FCSL

Q3' 2024

ECONOMIC & FINANCIAL MARKETS REVIEW AND OUTLOOK

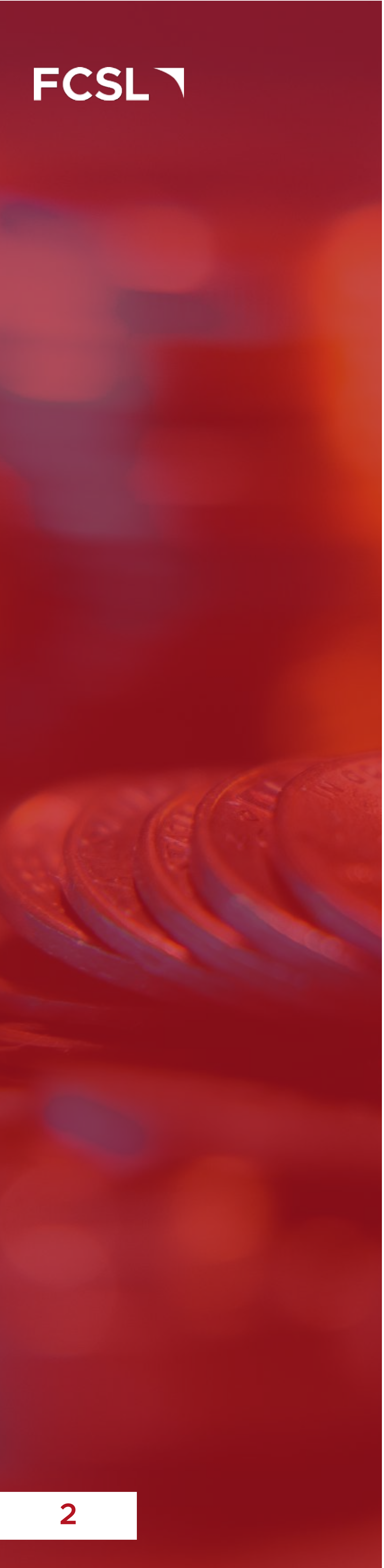

Table of Contents

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Global Economy

The global economy is projected to experience modest but steady growth in the coming years, global GDP expected to expand by 3.2% in 2024, followed by a slight dip to 3.1% in 2025. Despite overall stability, economic performance is diverging across regions. The U.S. economy performed well, with growth exceeding potential despite high policy rates. The Eurozone, after facing a manufacturing recession, particularly in Germany, is now seeing a gradual recovery.

One notable trend shaping the global economy is the ongoing divergence between services and manufacturing sectors. Services spending has been a key driver of economic growth, while manufacturing has slowed, particularly in regions more sensitive to interest rate hikes. This pattern is evident across most economies. Meanwhile, labor markets remain robust, with unemployment near multi-decade lows, even though some softening has occurred, particularly in the U.S. A strong labor market continues to underpin global growth, especially in the services sector, which is less sensitive to interest rate fluctuations. Inflation is gradually easing, though it remains above central bank targets in most economies. While headline inflation is slowly declining, core inflation, which excludes volatile food and energy prices, is proving more persistent. However, sequential inflation measures, which capture more recent data, suggest more positive trends.

Looking ahead, growth in emerging markets is expected to slow slightly, with many economies facing structural challenges and policy-related risks. While some emerging markets benefit from strong fundamentals, others, particularly in Latin America, face policy uncertainty that could limit capital flows and investment. Risks to the global economic outlook remain on the downside, with potential disruptions from labor market weakness, geopolitical tensions, and financial market volatility. However, policymakers are cautiously optimistic that a "soft landing" scenario, where inflation eases without triggering a recession, is achievable.

Global Interest Rates

Global interest rates are shifting as Central banks, led by the U.S. Federal Reserve, pivot from aggressive tightening to easing policies. The Fed has already cut rates by 50 basis points, signaling a response to moderating inflation and slowing growth. Other advanced economies, like the European Central Bank and Bank of England, are likely to follow with rate cuts, though cautiously, as inflation remains a concern.

