benchmark rate by -25bps to 5%. The BOE affirmed a cautious approach towards loosening until inflation risks subside.

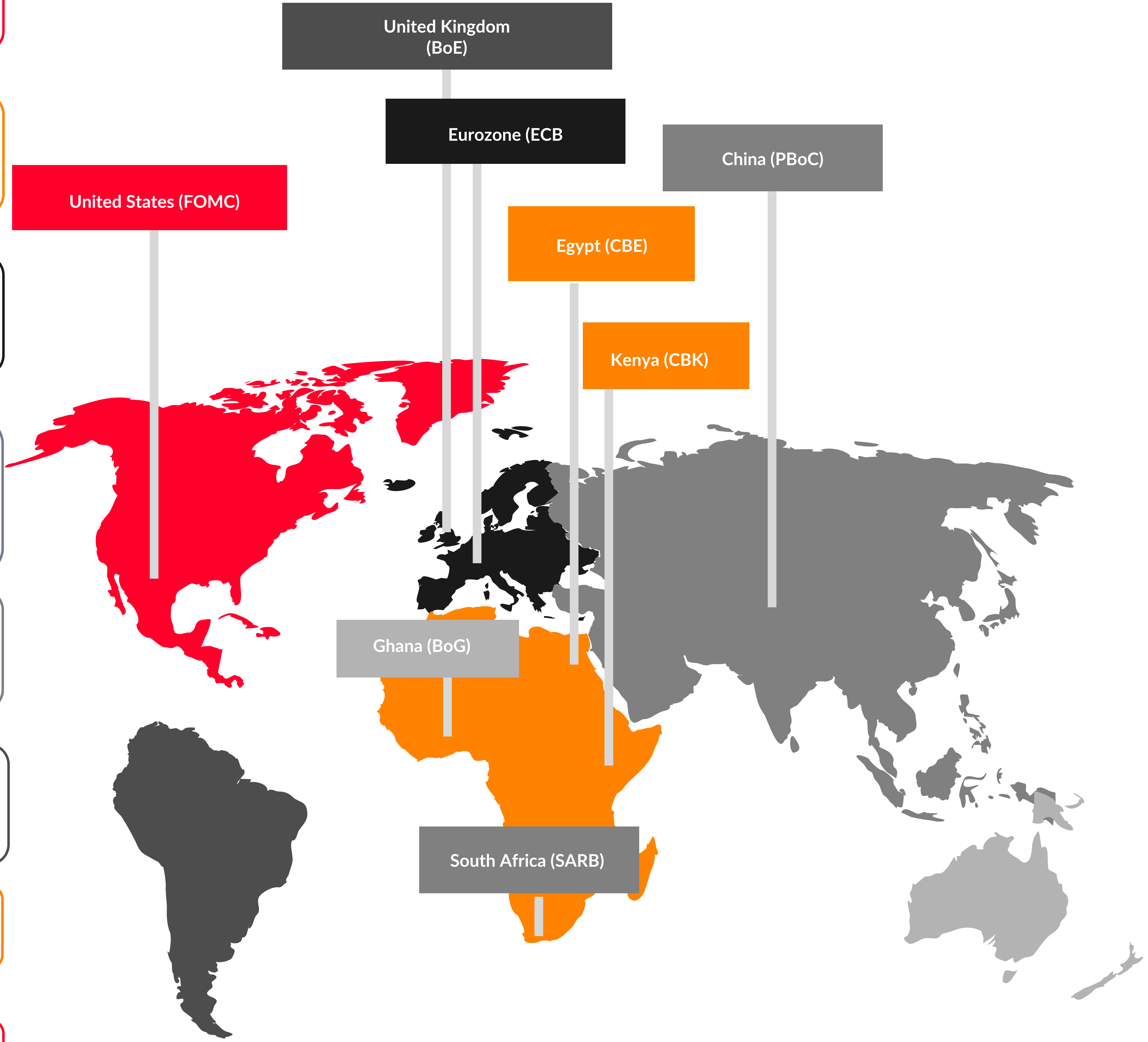
The PBoC : Retained rates at 3.45% and 3.95% in H1 '24. However, at its July meeting the PBoC reduced rates by -10bps to stimulate economic growth. The committee cut the 1-year loan prime rate (LPR) to 3.35%, and the 5-year loan prime rate was trimmed to 3.85%.

The CBK: Raised its benchmark rate by +50bps to 13% in the first half of the year. In the CBK lowered its rates by -25bps to 12.75% as inflationary pressure tapered. We expect the CBK to adopt a cautious approach at its next meeting

The BoG: Trimmed rates by+ 100bps to 29% in H1 '24. We expect BOG to keep the benchmark policy rate elevated until headline inflation is returns to the BoG's target of 6 - 10%.

The CBE raised rates by +800bps to 27.25% in H1 '24. We expect the CBE to maintain a tightening stance in the second half of the year.

The SARB left its benchmark rate unchanged at 8.25% in H1 '24. We expect the current stance to continue in the near term.



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SPOTLIGHT: SSA ECONOMIES

GHANA

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GDP

- Ghana's economy grew by 4.7% y/y in Q1 '24 vs 3.8% y/y in Q4 '23. This uptick marks the strongest growth since Q4 '21 and was largely driven by growth in the industrial sector. For FY2024, robust GDP growth is expected on the back improved investment and public spending.

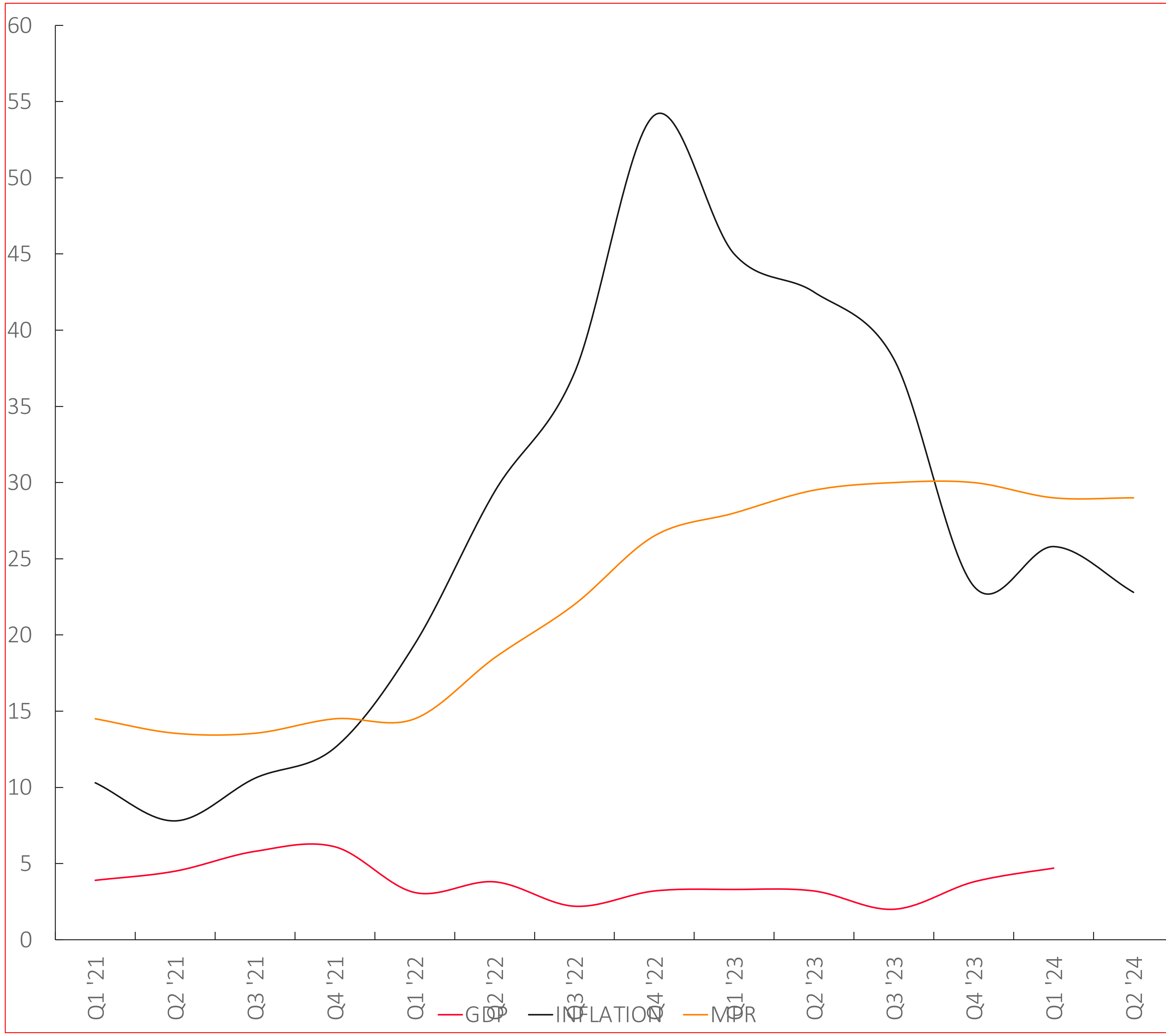
Inflation

- Inflation moderated to 22.8% y/y in June (May: 23.1% y/y). The moderation can be attributed to deceleration in non-food inflation and core inflation. In the near term, inflation is expected to decline further due to the ongoing restrictive monetary policy.

Monetary Policy

- The monetary policy committee for the Bank of Ghana (BoG) at its latest meeting kept its monetary policy rate unchanged at 29%. However, the BoG indicated that it plans to keep the benchmark policy rate elevated until inflation is back to the BoG's target of 6 – 10%.

GDP, Inflation (y/y%) and MPR (%)



Sources: Ghana Statistical Service, Coronation Merchant Bank Economic Research

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KENYA

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GDP

- Kenya's economy grew by 5% y/y in Q1 '24 vs 5.1% y/y in Q4 '23. This growth was largely driven by the strong performance in the agriculture sector, amid favorable weather conditions. Other key driver of growth includes real estate, financial and insurance, information and communication, and accommodation and food services. For 2024, GDP growth is expected to edge up slightly bolstered by lower inflation and recovering external demand. Rising public unrest, and extreme weather condition are downside risks.

