# Berkshire Finance Company Limited

## Research & Insights

BERKSHIRE
LENDING • ADVISORY • INVESTMENTS

**April 12, 2024**

# Berkshire Market Briefs


**Author:**

**Michael Ajayi**

+234 813 603 0000

www.berkshirefinancecompany.com


**Follow us on:**

## Q1 2024 Quarterly Report

## Executive Summary

The Nigerian economy witnessed significant currency volatility in the first quarter of 2024. The Naira plummeted by 37% to reach an all-time low of ₦1,915/$ on February 21 due to forex demand and increased speculative activities. However, it managed to rebound to ₦1,310/$ by the end of the quarter, thanks to a series of measures implemented by the Central Bank of Nigeria (CBN). These measures included reforms in the Bureau de Change (BDC) segment, removal of limits and margins for International Money Transfer Operators (IMTOs), clearance of legitimate FX backlogs, and aggressive monetary tightening.

During this period, the Monetary Policy Committee (MPC) conducted two meetings, raising the Monetary Policy Rate (MPR) by a total of 600 basis points in an effort to curb inflation, which has reached a 28-year high of 31.7%, and to stimulate foreign capital inflows.

Fortunately, these reforms and initiatives have begun to yield positive results, with investors showing renewed interest in Nigerian government securities. Foreign investors dominated approximately 80% of total Treasury Bills and Open Market Operations (OMO) sales, attracted by high yields in the fixed income market. The yield on the 365-day Nigerian Treasury Bills (NTB) surged by 888 basis points to 21.12%, enhancing investor confidence in the fixed-income market.

Despite the elevated interest rates, the stock market witnessed bullish trends during the first quarter of 2024, recording a significant increase of 39.84%. This upward trend was driven by heightened domestic investor sentiment in key stocks such as DANGCEM, coupled with improved foreign investor sentiment in the Nigerian equities market. However, the MPC's cautious stance led to higher borrowing costs for businesses, potentially hindering their expansion plans.

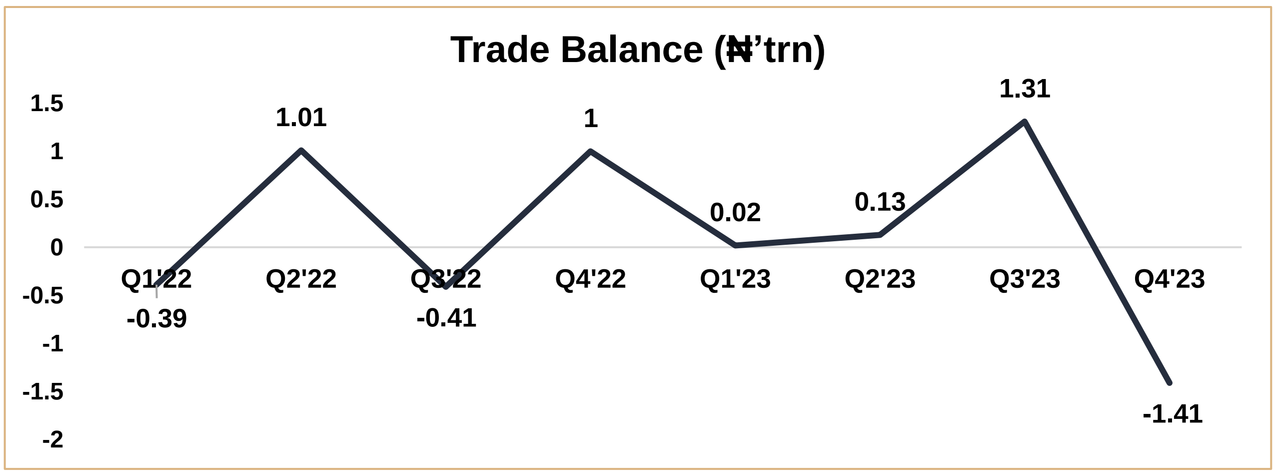
During the same period, the National Bureau of Statistics (NBS) released Gross Domestic Product (GDP) data for the fourth quarter of 2023. As anticipated, real GDP growth continued its positive momentum, expanding by 3.46%, up from 2.54% in the third quarter of 2023. Notably, the oil sector emerged from a 14-quarter recession, registering a growth rate of 12.11%, supported by increased oil production. Domestic oil production averaged 1.55 million barrels per day (mbpd) in the fourth quarter of 2023, up from 1.45 mbpd in the previous quarter. Additionally, the non-oil sector grew by 3.07%, surpassing the 2.75% growth rate in the third quarter of 2023. A breakdown of activities revealed that out of the 46 activities monitored by the NBS, 14 expanded, 18 slowed down, and 14 contracted.