Emerging markets face mixed scenarios. Countries like Brazil and Mexico are cutting rates as inflation cools, while others, such as Nigeria and South Africa, maintain high rates to manage inflation and currency pressures. The U.S. rate cuts could ease dollar strength, benefiting developing economies, but risks remain, particularly in regions where inflationary pressures persist. The shift in global interest rates could stimulate investment and trade, though central banks are likely to proceed cautiously to avoid reigniting inflation. The future trajectory of rates will depend on inflation trends and global geopolitical risks.

NORTH AMERICA

In the second quarter of 2024, the U.S. economy grew by 2.8%, reflecting stronger-than-anticipated consumer spending and business investment. However, underlying trends indicate a gradual slowdown as both households and businesses are becoming more cautious amid persistent inflationary pressures and higher borrowing costs. The Federal Reserve, recognizing these shifts, implemented its first rate cut in over three years, lowering interest rates by 50 basis points, aimed at preventing a sharp decline in the labor market, rather than signaling a recessionary response.

On the inflation front, disinflationary trends are gaining traction. The August 2024 Consumer Price Index (CPI) report showed headline inflation easing to 2.5% year-over-year, the lowest since early 2021, while core inflation remained at 3.2%. A combination of slower consumer spending, moderating wage growth, and easing rent inflation is expected to keep inflation on a downward trajectory. The Federal Reserve’s preferred inflation gauge, the Personal Consumption Expenditures (PCE) deflator, is projected to close the year around 2.5%, aligning with the Fed’s target by early 2025. The Fed’s current easing cycle is expected to continue, with one or two more 25-basis-point rate cuts anticipated by the end of 2024. The policy rate could see a further 150 basis points of reductions through 2025, bringing it down to around 2.9%, assuming no significant labor market shocks. While risks remain, especially concerning employment and wage dynamics, the Fed’s gradual approach aims to achieve a soft landing, fostering more stable and balanced growth moving forward.

Looking ahead, the U.S. economy is expected to slow into 2025, as restrictive monetary policies and elevated costs continue to dampen private sector activity. Businesses are likely to invest and hire more selectively, while households are expected to scale back spending amid softer income growth and weakening labor market conditions. Real GDP growth is forecast to average 2.7% in 2024 before slowing to 1.8% in 2025, as the economy transitions toward a more sustainable pace of expansion.

CHINA

China's economy grew 4.6% year-on-year in Q3 2024, in line with expectations but down from 4.7% in Q2, bringing year-to-date growth to 4.8%, slightly below the government's 5% target. Quarterly growth was 0.9%, missing forecasts of 1%. Despite recent stimulus measures aimed at countering weak consumer spending, a deflationary trend, and a prolonged property market downturn, details on these measures remain unclear, creating mixed market sentiment. However, stronger-than-expected industrial production and retail sales in September, coupled with a lower unemployment rate of 5.1%. China’s economic outlook remains cautiously optimistic despite challenges. While third-quarter growth of 4.6% was in line with expectations, the pace is still below Beijing’s 5% annual target, with weak consumption, deflationary pressures, and a struggling property sector weighing on the economy. Recent stimulus measures could provide a lift, though their unclear timing and scope create uncertainty.

However, stronger-than-expected industrial production, retail sales, and a drop in unemployment to 5.1% in September offer signs of resilience. Achieving the 5% target will depend on how effectively the government can bolster domestic demand and stabilize the property market.

EUROPE

In the second quarter of 2024, the Eurozone's GDP grew by 0.6% year-on-year, marking the strongest expansion in over a year, primarily fueled by a significant rise in government spending (+2.1%) and a 1.7% increase in exports. However, investment shrank by 3%, reflecting challenges in capital formation. On a quarterly basis, both the Eurozone and EU recorded GDP growth of 0.2%, a slight slowdown from 0.3% in the first quarter. Household consumption remained weak, with a marginal decline in the Eurozone, while government spending provided a positive contribution. Employment in the Eurozone increased by 0.2%, though labor productivity per person fell by 0.3%. Germany, the region's largest economy, unexpectedly contracted by 0.1%, while Poland and Ireland posted the highest growth rates. The Eurozone's economic outlook for 2024 is modest, with GDP growth projected between 0.7% and 1.0%. Inflation is expected to ease to 2.5% to 3.0%, though core inflation remains sticky. The ECB has implemented multiple interest rate cuts, reducing rates to 3.25% to support growth amid weakening economic activity, especially in Germany, which is nearing recession.

While Eastern European countries are expected to outperform, larger economies like France and Italy face slower growth. Additional ECB rate cuts may be needed to stimulate the economy, with further decisions likely based on upcoming data.