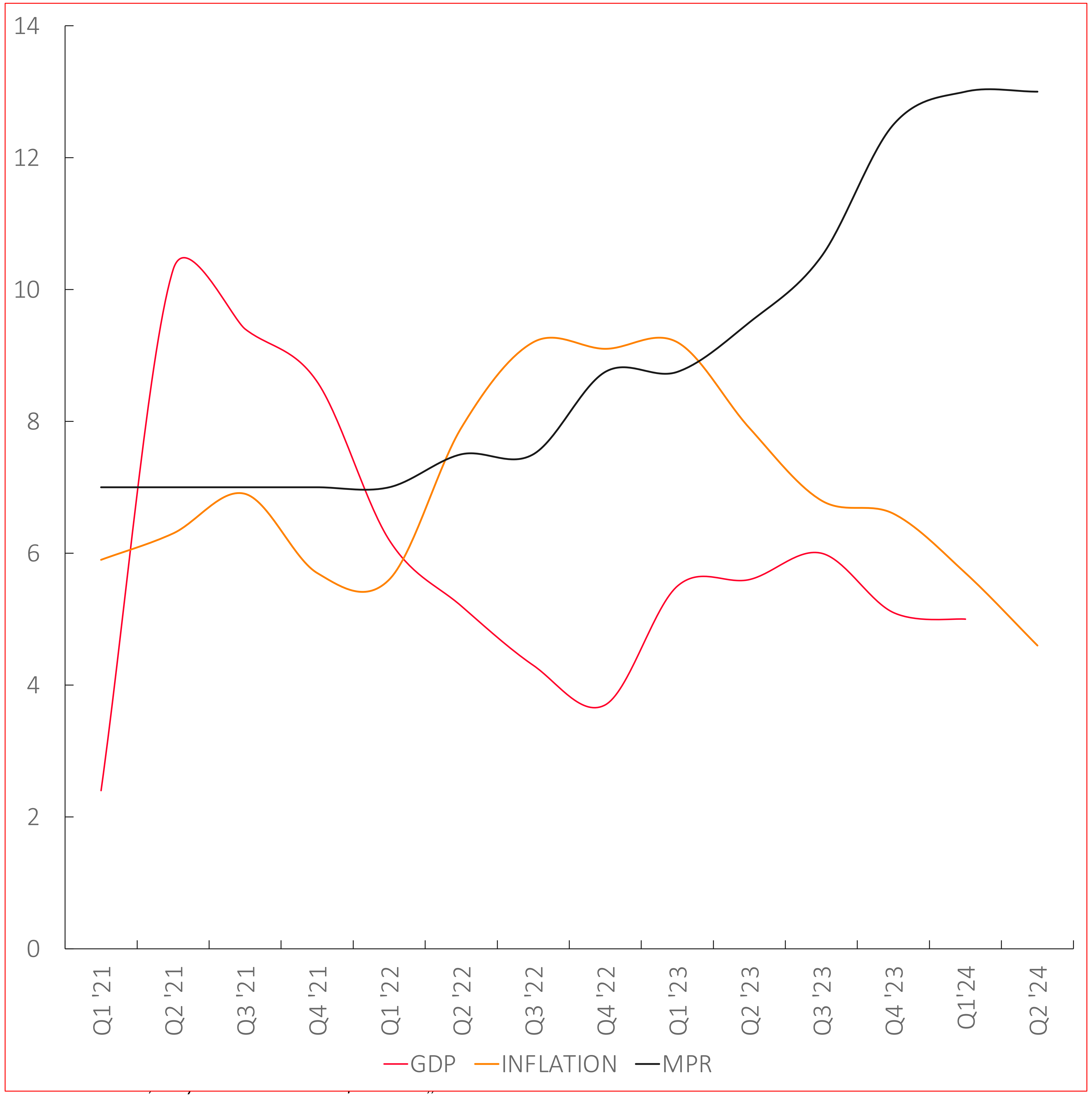
Inflation

- Inflation moderated to 4.3% y/y in July (June: 4.6% y/y) below the 5% mid point of the central bank's target range. This moderation was driven by price decline in transportation, clothing and footwear, recreation, sport and culture. Average inflation is expected to remain around its current level in H2 '24. Upside risks includes spike in oil prices and adverse weather conditions.

Monetary Policy

- At its meeting in August '24, the Central Bank of Kenya trimmed its policy rate by -25bps from 13% to 12.75%. Looking ahead, we expect the CBK to maintain its current stance

GDP, Inflation (y/y%) and MPR (%)



SOUTH AFRICA

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GDP

- South Africa's economy grew by +0.5% y/y in Q1 '24 compared with a growth of +1.4% y/y in Q4 '23. On a q/q basis, the economy contracted by -0.1%, driven by negative growth posted in the construction, mining and manufacturing sector. We expect slight improvement in GDP growth on the back of improved private consumption.

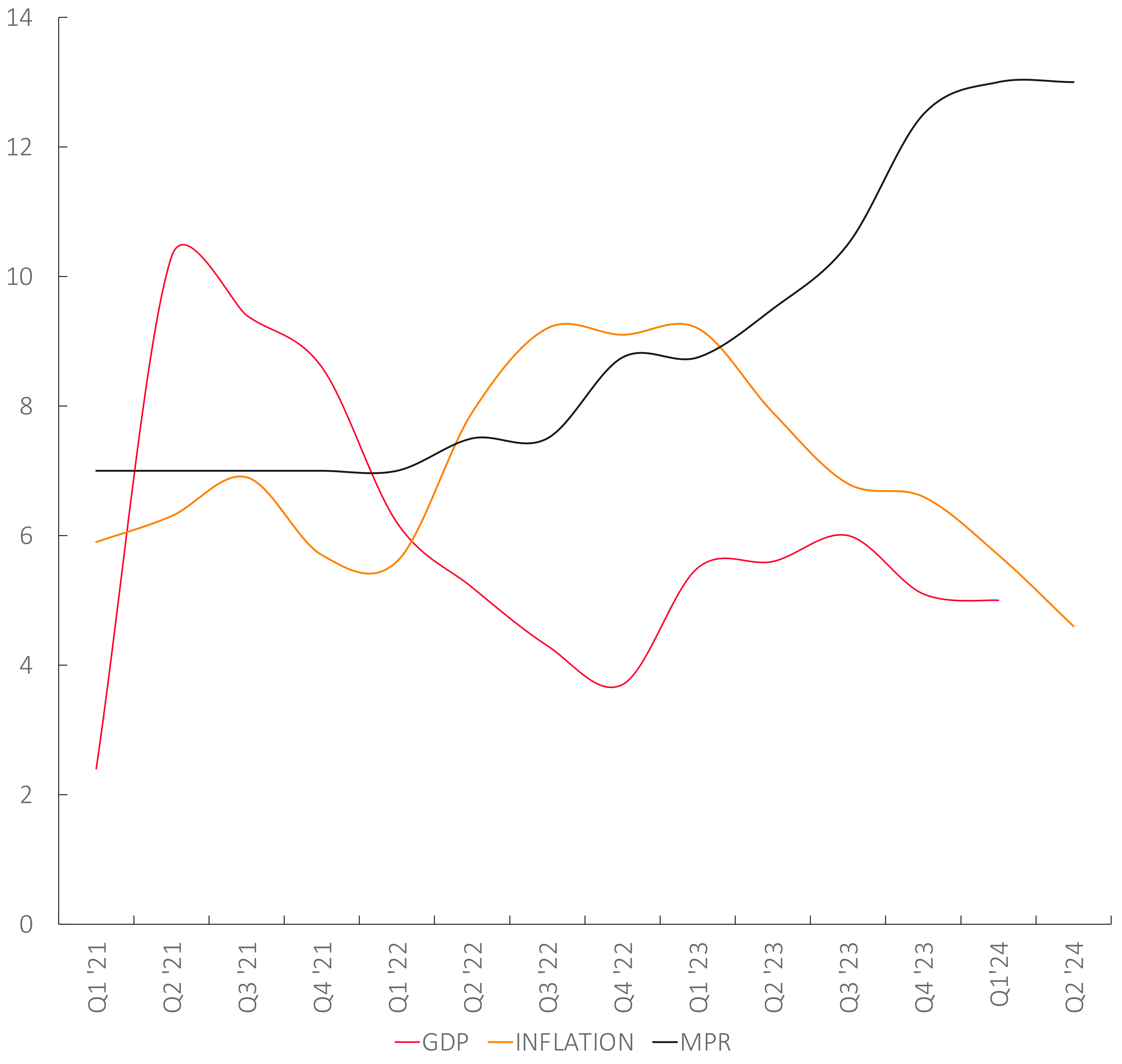
Inflation

- Inflation moderated to 5.1% in June '24 (May: 5.2%), This remained above the central bank's target of 4.5%. Inflation is expected to moderate in 2024 on the back of the ongoing restrictive monetary policy. However, stronger than expected consumption and extreme weather conditions can pose upside risks to inflation.

Monetary Policy

- The South Africa Reserve Bank (SARB)'s maintained its hawkish monetary policy stance in H1 '24. At its last meeting, SARB kept its key interest rate unchanged at 8.25% and disclosed that the restrictive monetary policy approach remains appropriate to stabilize inflation.

GDP, Inflation (y/y%) and MPR (%)



Sources: National Bureau of Statistics, South Africa , Coronation Merchant Bank Economic Research

NIGERIA’S ECONOMY

OIL

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	End- June '24	End-June '23	Variance (m/m)
Bonny Light (USD/b)	89.66	76.22	+17.6%
Oil Production (mbpd)	1.50	1.49	+0.7%

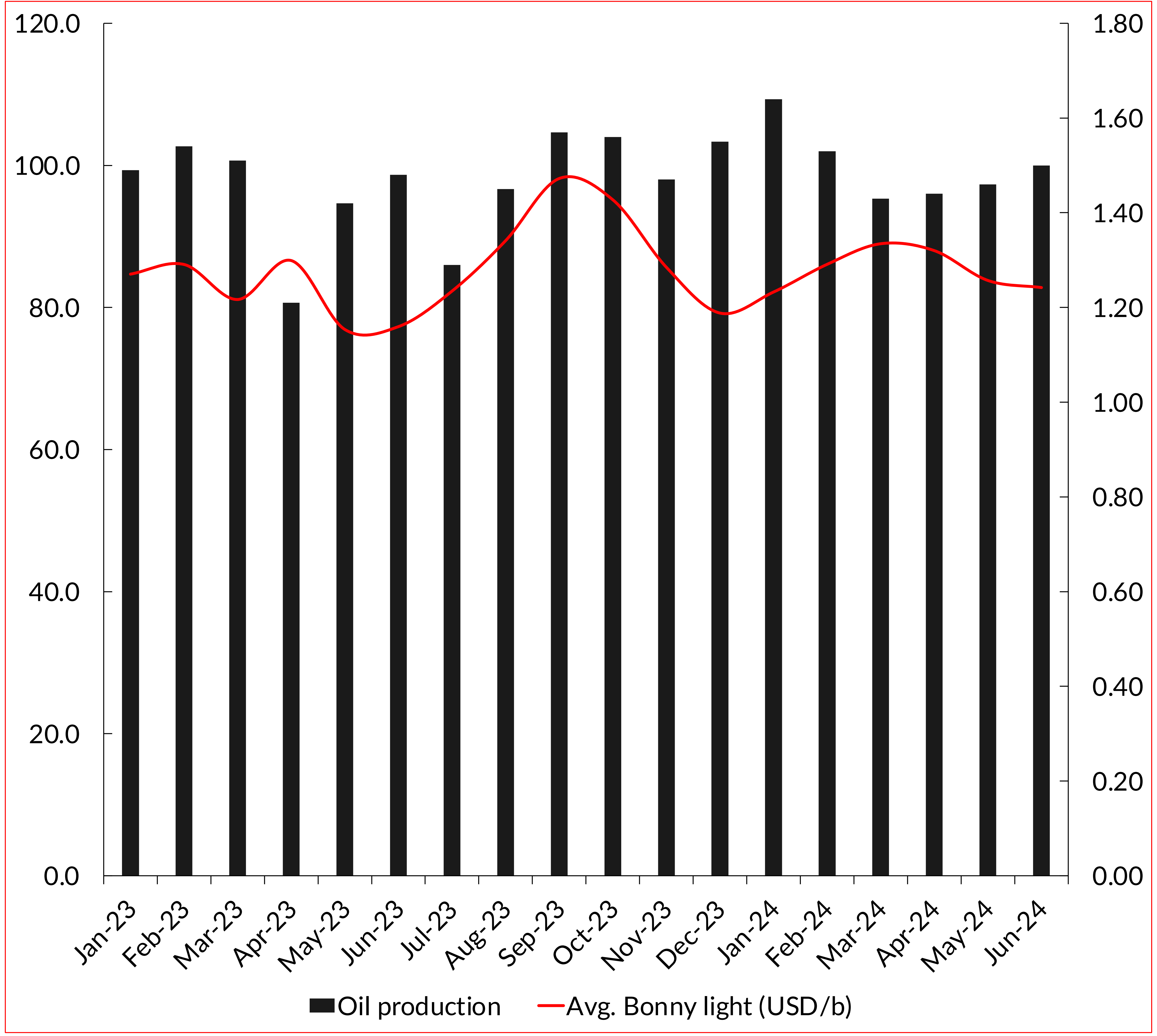
Latest Developments

- Bonny light increased by +17.6% y/y to USD89.7/b as at end-June '24, partly driven by ongoing geopolitical tension in the Middle-East.
- According to data from NUPRC, oil production rose marginally by +0.7% to 1.50mbpd in June '24 vs 1.49mbpd in June 23. Crude oil production remained subdued as it remain below the 2024 FGN's benchmark of 1.78mbp/d.
- On a m/m basis, crude oil production increased across the following production terminals: Bonny (+26%), Brass (+2%) and Forcados (+4%). Meanwhile, the following terminals experienced decline in oil production within the same period: Escravos (-3%), Qua Iboe (-18%), and Odudu (-2%), and Tulja (-2%).

View

- Fluctuating oil prices and production disruptions could lead to revenue volatility, making it difficult for the government to effectively plan and budget.
- We anticipate crude oil production to improve in the second half of 2024, partly driven by the Dangote refinery.
- We see avg. Bonny Light above USD85/b by end-2024.