UNITED KINGDOM

In the second quarter of 2024, the U.K. economy was flat, with no growth recorded in July, matching June's performance and falling short of expectations for a 0.2% increase. The services sector grew slightly by 0.1%, while production and construction output fell by 0.8% and 0.4%, respectively. Over the three months leading to July, GDP grew by 0.5%, slightly below forecasts and down from the previous quarter's 0.6% growth. The government acknowledged the significant challenges it inherited from its predecessor, including a notable fiscal deficit. The finance Minister Rachel Reeves warned that recovery would not be immediate and highlighted potential tax increases that could impact consumer spending. Despite the stagnation, some analysts expressed cautious about potential interest rate cuts from the Bank of England improving the economic outlook in the coming months. As the central bank prepares for its next policy meeting, there are hopes that these cuts could alleviate broader growth pressures, leading to a more favorable economic outlook in the coming months.

Global Financial Markets

USA

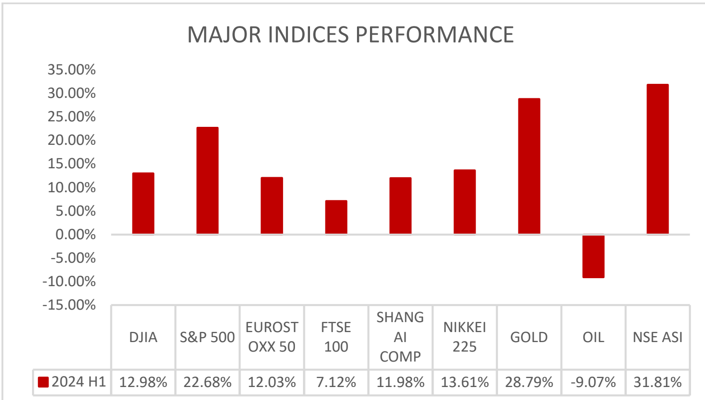
In the United States, the stock market demonstrated strong performance in the third quarter of 2024, with the S&P 500 delivering a return of 5.9%. This positive trend was fueled by the Federal Reserve's initiation of a rate-cutting cycle, reducing interest rates by 50 basis points in September due to cooling inflation and rising unemployment. The shift in monetary policy improved investor sentiment, particularly benefiting small-cap stocks, which rallied in anticipation of lower rates. Additionally, a noticeable "broadening out" of returns occurred, with value stocks outperforming growth stocks by 7 percentage points. The outlook for the US market remains cautiously optimistic, as lower interest rates could continue to support equity performance, though potential volatility looms with the upcoming November elections.

EUROPE

European markets experienced more muted returns compared to the US, with the UK and broader European indices rising by 2.3% and 1.6%, respectively. The European Central Bank cut rates in September, responding to ongoing economic sluggishness. While the UK displayed relatively stronger economic data throughout the year, a decline in consumer confidence was noted in September ahead of budget announcements. Germany's reliance on manufacturing, compounded by weak demand from China and increased competition from cheaper exports, weighed on the region's recovery. The outlook for Europe is mixed; while rate cuts may provide some support, challenges such as economic stagnation and geopolitical factors could hinder growth.

ASIA

Asia ex-Japan emerged as the top-performing region, with returns of 10.6% in the third quarter (JP Morgan). This rally was driven by new stimulus measures announced by Chinese policymakers aimed at revitalizing the economy, which helped bolster investor confidence. The coordinated nature of the stimulus, which included interest rate cuts and relaxed down payment requirements for home purchases, signaled strong government support for economic recovery. In contrast, Japan faced headwinds, with stocks declining by 4.9% due to a rate hike by the Bank of Japan and narrowing interest rate differentials with the US. The outlook for Asia is optimistic, particularly in China, where continued government support could sustain market momentum. However, Japan may face ongoing challenges as it navigates a tighter monetary policy environment.