Av. Bonny Light (USD/b) vs Oil production (mbpd)

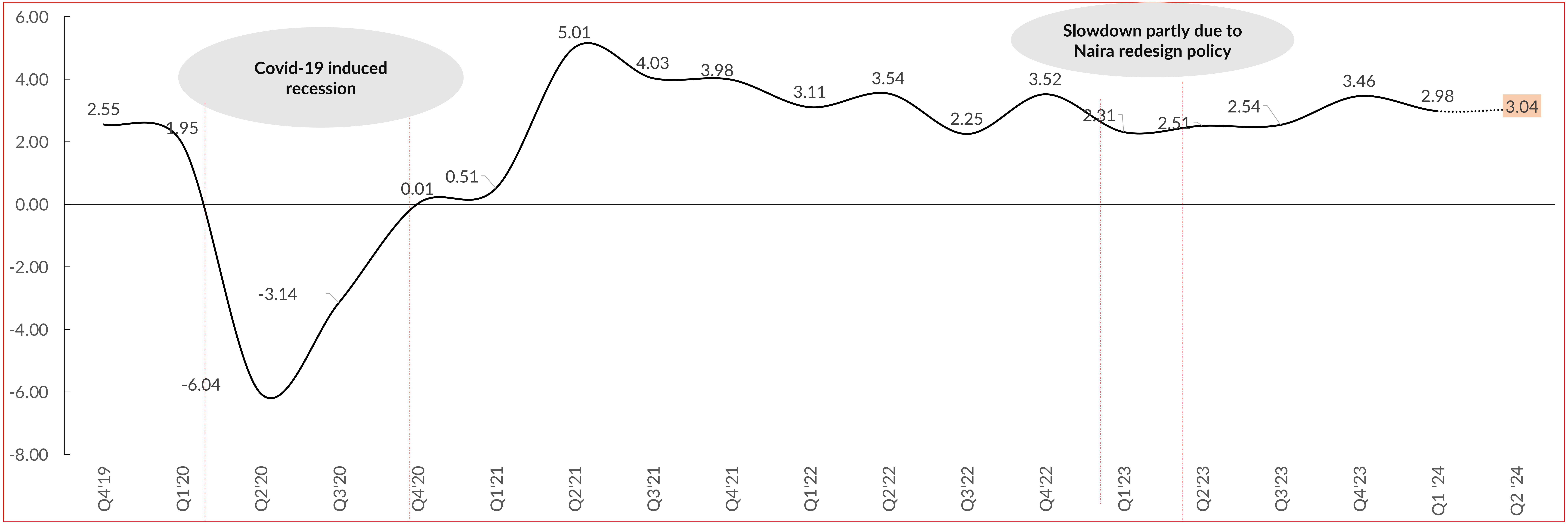


Sources: CBN, Coronation Merchant Bank Economic Research

REAL GDP

METRIC	ACTUAL		VARIANCE B/W Q1 2024 and Q4 2023 (bps)
	Q1 '2024	Q4 '2023	
GDP growth	2.98% y/y	3.46% y/y	-48bps

Real GDP (% change; y/y)



Sources: NBS, Coronation Merchant Bank Economic Research

SECTOR WATCHLIST

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- ✓ In Q1 '24, the oil economy grew by +5.70% y/y, marking its second consecutive quarter of recovery. This recorded growth can be partly hinged on relatively better production levels.
- ✓ The non-oil GDP growthh rose by 2.8% y/y. Leveraging the comprehensive national accounts data released by the NBS, we have meticulously delineated sectors within the non-oil economy into categories of resilient and unstable.
- ✓ Sectors and segments that demonstrated consistent quarterly growth over approximately 4 to 5 quarters have been judiciously classified as resilient. Conversely, those unable to sustain growth momentum throughout the past five quarters find themselves categorized as unstable.
- ✓ 13 sectors were resilient in Q1 '24 , compared with 14 in Q4 23.The resilience in these sectors can be partly attributed to positive base effects. The resilient sectors contributed 85.6% to total GDP in Q1 '24.
- ✓ 7 sectors were unstable in Q1 '24, The unstable sectors contributed 14.2% to total GDP in Q1 '24.

RESILIENT	Q1'23	Q2 '23	Q3 '23	Q4 '23	Q1 '24
Water Supply and Waste Management	↑5.6	↑20.7	↑11.9	↑7.4	↑6.9
Trade	↑1.3	↑2.4	↑1.5	↑1.4	↑1.2
Accommodation and Food services	↑3.6	↑3.4	↑3.5	↑3.3	↑2.8
ICT	↑10.3	↑8.6	↑6.6	↑6.3	↑5.4
Arts, Entertainment and Recreation	↑5.5	↑2.5	↑4.4	↑4.1	↑4.4
Finance and Insurance	↑21.4	↑26.8	↑28.2	↑29.8	↑31.2
Real Estate	↑1.7	↑1.9	↑1.9	↑1.3	↑0.8
P. Scientific and technical services	↑3.1	↑2.9	↑2.1	↑1.7	↑1.0
Public Administration	↑2.0	↑2.2	↑2.0	↑2.2	↑2.1
Education	↑0.7	↑1.4	↑1.4	↑1.6	↑1.6
Human Health and Social Services	↑2.46	↑1.95	↑2.9	↑3.7	↑2.1
Manufacturing	↑1.6	↑2.2	↑0.5	↑1.4	↑1.5
Agriculture	↓-0.9	↑1.5	↑1.3	↑2.1	↑0.2
% Contribution to GDP	84.9	86.9	87.6	86.8	85.6

UNSTABLE	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24
Administrative and support services	↓-4.6	↑1.9	↑2.7	↑1.6	↓-1.5
Mining and Quarrying	↑37.7	↑31.9	↓-29.0	↓-40.3	↑76.9
Other Services	↓-20.1	↑1.7	↑0.6	↑0.1	↓-18.3
Electricity, gas, steam and air conditioning supply	↑9.5	↑6.1	↑1.9	↑6.1	↓-5.4
Construction	↑3.3	↑3.4	↑3.8	↑3.7	↓-2.1
Crude Petroleum and Natural gas	↓-4.2	↓-13.4	↓-0.8	↑+12.1	↑+5.7
Transportation and storage	9.4	↓-50.6	↓-35.8	↓-29	+3.3
% Contribution to GDP	14.8	13.0	12.2	13.0	14.2

Sources: NBS, Coronation Merchant Bank Economic Research

INFLATION

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Indicator	June '24 (y/y)	June '23 (y/y)	Change
Headline inflation	34.19%	22.79%	↑ 1140bps
Food inflation	40.87%	25.25%	↑ 1562bps
Core inflation	27.40%	20.06%	↑ 734bps
Imported food inflation	36.38%	19.10%	↑ 1728bps

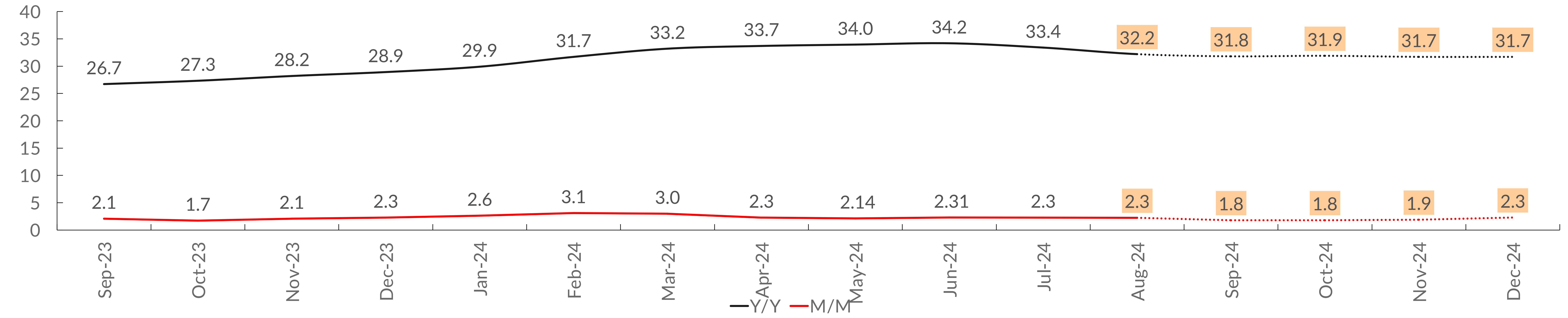
Forecast

- **m/m inflation forecast for August: 2.3%**
- **y/y headline inflation forecast for August: 32.2%**

Factors influencing forecast

- Persistent structural issues: insecurity, high logistic cost, poor storage facilities and infrastructure.
- FX depreciation resulting in spikes in imported inputs and products.
- Import duties suspension on select food items to reduce domestic food supply constraint in the short term.
- High base effects.

Headline inflation (% change; y/y and m/m)



Sources: NBS, Coronation Merchant Bank Economic Research

RESERVES AND EXCHANGE RATE

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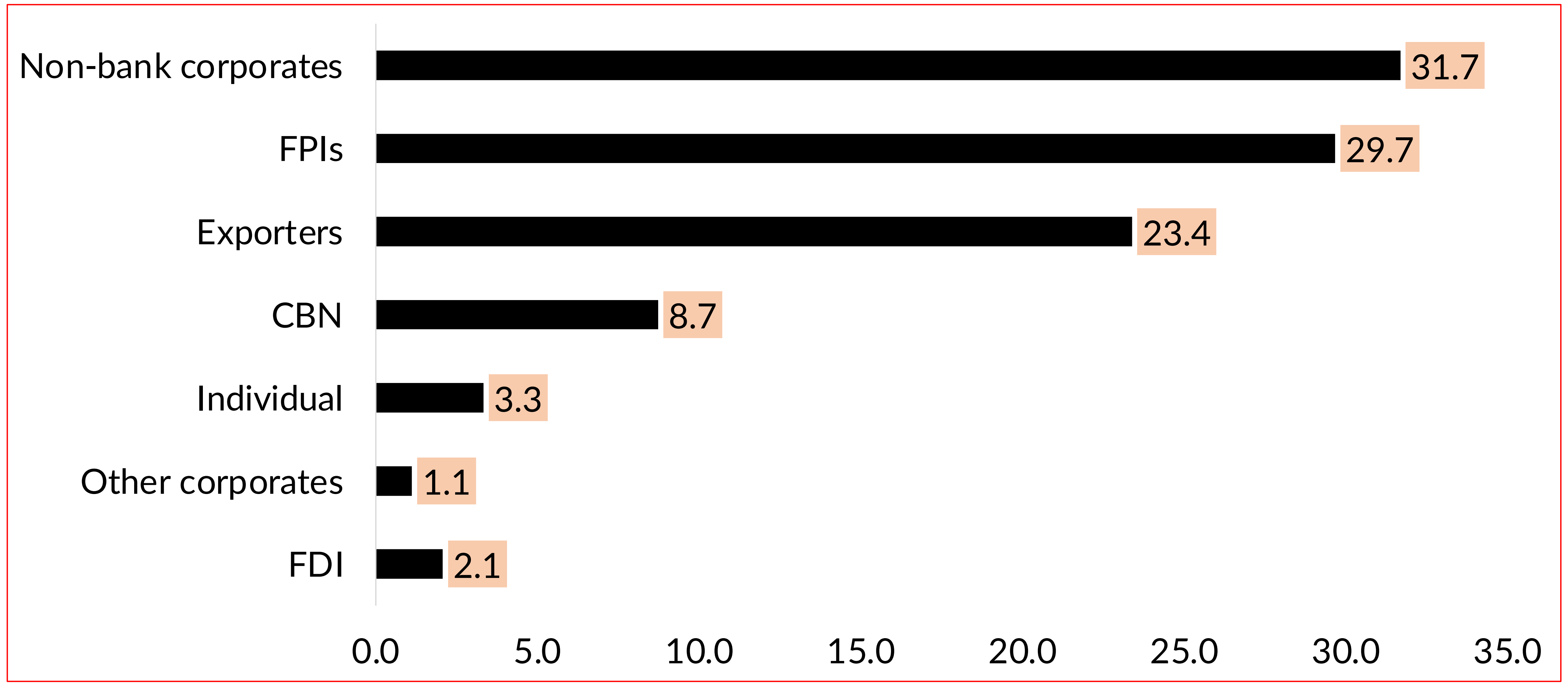
	Metric	End –H1 '24	End –H1 '23	Variance	Outlook
1	External reserves (USD 'bn)	34.19	34.12	+0.2%	Gross reserves at +/- USD35bn by end-2024.
2	NAFEM/NAFEX (NGN/USD)	1,505.3	769.25	+95.7%	▪ The FX rate is expected to range between N1,450 and N1,600 per USD at both the official window and the parallel market over the three months. ▪ We see Naira stability in the near term partly due to CBN's resumption of retail Dutch auction system to mitigate fx demand pressure, increased FX injections from FPIs, and improved oil production.
3	Parallel market (NGN/USD)	1525	770	+98.1%	

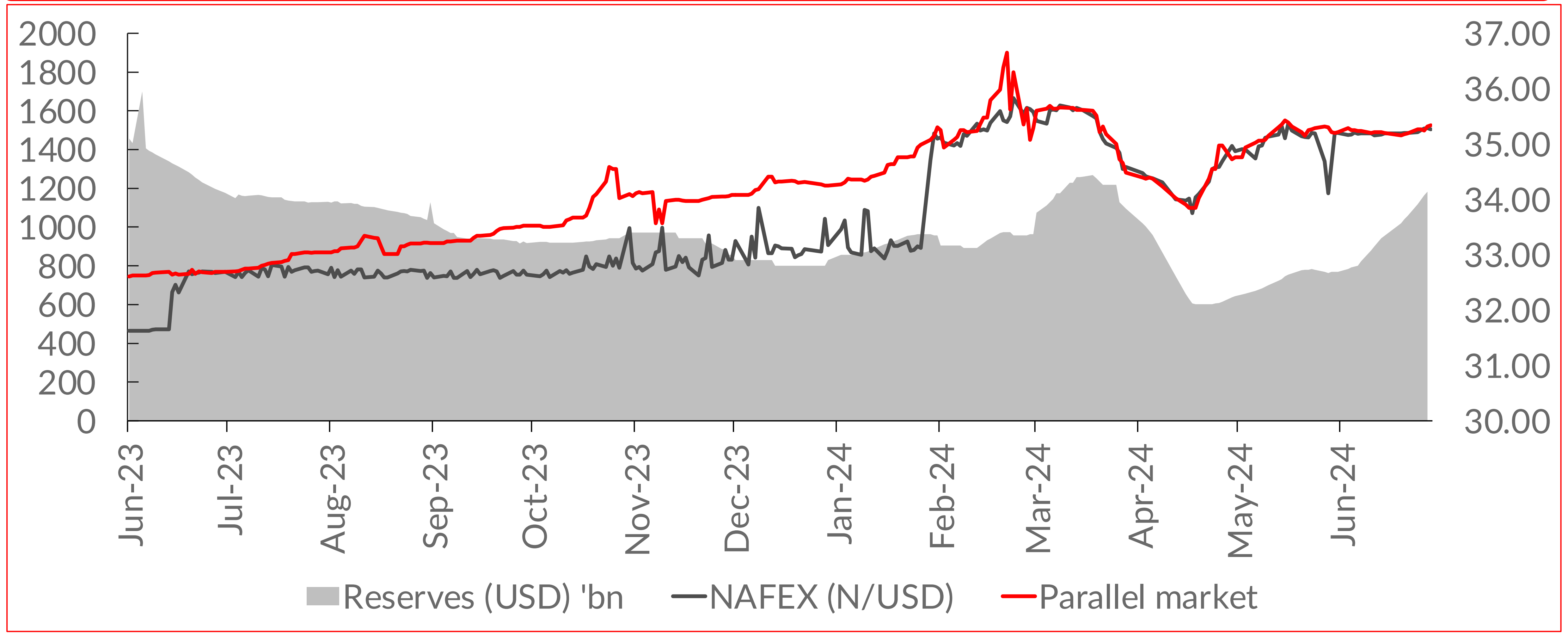
- The NAFEM window recorded an inflow of USD14.65bn in H1 '24, compared with an inflow of USD7.38bn in H1 '23. The CBN accounted for 8.7%, FPIs; 29.7%, non-bank corporates; 31.7%, exporters; 23.4% and others accounted for 6.5%.

NAFEM (% OF TOTAL INFLOW in H1 '24)



Sources: FMDQ, Coronation Merchant Bank Economic Research

Reserves (USD), NAFEX and Parallel Mkt FX rate (N/USD)



Sources: CBN, FMDQ, Channel checks, Coronation Merchant Bank Economic Research

Public

CBN CIRCULARS ON FX IN FIRST HALF OF THE YEAR (1/5)

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1 HARMONISATION OF REPORTING REQUIREMENTS ON FX EXPOSURES OF BANKS

- ✓ The circular mandates that the Net Open Positions (NOP) must not exceed 20% short or 0% long (previously 10% long) of the bank's shareholders' funds unimpaired by losses. This calculation must be done using the Gross Aggregate Method. Additionally, banks must calculate their daily and monthly NOP and Foreign Currency Trading Position (FCT) using specific templates provided by the CBN.

Comment: The circular aims to mitigate excessive FX exposures that could strain liquidity and exacerbate volatility.

2 REMOVAL OF ALL ALLOWABLE LIMIT OF FX QUOTED BY IMTOs

- ✓ The CBN issued another circular lifting the cap on the allowable limit of -2.5% to +2.5% around the previous day's closing rate, international money transfer operators could quote. Now, IMTOs can quote based on the prevailing market rate and on a willing seller, willing buyer basis.

Comment: Enabling IMTOs to quote FX rates based on prevailing market conditions and on a willing seller, willing buyer basis, fosters a more flexible and transparent FX market, which enhances liquidity and facilitates efficient allocation of FX resources. Furthermore, increased competition among IMTOs resulting from the removal of limits encourages innovation and efficiency improvements in FX transfer services, ultimately benefiting consumers through lower costs and improved accessibility to FX.

CBN CIRCULARS ON FX IN FIRST HALF OF THE YEAR (2/5)

CORONATION

3 FOREIGN EXCHANGE RATE FOR IMPORT DUTY ASSESSMENT

- ✓ The circular advises that the Nigeria Custom Service and other related parties adopt the closing fx rate on the date of the opening Form M for the importation of goods, as the fx rate to be used for import duty assessment. The rate remains valid until the date of termination of the importation and clearance of goods by importers. This would enable the Nigeria Custom Service and the importers to effectively plan appropriately and reduce the uncertainties around varying daily exchange rate in determining their revenue or cost structure, respectively.

4 REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR BUREAU DE CHANGE OPERATIONS IN NIGERIA

- ✓ The guidelines significantly enhances the regulatory framework for the operations of Bureau De Change as part of ongoing reforms of the fx market. The guidelines revise the permissible activities, licensing requirements, corporate governance and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) provisions for BDCs. It also sets out new record-keeping and reporting requirements, among others.

Comment: Strengthening the regulatory framework for BDCs should have a positive impact on exchange rate stability by improving the efficiency of FX transactions. Promoting compliance with regulatory standards and enhancing market transparency should contribute to a more orderly FX market, which can help mitigate exchange rate volatility.

5 SALE OF FX TO BDCs TO MEET RETAIL MARKET DEMAND

- ✓ The sale of USD10,000 to each BDC at the rate of N1,251/USD. The BDC are expected to sell to eligible end-users at a spread NOT more than 1.5% above purchase price.

Comment: To an extent, this should support efforts towards fx stabilization. The CBN had initially put out circular, which was focused on weekly disbursements of USD20,000 to approved BDCs.

CBN CIRCULARS ON FX IN FIRST HALF OF THE YEAR (3/5)

CORONATION

6 ALLOWABLE DEVIATION LIMIT ON THE PRICE VERIFICATION SYSTEM

- ✓ Following the implementation of the Price Verification System (PVS) to curb over -invoicing of imports and under-invoicing of exports, the circular reviewed the allowable limit of price deviation for exports and imports to -15% and +15% of the global average prices, respectively. This takes into consideration global inflation and other related challenges. Effective control of over-invoicing of imports and under-invoicing of exports can help conserve Nigeria's FX reserves by preventing unnecessary FCY outflows. This can also contribute to a more balanced trade account by ensuring that export earnings accurately reflect the value of goods and services sold abroad, supporting Nigeria's macroeconomic stability.

7 ALLOWABLE CHANNELS FOR PAYOUT OF PERSONAL TRAVEL ALLOWANCE (PTA) AND BUSINESS TRAVEL ALLOWANCE (BTA)

- ✓ The circular mandates that all Authorized Dealer Banks payout PTA/BTA through electronic channels only, including debit or credit cards. Payment of PTA/BTA by cash is prohibited.

- ✓ Comment: Electronic channels for PTA/BTA payouts promote transparency in FX transactions by creating a digital trail that facilitates easier tracking and monitoring of funds. The shift towards electronic channels offers numerous benefits but there may be challenges associated with infrastructure readiness, cybersecurity, and user education.

7 REQUIREMENTS FOR FOREIGN CURRENCY CASH POOLING ON BEHALF OF INTERNATIONAL OIL COMPANIES IN NIGERIA

- ✓ According to the circular, banks are allowed to pool cash on behalf of IOCs, subject to a maximum of 50% of the repatriated export proceeds in the first instance. The balance of 50% may be repatriated after 90days from the date of inflow of the export proceeds. This is to ensure minimal negative impact of domestic fx liquidity.

CBN CIRCULARS ON FX IN FIRST HALF OF THE YEAR (4/5)

CORONATION

8 NEW MEASURES TO ENHANCE LOCAL CURRENCY LIQUIDITY FOR SETTLEMENT OF DIASPORA REMITTANCES

- ✓ The circular implemented new processes to guide the settlement of diaspora remittances, allowing eligible International Money Transfer Operators (IMTOs) access Naira liquidity. Hence, eligible IMTO will be able to access the CBN window directly or through their authorized Dealer Banks to execute transactions for the sale of foreign exchange in the market.

Comment: These new measures are aimed to boost fx inflow through diaspora remittances.

9 DISCONTINUATION OF THE CENTRAL BANK OF NIGERIA PRICE VERIFICATION SYTEM PORTAL

- ✓ Following recent development in the foreign exchange market, the CBN has discontinue the use of Price Verification System (PVS), effective July 01, 2024, all applications for form "M" will be processed without the need for a price verification report from the price verification portal.

Comment: The discontinuation of the Price Verification System (PVS) by the CBN could simplify the import process, potentially boosting import activities. This may lead to increased demand for foreign currency, inflationary pressures, and challenges in monitoring and regulatory oversight, raising risks of trade malpractices and affecting market confidence.

10 REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR BUREAU DE CHANGE OPERATIONS IN NIGERIA

- ✓ The guidelines significantly enhances the regulatory framework for the operations of Bureau De Change as part of ongoing reforms of the fx market. The guidelines revise the permissible activities, licensing requirements for each category of BDCs, financial requirement corporate governance and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) provisions for BDCs amongst others.

Comment: Revision of the regulatory framework for BDCs should have a positive impact on exchange rate stability by improving the efficiency of FX transactions. Promoting compliance with regulatory standards and enhancing market transparency should contribute to a more orderly FX market, which can help mitigate exchange rate volatility.

CBN CIRCULARS ON FX IN FIRST HALF OF THE YEAR (5/5)

CORONATION

11

THE CBN FX SPOT SALES OF USD122.67M TO AUTHORISED DEALERS

- ✓ The circular highlighted the sum of USD122.67m was sold by the CBN to the authorized dealer between July 10-11, ’24. The CBN sold USD67.5m to 27 Authorized dealers on July 10, ’24 within the bid range of N1480/USD-N1500/USD, On July 11, the sum of USD55.17m was sold to 19 Authorized dealers at N1540/USD.

Comment: The CBN intervention was to boost liquidity and ensure stability in the foreign exchange market.

12

SALE OF FX TO BDCs TO MEET RETAIL MARKET DEMAND FOR ELIGIBLE INVISIBLE TRANSACTIONS

- ✓ The circular approved the sale of USD20,000 to each BDC at the rate of N1,450/USD. The BDC are expected to sell to eligible end-users at a spread NOT more than 1.5% above purchase price.

Comment: The CBN intervention in the parallel market was aimed at ensuring stability in the fx market.

13

THE CBN FX SPOT SALES OF USD106.5M TO AUTHORISED DEALERS

- ✓ The recent sale of USD106.5m to 29 Authorized dealers on July 18, ‘24 within the range of N1498/USD –N1530/USD, was largely driven by fx demand pressure from cooperate entities and seasonal upticks associated with summer period. The CBN highlighted its commitment to continue its intervention at various market segments of the official market to support with liquidity.