Source: Investing.com, FCSL Research

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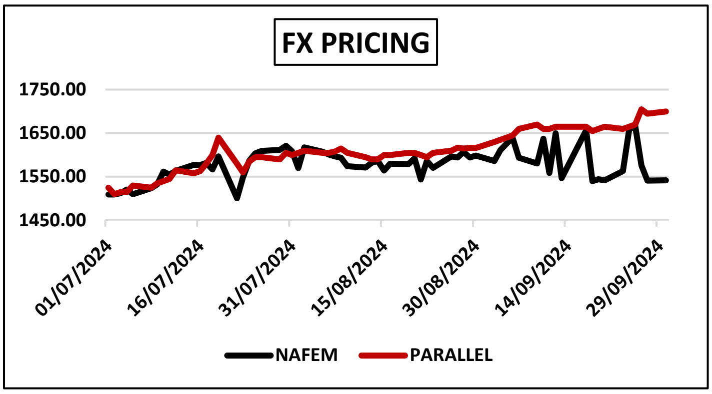
Domestic Economic Review & Outlook

FOREIGN EXCHANGE

The Naira was largely volatile throughout the quarter with fluctuation across all segments of the market (Parallel and NAFEM). There was a persistent dip in the value of the Naira across both segments hitting new highs despite attempts to manage the persistent rise, The Naira hit new levels reaching highs of N1,705/$ at the parallel market and N1,667.42/$ at the NAFEM. This was driven by increased speculation by FX traders, limited supply, increased demand and the CBN struggling to maintain the growth in FX reserves.

Throughout the quarter, the Naira moved with mixed sentiments depreciating by 10.59% against the US Dollar in the parallel market, moving from N1,520/USD in June to N1,700/USD in September. At the Nigerian Autonomous Foreign Exchange Market (NAFEM), the Naira also depreciated by 2.14%, slipping from N1,505.30/USD to N1,541.94/USD.

FOREIGN EXCHANGE	30-Sep	28-Jun	% Change
NAFEM	1,541.94	1,505.30	-2.38%
Parallel	1,700.00	1,520.00	-10.59%



Source: FMDQ, Nairametrics

OUTLOOK

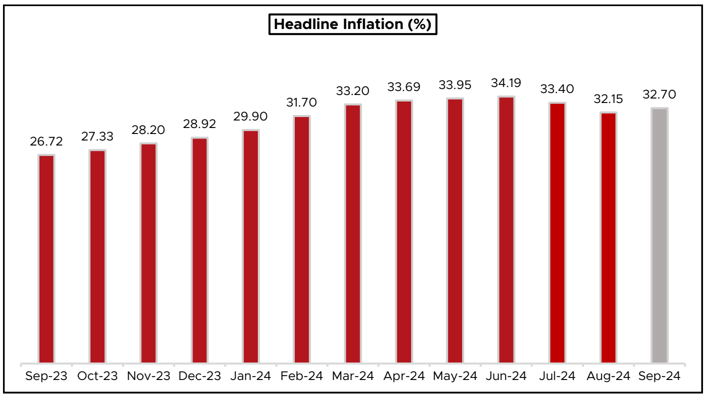
We expect a slight recovery in the Naira across both markets in Q4 2024, mainly driven by new policies being implemented by the CBN to manage the activities of FX operators to ensure more stringent compliance, and encourage foreign portfolio inflows, as well as the increased inflows in the festive season from remittances and visitors.

INFLATION RATE

Nigeria's inflation rate increased by 0.55%, reaching 32.70% in September 2024, up from 32.15% in August. The rise was primarily fueled by higher food and transportation costs, which came of the back of a sharp increase in petrol prices since early September.

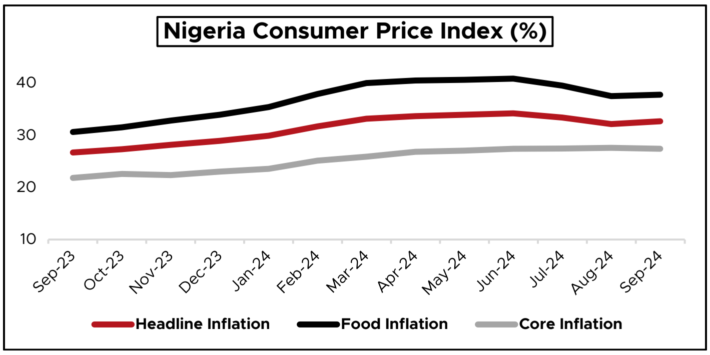
Other significant contributors included Housing, Water, Electricity, Gas & Other Fuels (+5.47%), Clothing & Footwear (+2.50%), Transport (+2.13%), Furnishings, Household Equipment & Maintenance (+1.64%), Education (+1.29%), Health (+0.98%), Miscellaneous Goods & Services (+0.54%), Restaurants & Hotels (+0.40%), Alcoholic Beverages, Tobacco, & Kola (+0.36%), Recreation & Culture (+0.22%), and Communication (+0.22%).