Comment: The circular aimed to mitigate demand pressure in the fx market.

REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR COMMERCIAL, MERCHANT AND NON-INTEREST BANKS

CORONATION

- The CBN has announced the upward review of the minimum capital requirements for commercial, merchant and non-interest banks to mitigate the impact of headwinds due to external and domestic shocks as well as enhance the stability of the financial system. The recapitalization exercise is expected to commence **from April 1, 2024, through March 31, 2026.**

- The minimum capital for existing banks should comprise only paid-up capital and share premium. For proposed banks (new banking license applications after April 1, 2024) the paid-up capital should meet the new standards.

- Banks may meet the new requirement through the following options:

✓ Issuance of new common shares (by way of public offer, rights issues, or private placements)
✓ Mergers and Acquisitions (M&As)
✓ Upgrade/downgrade of their respective license category or authorization.

The new minimum paid-up share capital requirements applicable to each authorization category of banks are as follows:

Type of Bank	Authorization	Minimum Capital (N' bn)
Commercial	International	500
	National	200
	Regional	50
Merchant	National	50
Non-Interest	National	20
	Regional	10

IMPACT

✓ The exercise would potentially lead to the influx of capital into the domestic economy through offshore capital-raising activities and strengthen the capacity of lenders to support credit creation in the real sector as stronger and more resilient banking entities emerge post-recapitalization.

✓ On the other hand, the exercise would dilute returns for existing shareholders of the banks, could encourage risky behavior in a bid to raise the required capital. Furthermore, the recapitalization exercise could lead to the concentration of market power for a few banks.

POLICIES – LATEST DEVELOPMENTS

CORONATION

Monetary Policy Rate

- ✓ In H1 '24, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) increased its benchmark policy rate cumulatively by +750bps.
- ✓ At the last meeting, the MPC raised the benchmark policy by +50bps to 26.75%.
- ✓ The asymmetric corridor was adjusted to +500/-100bps around the MPR from +100/-300bps.
- ✓ The CRR for commercial and merchant banks was retained at 45% and 14% respectively.
- ✓ The liquidity ratio was retained at 30%.
- ✓ The decision to hike the MPR was primarily influenced by the prevailing headline inflation rate, currently at 34.19% y/y, and the ongoing pressures on the exchange rate.

FISCAL

- ✓ The FGN passed a N6.2trn supplementary budget to the National assembly for approval.
- ✓ The breakdown of the supplementary budget includes; N3.2trn for capital expenditure and N3trn to finance non-debt recurrent expenditure.
- ✓ The supplementary budget is expected to finance the Renewed Hope Infrastructure Projects.
- ✓ It is expected to be financed by 70% windfall tax on bank's FX gain in 2023.
- ✓ It is likely that the FGN exceeds it fiscal deficit of N9.1trn in 2024.

Trade

The latest report from the National Bureau of Statistics (NBS) in its series on foreign trade in goods shows that the total value of trade grew by +146% y/y to N31.8trn in Q1 '24. On a q/q basis, it rose by +46%.

The total export value increased by +51% q/q to N19.2trn compared with N12.6trn recorded in Q4 '23.

The import value increased by +39.6% q/q to N12.6bn from N9.1trn in Q4 '23.

The net result was a surplus of N6.5trn in Q1 '24 vs N3.6trn in Q4 '23.This was largely impacted by exchange rate depreciation, and elevated crude oil price.

INSIGHTS – CBN GOVERNOR

CORONATION

Clearance of backlog of fx forwards

- ✓ The CBN governor had settled USD4.6bn as opposed to USD7bn initially reported backlog of fx obligations. An independent forensic audit reveal that USD2.4bn FX claims were invalid.

Cash Reserve Requirement (CRR) framework

- ✓ The apex bank streamlined its CRR guideline, shifting from daily CRR debits to a more predictable mechanism.
- ✓ Changed existing ratios to 45% from 32.5 for commercial banks and 14% from 10% for merchant banks to increases in weekly average adjusted deposits.

Inflation-targeting Framework.

- ✓ In refocusing, the CBN has approved the adoption of an explicit inflation-targeting framework. The details of this framework are currently being finalized alongside the fiscal authorities.

Recapitalization To Service USD1trn Economy

- ✓ In Q1 '24, the CBN directs banks to recapitalize in an effort to service a USD1trn economy. We note some banks have begun raising capital, while some are exploring mergers. However, there are still some ongoing concerns around sufficient capital among Nigerian banks to service a USD1trn economy in the near-future.

Eligible (IMTOs) to sell FX on Nigeria's official window

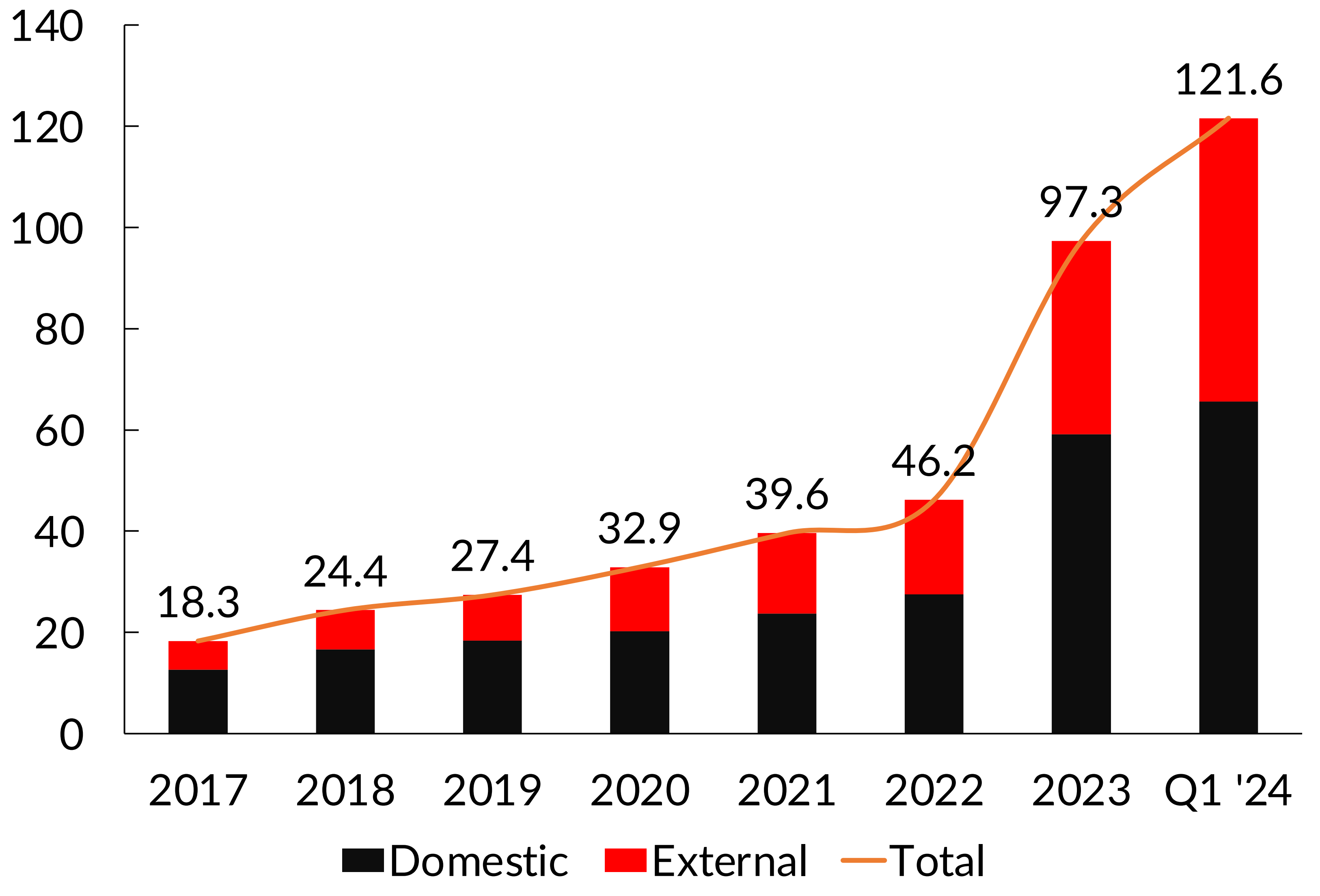
- ✓ To ensure quicker liquidity for remittance beneficiaries, the eligible IMTO operators were allowed access to the CBN window directly or through their Authorized Dealer Banks (ADBS) to execute transactions for the sale of foreign exchange in the market.
- ✓ The pricing for these transactions with will be determined based on prevailing NAFEM rates to ensure transparency and strict compliance to single market benchmark.

Cohesion b/w Fiscal And Monetary Authorities

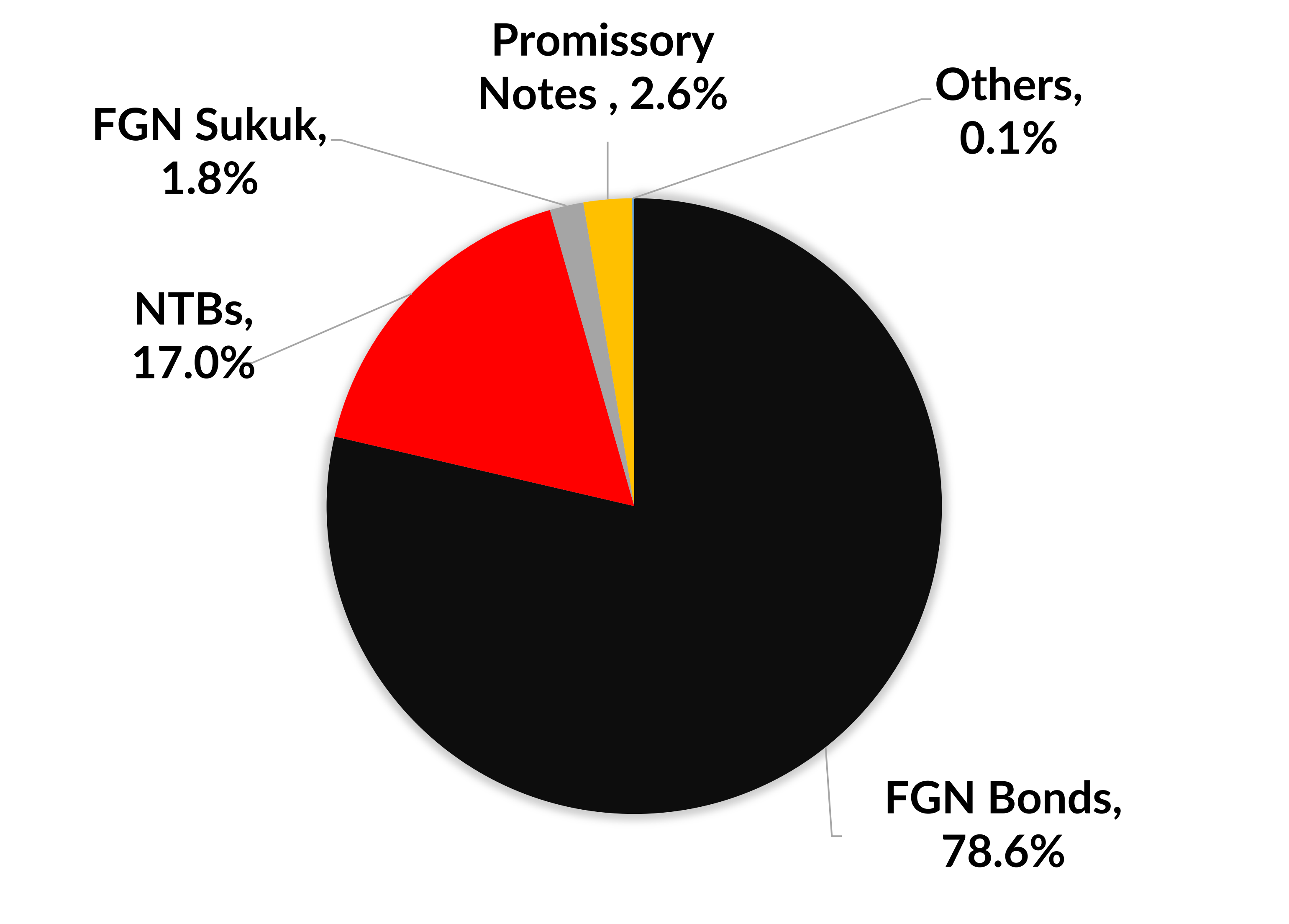
- ✓ To enhance cohesiveness between fiscal and monetary authorities, efforts are underway to ensure that all USD-earning agencies and parastatals remit their earnings directly to the CBN to enhance transparency and liquidity in the FX market.