Core inflation, which excludes volatile agricultural produce and energy, rose by 5.59% year-on-year to 27.43% in September 2024, up from 21.84% in September 2023.



OUTLOOK

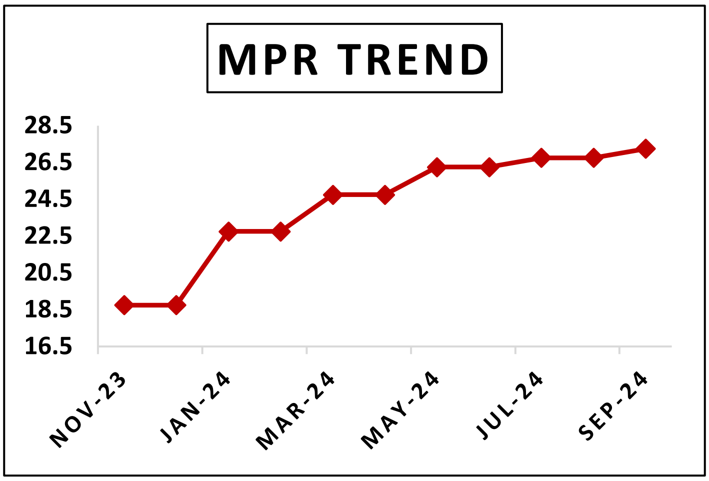
We expect that inflation will remain elevated, driven by continued pressure from high fuel prices, which will keep transportation and food costs inflated. Food inflation, especially for staples like bread, cereals, and tubers, is likely to persist due to supply chain disruptions and seasonal factors. Core inflation components such as housing, electricity, and imported goods may also rise further, particularly if the Naira continues to depreciate. While tight monetary policy may limit demand-side inflation, the overall rate is likely to stay high, with inflation remaining above 30%.



Source: NBS

MONETARY POLICY RATE

To combat rising inflation, the Monetary Policy Rate (MPR) was raised by 100 basis points, increasing from 26.25% in June to 27.25% at the last Policy Meeting. During the quarter, two Monetary Policy Committee (MPC) meetings were held, each resulting in a 50 basis point hike. The first meeting saw the MPR rise from 26.25% to 26.75%, while the second meeting further increased it from 26.75% to 27.25%.



Source: CBN

OUTLOOK

Looking at the current inflationary trend in the economy and in a bid to keep rates competitive for foreign inflows, we expect further increase in rates in Q4' 2024.

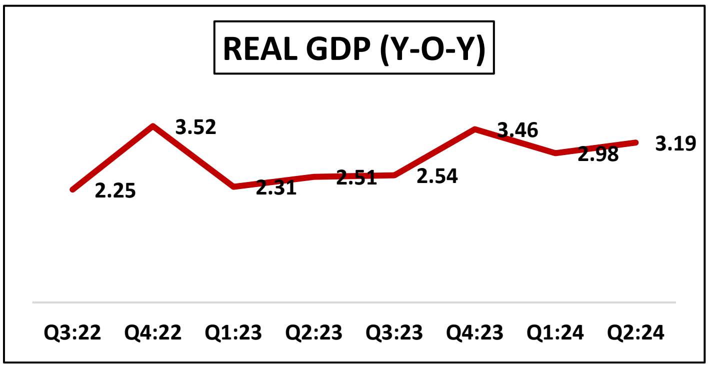
GDP GROWTH

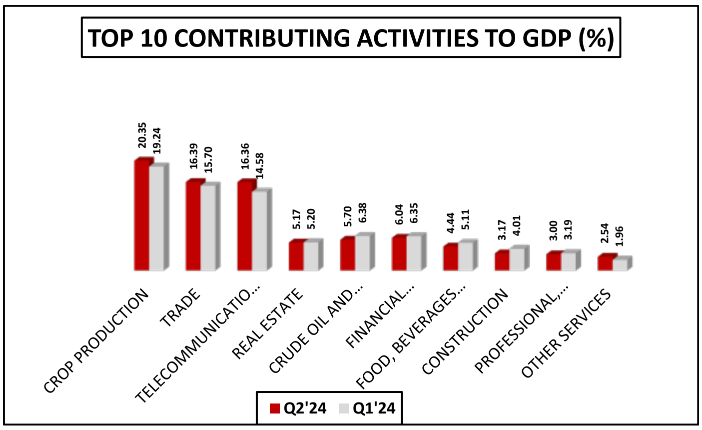
Nigeria's Gross Domestic Product (GDP) increased by 3.19% year-on-year in Q2'2024, up from 2.98% in Q1'2024 and up from 2.51% in Q2'2023. The Service sector drove the quarter's performance, growing by 3.79% (vs. 4.32% in Q1'24) and contributing 58.76% to aggregate GDP (vs. 58.04% in Q1'24). The agricultural sector grew by 1.41% (vs. 0.18% in Q1'24), while the industrial sector grew from its previous quarter figure by 3.53% (vs 2.19% in Q1'24).

The top 10 contributing activities to real GDP in Q2'24 include: Crop production (20.35% vs 19.24% in Q1'24), Trade (16.39% vs 15.70% in Q1'24), Telecommunication (16.36% vs 14.58% in Q1'24), Crude Petroleum and Natural Gas (5.70% vs 6.38% in Q1'24), Financial Institutions (6.04% vs 6.35% in Q1'24), Real Estate (5.17% vs 5.20% in Q1'24), Food, Beverage, and Tobacco (4.44% vs 5.11% in Q1'24), Construction (3.17% vs 4.01% in Q1'24), Professional, Scientific and Technical Services (3.00% vs 3.19% in Q1'24), and Broadcasting (2.54% vs 1.96% in Q1'24).

OUTLOOK

We anticipate a slowdown in the growth rate in Q1'24 because of staggering inflationary rates (which should slow down demand for major consumables), higher factor input costs, increased insecurity, and huge volatility in the FX rate.





Source: NBS

Nigerian Equities Market

The third quarter of 2024 was marked by volatility in the equities market, with increased activity in the Oil and Gas sector, primarily driven by OANDO Plc (NGX: OANDO). Following its $783 million acquisition of Nigerian Agip Oil Company, a subsidiary of Eni, in early August, OANDO saw a surge in investor interest, pushing its market value above the N1 trillion mark. Despite this, a decline in the share prices of Industrial Goods giants like Dangote Cement and BUA Cement contributed to an overall market downturn. The NGX All-Share Index (ASI) fell by 1.50%, dropping to 98,558.79 points from 100,057.49 in June 2024. Consequently, the year-to-date ASI return also decreased to 31.81%.

Trading activity, however, increased during the period, with transaction volumes and values rising by 44.27% and 22.10%, respectively. A total of 37.88 billion units were traded, valued at N622.33 billion, up from 26.25 billion units and N509.68 billion in the previous quarter.

Sector performance for the period was mostly positive, with three of the five key sector indices recording gains. The Oil and Gas sector led with a 38.19% return, driven by strong gains in OANDO (+450.67%), TOTAL (+73.28%), and CONOIL (+60.00%). The Banking sector followed, with notable increases in UBA (+26.06%), FBNH (+23.29%), FCMB (+12.90%), ETI (+12.41%), ACCESSORP (+8.71%), GTCO (+6.67%), and ZENITH (+5.76%). The Insurance sector also saw gains, rising by 10.08%, with standout performers including REGALINS (+87.50%), CAVERTON (+86.15%), SUNUASSUR (+36.00%), CUSTODIAN (+25.49%), and CORNERST (+19.52%).

In contrast, the Industrial Goods sector experienced the steepest decline, falling by 18.94%, led by losses in BUACEMENT (-23.18%) and DANGCEM (-18.99%). The Consumer Goods sector also faced setbacks, with losses in NNFM (-33.95%) and DANGSUGAR (-18.95%), with a loss in NASCON (-8.41%).

Market breadth was positive, with a ratio of 1.64 gainers to every loser, as 74 stocks advanced while 45 declined.