PUBLIC DEBT IN FOCUS

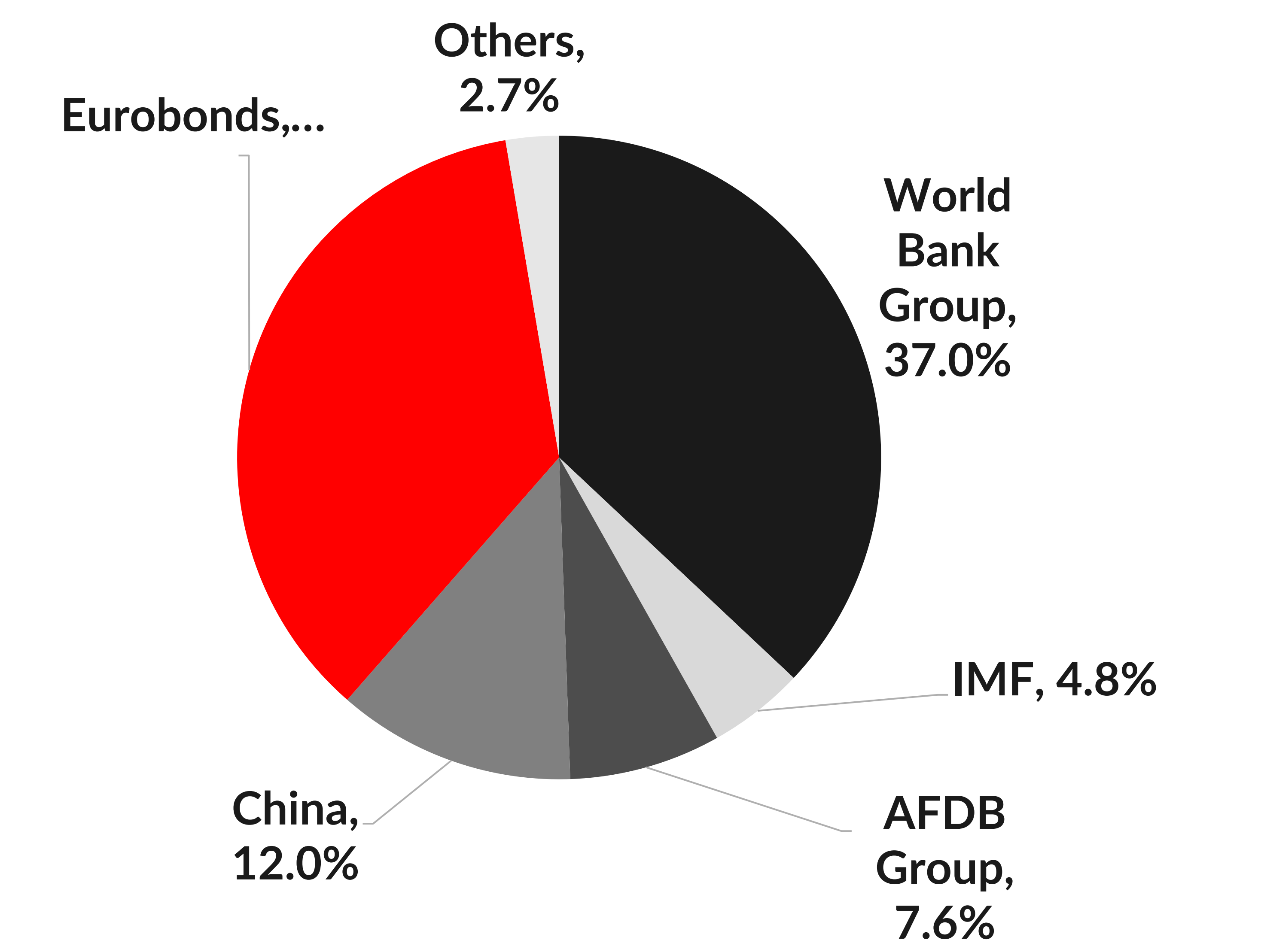
Public debt stock (N'trn)



Composition of the Federal domestic debt as at end-Q1 '24 (% share)



External debt by lender group at end-Q1 '24 (% share)



Sources: DMO, Coronation Merchant Bank Economic Research

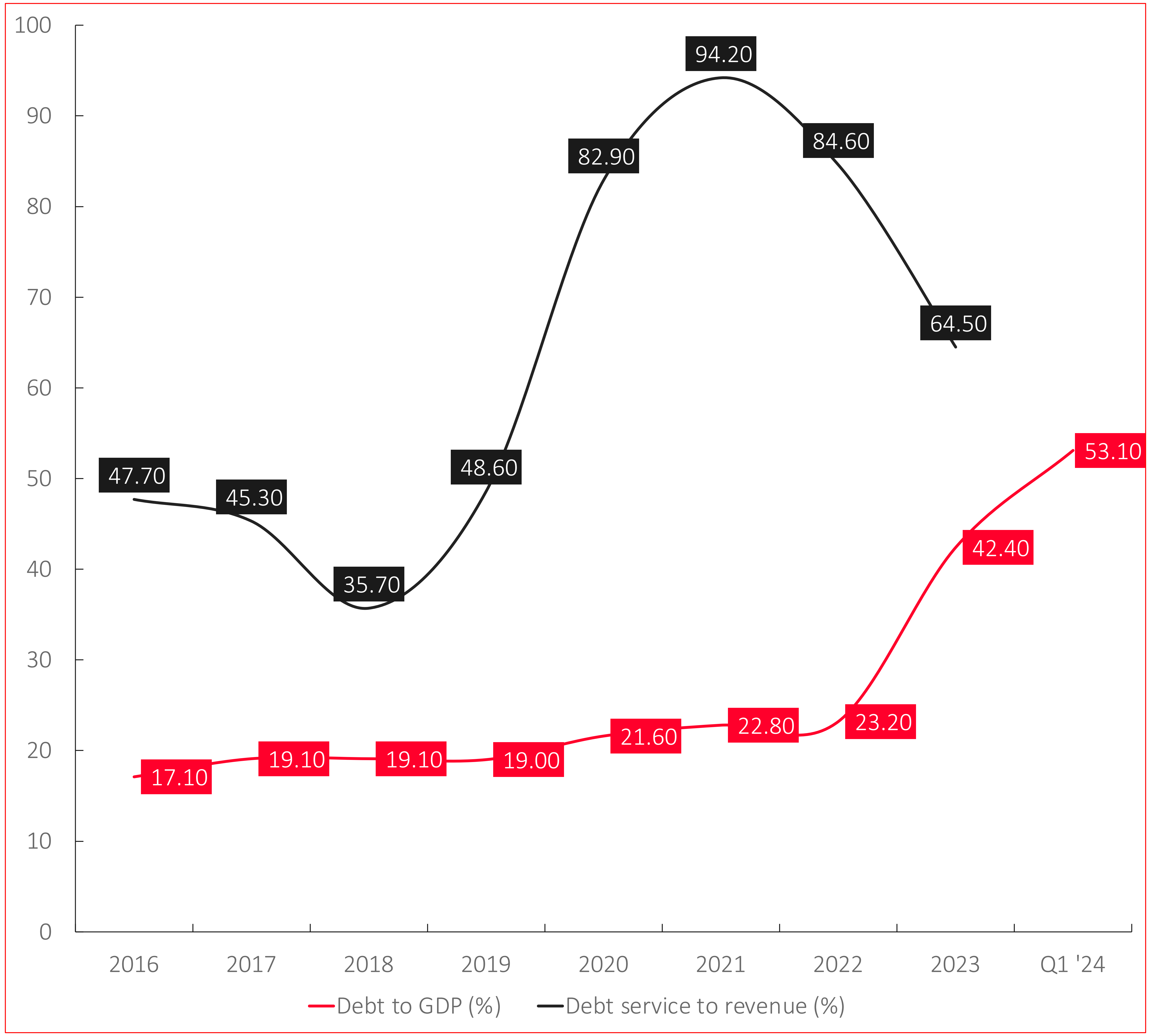
- ✓ As at end-March '24, total public debt stood at N121.6trn (including ways and means). On a q/q basis, it increased by 25% from N97.3trn at end- December '23. On a y/y basis, public debt increased by 144.2%. This can be largely attributed to naira devaluation and securitization of ways and means.
- ✓ Domestic debt increased by 11% q/q to N65.6trn. We note increases across FGN debt securities, FGN bonds (9.4% q/q), NTBs (60% q/q), Promissory notes (18% q/q), and FGN Savings bond (12% q/q). Meanwhile, the domestic debt for states and the FCT declined by -30.6% q/q to N4.1trn at end-March '24 from N5.9trn recorded at end-December 23. On a y/y basis, it declined by -25.7%. Lagos state stood as the most indebted state with total debt stock at N929.4bn, followed by Delta state at N334.8bn as at end-March '24. Meanwhile, Jigawa state and Ondo state were the least indebted states with total debt stock at N2.1bn, and N16.4bn respectively.
- ✓ External debt stock increased by +46.6% q/q to N56trn (USD42.1bn) at end-March '24 compared with N38.2trn (USD42.5bn) recorded at December '23. Multilateral lenders such as the World Bank, IMF, AFDB, as well as bilateral lenders like China, France, Japan, India, and Germany collectively accounted for 63.8% of total external debt while commercial loans (Eurobonds), and syndicated loans accounted for 36.2%. Overall, the external debt stock accounts for 46.1% (N56trn or USD42.1bn) of total public debt.
- ✓ As at end-March '24, public debt was equivalent to 53% of 2023 nominal GDP. This is above the DMOs debt-to-GDP ratio target of 40%.

DEBT SUSTAINABILITY RATIOS

CORONATION

- ✓ The senate passed a bill to raise the ways and means loans to the CBN to 10% from 5% of the previous year fiscal revenue. According to the DMO, N4.9trn new domestic borrowing was raised in Q1 '24 as part of the c.N7.3trn securitized ways and means advances. Although securitization would reduce the cost of debt service and enhance debt transparency, but it would concurrently raise the total public debt stock. The total public debt stock stood at N121.6trn in Q1'24.This represents 53% of the 2023 nominal GDP.
- ✓ This is above the DMO's debt-to-GDP target of 40%. However, still below the limit of 55% set by the World Bank for countries within Nigeria's peer group such as Ghana (84.9%), Egypt (95.8%), Soth Africa (72.2%). Enhancing tax collection and improving fiscal discipline will contribute to a more sustainable debt trajectory.
- ✓ As at Q1 '24, the FGN had spent c.N2.46trn on debt servicing (N989.2bn on domestic and N1.46trn on external). Based on the data from the budget office, the debt-service-to-revenue ratio stood at 64.5% as at December '23. We expect debt service costs to remain elevated (in nominal terms) due to the impact of the naira devaluation and additional borrowing on the back of the FGN budget deficit.

Debt-to-GDP ratio vs Debt-Service-to-revenue ratio (%)



Sources: DMO, Coronation Merchant Bank Economic Research

FISCAL - 2024 FGN BUDGET

CORONATION

Highlights	2024 Budget (N' trn)	2023 Budget (N' trn)	Percentage change (%)
Aggregate revenue	**19.6**	**11.0**	**+78.2**
Oil revenue	9.2	2.2	+260.9
Non-oil revenue	10.4	2.5	+315.6
Aggregate expenditure	**28.7**	**24.8**	**+15.7**
Statutory transfers	1.7	9.9	-82.8
Recurrent non-debt	8.7	9.3	-6.5
Debt service	8.2	6.6	+24.2
Capital expenditure	9.9	8.4	+17.9
Capex as a percentage of total expenditure (%)	34.9	33.9	+1%
Projected deficit	**-9.1**	**-13.8**	**-34.1**

Assumptions	2024 Budget	2023 Revised Forecast (as at July 2023)	Percentage change (%)
Benchmark oil price (USD/b)	77.96	75.00	+3.9
Oil production (mbpd)	1.78	1.72	+3.5
Exchange rate (N/USD)	800	700	+14.3
Target inflation (%)	21.40	17.16	+24.7
GDP growth rate (%)	3.76	3.75	+0.3

Financing	2024 Budget (N 'trn)
Privatization proceeds	2.98
Multi-lateral/Bi-lateral project –tied loans	1.1
New Borrowings	7.8
Domestic Borrowing	6.1
Foreign Borrowing	1.7

- ✓ The 2024 FGN Budget, titled "Budget of Renewed Hope," was signed by President Bola Ahmed Tinubu on 02 January'24. There were a few revisions made. The aggregate expenditure is estimated at N28.7trn which is 11.9% or N1.2trn higher than the initially proposed N27.5trn. This figure is 15.9% higher than the 2023 FGN budget of N24.82trn.

- ✓ Notably, the allocation to capital expenditure in the approved 2024 budget rose by 13.8% to N9.9trn, accounting for 34.5% of the total expenditure, compared to the initial proposed figure of N8.7trn. The increased capital spending aligns with the FGN's intent to reduce the country's infrastructure deficit gap. We note that the 2024 budget estimates point towards a fiscal deficit of N9.1trn (approximately 3.88% of the 2024 estimated nominal GDP), which is considerably lower than N13.8trn estimated in the 2023 FGN budget.

- ✓ The estimated revenue to fund the 2024 budget was revised upward to N19.6trn, 78.2% higher than the 2023 provision of N11trn. The breakdown of this revenue estimate shows that N9.2trn (46.9%) is expected from oil-related sources while the balance of N10.4trn (53.1%) is expected from non-oil sources. Overall, the revenue projections point towards expectations of improved revenue inflow, on the back of the removal of PMS subsidy, fx depreciation following the fx liberalization policy, and increased collection of non-oil taxes

- ✓ In our view, achieving the proposed revenue target in 2024 would require deliberate efforts towards tackling the challenges in the oil sector. Average oil production from January - November '23 was 1.46mbpd. This is below the FGN 2023 oil production target of 1.72mbpd. It is worth highlighting that actual non-oil revenue has exceeded FGN's target by an average of 9.4% since FY2021. Additionally, as at end-September '23, we note an overperformance of non-oil revenue (N2.5trn exceeding the prorated target of N1.8trn).

- ✓ We expect the FGN to increase its tax mobilization initiatives and further enhance independent revenue generation and collection efforts, especially from government-owned enterprises (GOEs).

- ✓ The proposed fiscal deficit of N9.1trn is expected to be financed by new borrowings totaling c.N7.8trn (domestic: c.N6trn, external: c.N1.7trn). Other sources of deficit financing include privatization proceeds of c.N298.4bn and drawdowns on bilateral/multilateral projects/programs of c.N941.1bn.

CREDIT RATINGS

CORONATION

	LATEST CREDIT RATING	POTENTIAL REVIEW
Moody's	✓ Moody's rating affirmed Nigeria's Caa1 long term foreign currency and local currency issuer ratings and maintained its positive outlook. ✓ The positive outlook continue to reflects the possible reversal of the deterioration in Nigeria's fiscal and external position as a result of the FGN's reform efforts i.e subsidy removal and fx liberalization. Additionally, the rating reflects the positive policy measures implemented by monetary authorities to boost foreign investors confidence, combat elevated inflation, and strengthen the banks.	✓ Moody's would likely upgrade Nigeria's ratings if the risks from higher inflation and FGN borrowing costs are effectively contained while the FGN continues with reforms .Evidence of fiscal consolidation that is supportive of the monetary tightening efforts to control inflation would indicate that the risks are receding. Additionally, strong non-oil revenue performance and improvements in oil production would exert upward pressure on the rating. ✓ On the other hand, Moody's might likely change its outlook to stable if inflation gets increasingly out of control and the FGN's access to funding remains highly constrained.
Fitch Ratings	✓ Fitch ratings revised its outlook on Nigeria's Long-Term Foreign-Currency Issuer Default Rating to positive from stable at 'B-'. ✓ The positive outlook reflects significant reforms over the past year, reduced distortions in the foreign exchange market, return of sizeable non-resident inflows.	✓ There could be downgrades, if there is greater risk of intensification of external liquidity stress potentially illustrated by a further decline in the CBN's net fx position, e.g. due to lower oil receipts, severely constrained external financing sources, or failure to execute fx reforms that contributes to capital outflows. Others include; widening fiscal deficit, entrenched high inflation and loose monetary policy settings. ✓ On the other hand, a positive rating action could be considered if there is a reduction in external vulnerabilities due to a sustainable recovery in the CBN's fx position and easing of domestic fx supply constraints. Others include; sustained increase in oil revenue, stronger mobilisation of domestic non-oil revenue and sustained reduction of inflation and distortions in the fx market.

FIXED INCOME

- In H1 ‘24, the FGN’s domestic borrowing target via FGN Bonds was c.N4.7trn. However, based on our estimates, c.N4.1trn was raised from FGN bond issuances (representing 87% of its N6.1trn domestic debt target). The average stop rate was 19.1%. The fixed income market remained bearish as the average yield increased by +462bps to 18.8% as at end-June ‘24.

- In the primary market for NTBs, we observed gross NTB issuance of N8.2trn in H1 ‘24. The stop rate averaged 18.1% across all tenors. Trading in the secondary market for NTBs was bearish, as the average yield for NTBs increased by +1578bps to 18.75%.

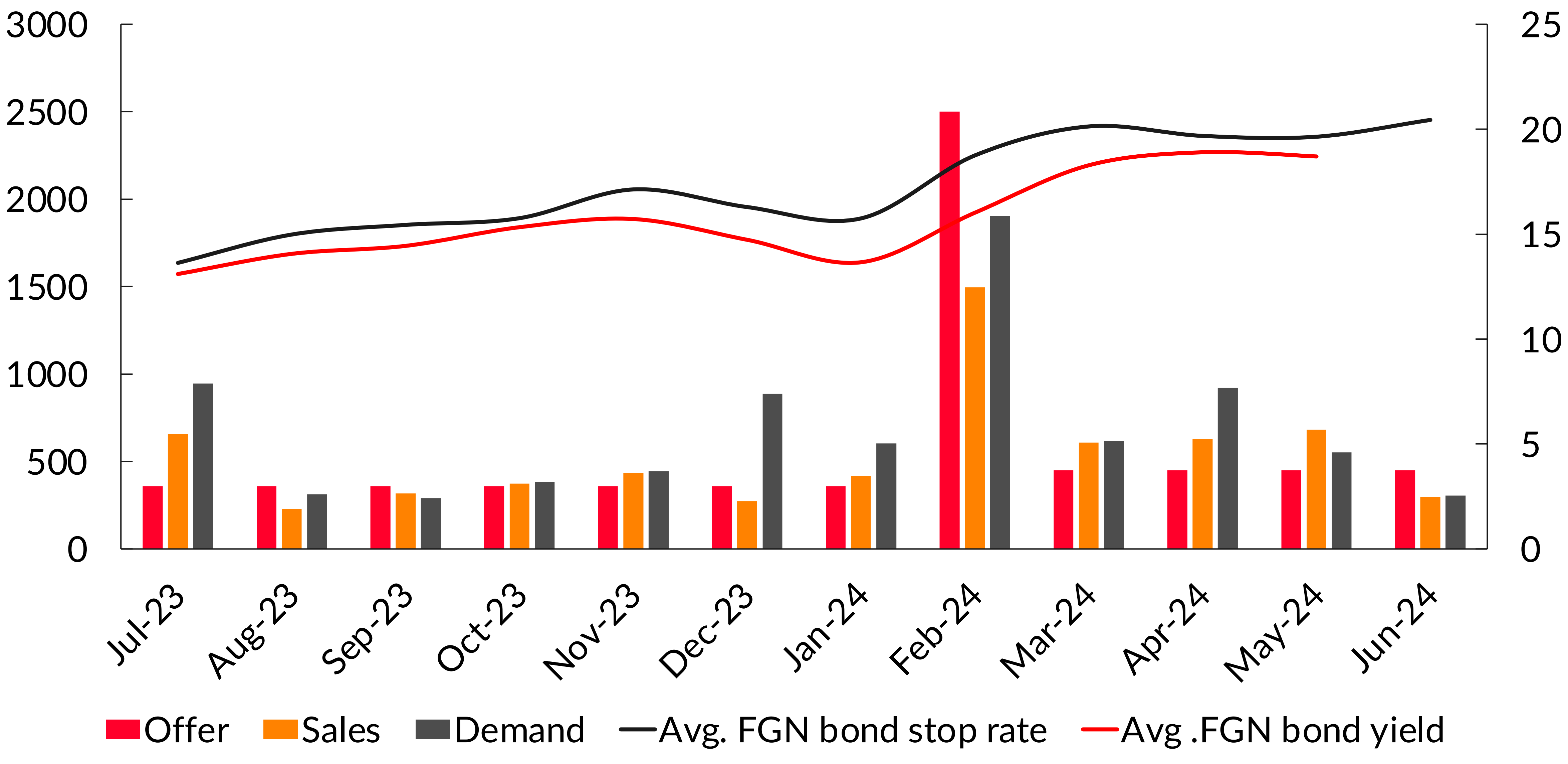
- CBN’s tight monetary policy stance and increased FGN’s borrowing largely impact market activities during the first half of the year.

- In the same period, average yield in the sovereign Eurobond market increased by +57bps q/q to close at 10.2%.

Forecast

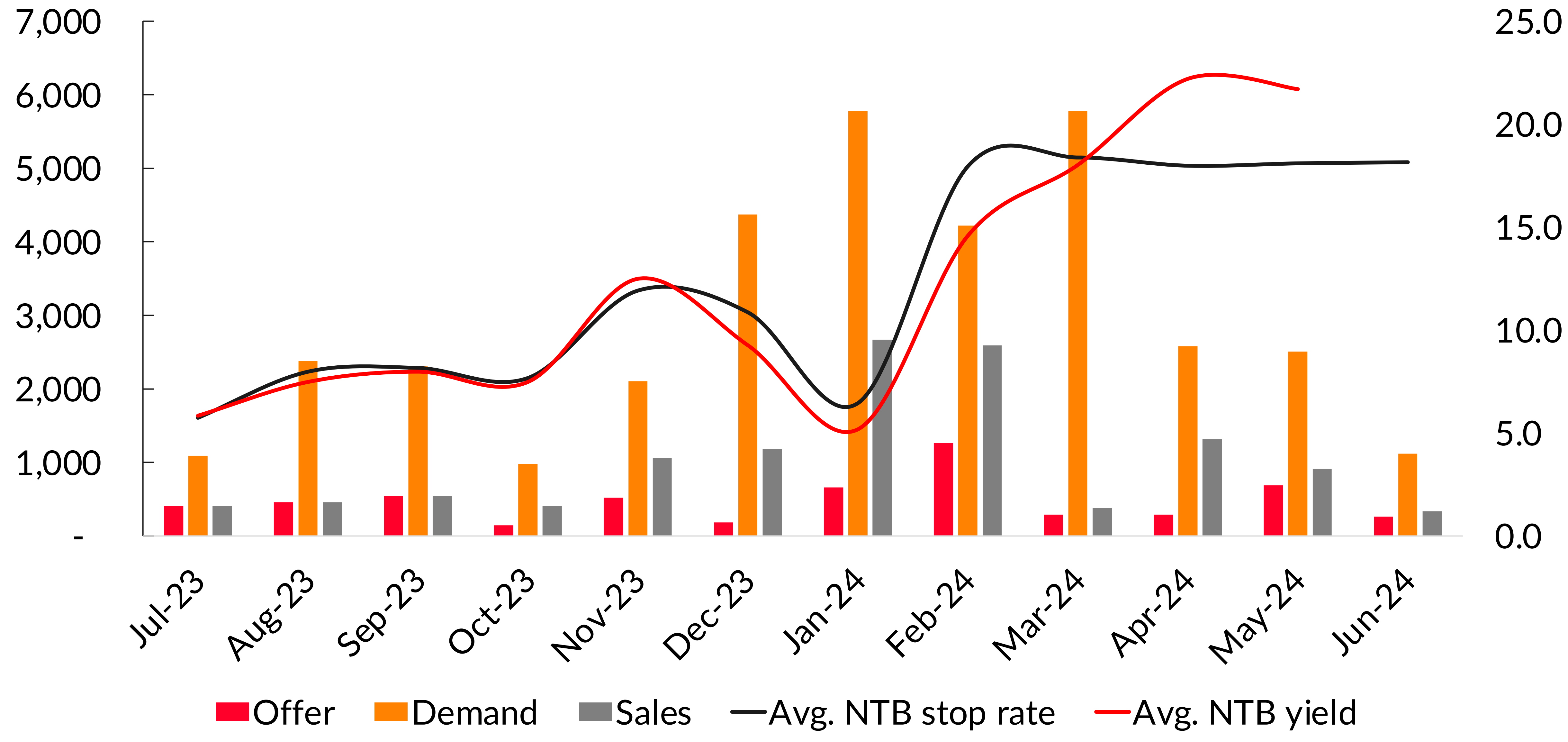
- Over the next 1 month: mid-curve ; FGN bond yield at 18.8% - 23.5%, long-end; yield at 18.6% - 22%.