	30-Sep	28-Jun	% Change
NGX-ASI	98,558.79	100,057.49	-1.50%
MKT CAP (N'BN)	56,635.24	56,601.58	0.06%
VOLUME TRADED (UNITS' M)	37,879.49	26,255.59	44.27%
VALUE TRADED (B)	622.33	509.68	22.10%

	30-Sep	28-Jun	% Change
NGX-BANKING INDEX	944.48	830.2	13.77%
NGX-INDUSTRIAL INDEX	3806.57	4696.04	18.94%
NGX-INSURANCE INDEX	429.93	390.57	10.08%
NGX-OIL & GAS INDEX	1990.84	1440.67	38.19%
NGX-CONSUMER GOODS INDEX	1564.09	1581.55	1.10%

Top Gainers

S/N	COMPANY	CLOSE	OPEN	GAINS	%CHANGE
1	OANDO	82.60	15.00	67.60	450.67%
2	RTBRISCOE	3.20	0.70	2.50	357.14%
3	IMG	35	11.9	23.10	194.12%
4	DEAPCAP	1.22	0.52	0.70	134.62%
5	ETERNA	30	16	14.00	87.50%
6	REGALINS	0.75	0.4	0.35	87.50%
7	CAVERTON	2.42	1.3	1.12	86.15%
8	SFSREIT	179.45	101.4	78.05	76.97%
9	ABCTRANS	1.15	0.66	0.49	74.24%
10	TOTAL	673.9	388.90	285.00	73.28%

Top Losers

S/N	COMPANY	CLOSE	OPEN	LOSS	%CHANGE
1	CUTIX	2.41	4.40	-1.99	45.23%
2	NNFM	31.90	48.30	-16.40	33.95%
3	UCAP	18.35	26.5	-8.15	30.75%
4	BUACEMENT	110.00	143.20	-33.20	23.18%
5	CWG	6.15	7.95	-1.80	22.64%
6	MECURE	7.65	9.57	-1.92	20.06%
7	MULTIVERSE	9	11.2	-2.20	19.64%
8	TRANSPOWER	301.7	373.9	-72.20	19.31%
9	DANGCEM	532	656.7	-124.70	18.99%
10	DANGSUGAR	34.85	43.00	-8.15	18.95%

Source: Nigerian Exchange Limited

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Fixed Income Market

BOND MARKET

The fixed income market experienced mixed sentiments during the quarter, with demands mainly dominating the FGN Bond and NT-Bills market owing largely to the primary market auction and the drop in rates.

The Debt Management Office (DMO) issued three (3) bond instruments during the quarter, a Five (5) year 2029 bond, a seven (7) year 2031 bond and a Nine (9) year 2034 bond with a total of value of almost N865 billion being allotted. The stop rate of the 2029 bonds varied from 19% to 20.30%, with the 2031 bonds following a similar trend with its highest auction rate standing at 21.00%. The 2033 bond recorded the highest rate, closing at 21.98% at the July auction, all significantly impacting the secondary market.

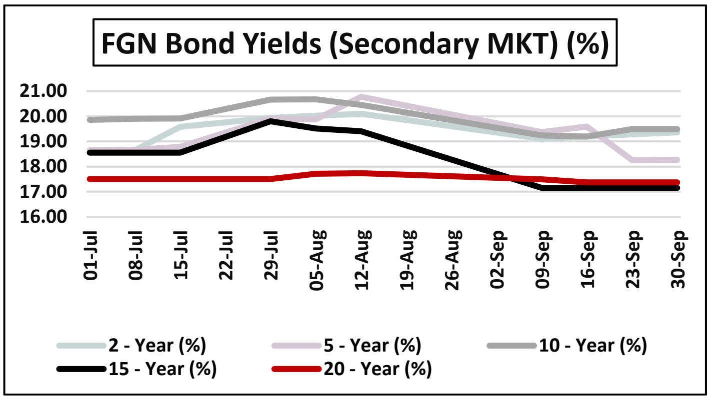
At the FGN Bond secondary market, there was an increase in activities (mainly demand) across all listed instruments with major transactions seen at the short and mid dated bond instrument. This was mainly as a result of variation in yields with several investors looking to take advantage of the volatility to make marginal income. Consequently, average yields increased marginally by 3bps to close at 18.77% from 18.74% in June.