Offer, Demand, Sales at FGN bond auction (N ‘bn) vs Movement in Avg. FGN bond stop rate and Avg. FGN bond yield



Sources: FMDQ, Coronation Merchant Bank Economic Research

Offer, Demand, Sales at FGN NTB auction (N ‘bn) vs Movement in Avg. FGN NTB stop rate and Avg. FGN NTB yield



Sources: FMDQ, Coronation Merchant Bank Economic Research

FIXED INCOME OUTLOOK

CORONATION

GLOBAL FINANCIAL CONDITION EXPECTED TO REMAIN TIGHT

- ✓ Given the slowdown in inflation seen in select economies, some central banks have begun to lower their policy rates. However, global financial condition is expected to remain tight in near term as risk to inflation remains high.

- ✓ We expect the FGN to consider a Eurobond issuance once global interest rates start declining and the domestic macroeconomic environment improves.

DOMESTIC MONETARY POLICY

- ✓ We anticipate a less restrictive stance by the Monetary Policy Committee (MPC), barring further inflationary pressure in H2 '24.

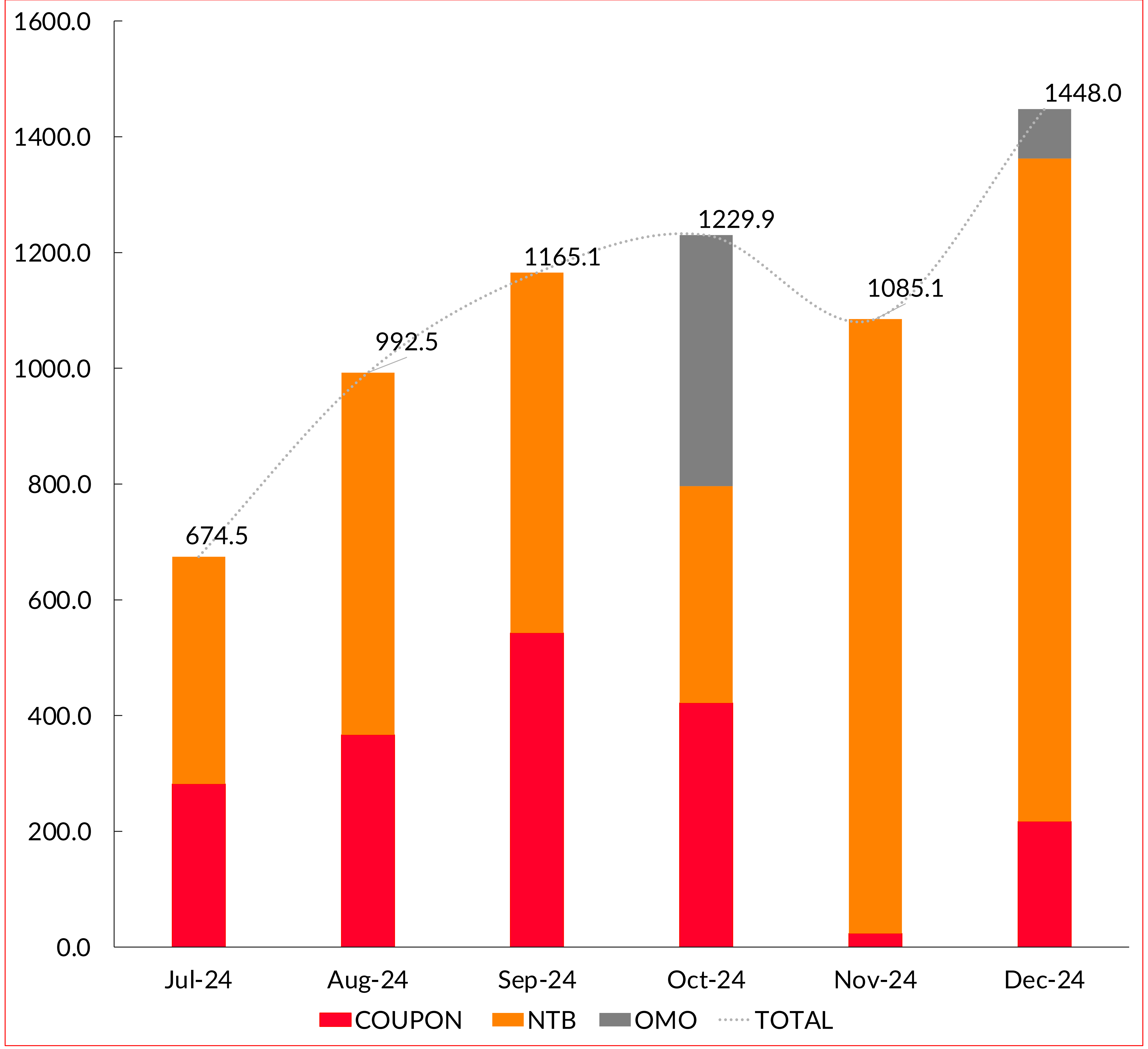
MATURITY PROFILE/SYSTEM LIQUIDITY

- ✓ We expect liquidity to remain tight in H2 '24 as the CBN continues focus on system liquidity management through primary market auctions and CRR/LDR debits.

FGN DOMESTIC BORROWING

- ✓ We expect the FGN to exceed its 2024 budget deficit of N9.1trn. Given that the ICM remains expensive for emerging economies like Nigeria, we expect domestic issuances to exceed projected FGN estimates. Overall, we expect fixed income yield to remain elevated in 2024.

Half Year Maturity Profile (N 'bn)



Sources: FMDQ, Coronation Merchant Bank Economic Research

THE H2 OUTLOOK

H2 '24 OUTLOOK FROM OUR VANTAGE POINT

CORONATION

For the second half of 2024, Nigeria's economic landscape presents a mix of challenges and strategic opportunities that demand careful navigation. GDP growth in the first half of the year slowed to 2.98% y/y, down from 3.46% y/y in Q4 2023, reflecting the persistent structural issues plaguing the economy. High inflation, currently above 30%, continues to erode consumer purchasing power, suppress demand, and dampen overall economic productivity. This, combined with the volatility of the naira has compounded the challenges facing the private sector, particularly in managing costs and maintaining profitability.

However, there are sectors that provide some optimism. The oil sector has shown signs of recovery over the past two quarters, and we expect this trend to continue as reforms in the sector take deeper root. If managed properly, the oil sector could drive modest GDP growth, with our projection for Q2 2024 at 3% y/y, and a revised full year forecast of 3.2%. This outlook is contingent on sustained improvements in oil production and the successful execution of sectoral reforms.

Inflation will likely remain elevated, driven by the pass-through effects of currency depreciation, supply chain disruptions, and persistent structural inefficiencies. For the banking sector, this inflationary environment presents a dual-edged sword: while higher interest rates can boost income from fixed-income instruments, they also raise the cost of borrowing, potentially slowing down credit growth and increasing default risks.

In H2 2024, while further monetary policy rate hikes remain possible, they are expected to be more measured, balancing the need for price stability with the imperative to support economic growth.

The exchange rate remains a critical concern. The naira's trajectory, fluctuating within the N1,350 – 1,600 range, will depend heavily on foreign exchange inflows, particularly from Foreign Portfolio Investors, and the anticipated USD2.3bn loan from the World Bank. These inflows could provide short-term relief, stabilizing the naira and alleviating some inflationary pressures. Nonetheless, the underlying vulnerabilities, including the substantial public debt burden of N121.6trn, necessitate a cautious approach to fiscal and monetary policy.

H2 ‘24 OUTLOOK FROM OUR VANTAGE POINT

CORONATION

Fiscal sustainability remains a significant concern, with public debt reaching N121.6trn, driven by naira devaluation and increased domestic borrowing. The burden of this debt, alongside tightening global financial conditions, may constrain fiscal space and limit the government’s ability to drive economic recovery through public investment. As such, the private sector will play a crucial role in sustaining growth, particularly through targeted investments in sectors with high growth potential, such as technology, renewable energy, and value-added agriculture.

H2 2024 will require strategic positioning. The financial sector must balance the potential for higher returns on government securities with the increased credit risks in a high-inflation, high-interest-rate environment. Banks should focus on strengthening their risk management frameworks, optimizing their capital structures, and leveraging technological innovations to enhance operational efficiency and customer service.

Although Nigeria’s macroeconomic environment in H2 2024 is fraught with risks, there are opportunities for those who can navigate the complexities with foresight and agility. The key will be in maintaining a delicate balance between seizing opportunities for growth and managing the inherent risks that come with a volatile macroeconomic landscape.

CORONATION

DISCLOSURE AND DISCLAIMER

DISCLOSURE REQUIREMENT

Market Disclosure

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. This material is for general informational and educational purposes only and is NOT intended to provide investment advice or a recommendation of any kind—including recommendation for any specific investment, strategy, or plan.

Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates.

Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund.

In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and the impact on the fund and its unit price can be sudden and unpredictable.

Bond funds are assigned a style box placement of low, medium, or high based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than BBB-, medium are those less than AA-but greater or equal to BBB-, and high are those with a weighted average credit quality of AA-or higher.

Fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii)Moderate: greater than 3.5 and less than equal to 6 years; (iii) Extensive: greater than 6 years

Performance Disclosure

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a unitholder may pay on a fund. Investment return, principal value, and yields of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than their original cost.

Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains.

Past performance is not a guide to current and future performance. The value of your investments and any income from them may fall as well as rise and you may not get back the full amount you invested

Risk Definitions

- Concentration risk: Investments may be primarily concentrated in specific areas (e.g. Asset class, Issuer and industry sectors), in terms of investment style (e.g. income or growth), in individual holdings and/or in a number of other ways. This may mean the value of the Fund may decrease whilst more broadly invested funds might grow.
- Country and political risk: Investments or underlying components of your Investments may be affected by their link or relationship to specific country which could be exposed to political or economic events affecting companies, interest rates or currencies.
- Currency exchange risk: Changes in the relative values of different currencies may adversely affect the value of the Fund's investments and any related income.
- Default risk: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss.
- Other market risk: Fund investment may be impacted by less developed legal, political, economic systems. This could result in higher risk of financial loss compared to other developed market.
- Equity investment risk: The value of equities and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default, the owners of their equity rank last in terms of any financial payment from that company.
- Interest rate risk: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates and/or inflation rises.
- Liquidity risk: The Risk that a given security or asset cannot be traded quickly within in the market to prevent a loss (or make the required profit).
- Macroeconomic risk: Refers to the risk that conditions such as exchange rates, growth rate, gross domestic product, inflation, price levels, national income, changes in employment, government regulation or political stability, will affect an investment usually in a foreign country.
- Multi-asset investment risk: The Fund is subject to possible financial losses in multiple markets and may underperform more focused funds.
- Return on capital: Neither capital preservation nor returns are guaranteed.
- Settlement risk: The risk that a counterparty does not deliver a security or its value in cash as per agreement when the security was traded after the other counterparty or counterparties have already delivered security or cash value as per the trade agreement.
- Taxation risk: The tax treatment of any Investment is determined by the specific circumstance of each client. Taxation may change during the lifetime of an Investment. This may result in unanticipated tax liabilities
- Third-party operational risk: The Fund's operations depend on third parties. Investors in the Fund may suffer disruption or financial loss in the event of third-party operational failure.

Disclaimer

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TIGHTROPE,

Balancing Growth:

Mid-year Economic Report