FGN BOND	30-Sep	28-Jun	% Change
2 - Year(%)	19.36	18.54	4.42%
5 - Year(%)	18.27	18.65	-2.04%
10 - Year(%)	19.49	19.86	-1.86%
15 - Year(%)	17.15	18.55	-7.55%
20 - Year(%)	17.37	17.50	-0.74%
30 - Year(%)	16.60	17.51	-5.20%

Source: FMDQ

Bond Auction Results			
Date	*2029*	*2031*	*2033*
Sep-24	19.00%	19.99%	20.05%
Aug-24	20.30%	20.90%	21.50%
Jul-24	19.89%	21.00%	21.98%

Source: DMO



Source: FMDQ

NIGERIAN TREASURY BILLS MARKET

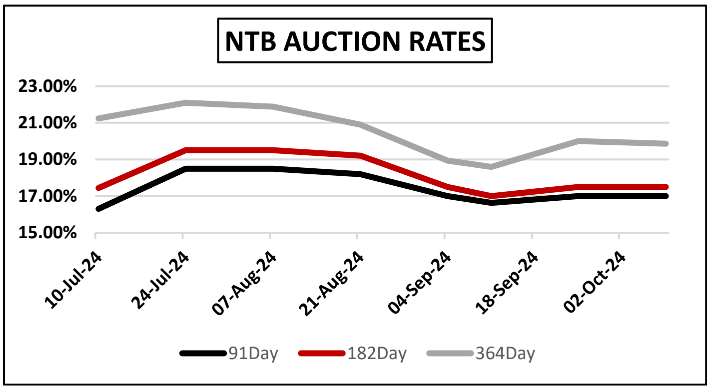
Eight NT-Bills primary market auctions were conducted during the quarter by the Central Bank of Nigeria (CBN), with a combined allotment value of N1.70 trillion. Auction rates fluctuated during the quarter with rates for the 91-day bill moving from 16.30% to 17.00% (despite a high of 18.50%), 182-day bill moving from 17.44%% to 17.50%% (with n high of 19.50% during the quarter%) and 21.24% down to 19.86% for the 364-day bill (with a peak of 22.10%) during the period.

The NT-Bills secondary market followed the trend of the primary market closing bullish at the end of the quarter, owing to investors' reaction to the auction results. Consequently, average yields went down by 15 basis points to close at 21.92% down from 22.07% at the beginning of July.

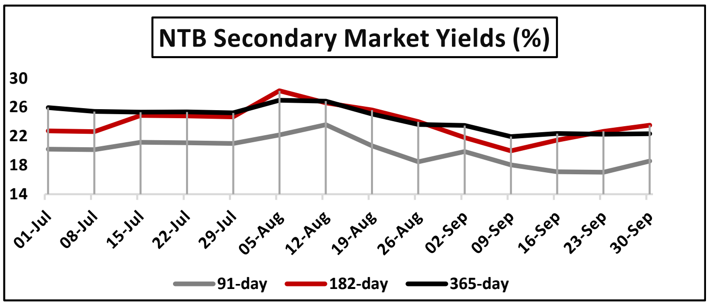
The long-dated bills had the greatest change mainly driven by significant drop in the auction yields and this trickled down into the secondary market. This was followed closely by the short-dated bills while the mid-dated bills recorded a marginal gain in yields.

NTB Auction Stop Rates

Date	91Day	182Day	364Day
09-Oct-24	17.00%	17.50%	19.86%
25-Sep-24	17.00%	17.50%	20.00%
11-Sep-24	16.63%	17.00%	18.59%
04-Sep-24	17.00%	17.50%	18.94%
21-Aug-24	18.20%	19.20%	20.90%
07-Aug-24	18.50%	19.50%	21.89%
24-Jul-24	18.50%	19.50%	22.10%
10-Jul-24	16.30%	17.44%	21.24%



Source: CBN



Source: FMDQ

SYSTEM LIQUIDITY

System liquidity fluctuated throughout the quarter trending mainly in the positive zone, owing mainly to a rise in opening balances and a decrease in standing lending facilities. It closed at the end of the quarter, closing at N872.51 billion representing a 69.69% increase from a previous figure of 514.17 billion seen at the end of June. Driven by the increase in system liquidity and MPR rates, Open-Buy-Back and Overnight rates rose to 28.03% and 28.72% from 24.17% and 25.00% in June.

OUTLOOK

Going into the next quarter, we anticipate an increase in activities across the FGN Bond and NTB market segments owing to the hike in the MPR by the Policy Committee and its continued effect on the fixed income market, the anticipation of a higher rates and better pricing during the quarter.

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Disclamier

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