## Key Economic Indicators and Markets – Review, Outlook & Implications

### Nigeria records a trade deficit of ₦1.41trillion in Q4 2023

Nigeria's total trade increased sharply by 38.24% to ₦26.8 trillion in Q4 2023, up from ₦19.39 trillion in Q3'23. Notably, both the country's export revenues and import bills spiked. Export earnings surged by 22.68% (quarter-on-quarter) and 99.6% (year-on-year) to ₦12.69 trillion while the import bill skyrocketed by 56.04% (quarter-on-quarter) and 163.08% (year-on-year) to ₦14.11trillion. The substantial rise in the import bill can largely be attributed to the significant depreciation of the Naira, with the currency losing 16.69% of its value in the fourth quarter of 2023.

The sharp increase in the import bill relative to the total export proceeds led to a trade deficit of ₦1.41 trillion, in contrast to a surplus of ₦1.31 trillion in the third quarter of 2023 and ₦1.0 trillion in the fourth quarter of 2022.




In 2023, the total trade saw a notable annual increase of 37.21%, reaching ₦71.88 trillion compared to ₦52.39 trillion in 2022. Notably, export earnings rose by 34.2% to N35.96 trillion from ₦26.80 trillion in 2022, while the import bill surged by 40.36% to ₦35.92 trillion from ₦25.59 trillion in 2022.

During the fourth quarter of 2023, Nigerian commodities were predominantly exported to European countries, with the Netherlands leading at ₦1.91 trillion (15.05%), followed by India at ₦1.1 trillion (8.68%), Spain at ₦1.03 trillion (8.11%), Canada at ₦0.91 trillion (7.15%), and France at ₦0.8 trillion (6.30%). These nations collectively accounted for 45.29% of total export earnings. Crude oil remained the primary export commodity, representing 81.23% (₦10.31 trillion) of total export earnings, followed by natural gas (8%, ₦1.02 trillion), and urea (₦0.25 trillion, 1.98%).

The top five importing countries were predominantly Asian, with Singapore leading at ₦5.09 trillion (36.09%), followed by China at ₦2.06 trillion (14.61%), Belgium at ₦1.14 trillion (8.09%), India at ₦0.91 trillion (6.44%), and the US at ₦0.51 trillion (3.64%). These countries collectively accounted for 68.86% of total imports, valued at ₦9.72 trillion. The most imported commodities included tanks and other armoured fighting vehicles, motorized, whet (₦5.061 trillion, 35.87%), motor spirit (₦1.81 trillion, 12.81%), and gas oil (₦1.2 trillion, 8.48%).

### Outlook and Implications

We expect Nigeria's import bill to remain elevated in the first quarter of 2024 due to the significant depreciation of the exchange rate, before decreasing in the subsequent quarter as the currency maintains its consistent appreciation. In the parallel market, the Naira reached a historic low of ₦1,915/$ on February 21 before strengthening to ₦1,120/$ by April 8. Consequently, the country's trade deficit is likely to widen in the first quarter of 2024 but may revert to a surplus in the latter half of the year as the Naira continues to strengthen and oil prices remain high.

### Capital importation surges by 66.27% to $1.09bn in Q4 2023

Total capital importation into Nigeria surged by 66.27% to $1.09 billion in Q4 2023 from $654.65 million in Q3 2023, reflecting renewed confidence in the Nigerian economy. Among the three categories of capital inflows, portfolio investment, commonly referred to as hot money, saw the most substantial increase (up 255.6% to $309.76 million), followed by Foreign Direct Investment (up 207.8% to $183.97 million) and other investments (up 17.13% to $594.75 million).

The principal countries of origin were the United Kingdom ($267.24 million, constituting 24.55% of the total), Mauritius ($226.18 million, 20.78%), and the Netherlands ($149.93 million, 13.77%). Lagos State retained its position as the primary destination, accounting for 65.38% of the total capital inflows ($771.68 million), followed by Abuja with 34.07% ($370.8 million) and Rivers State with 0.55% ($6.00 million).

In terms of sectors, the production/manufacturing sector received the highest inflow ($450.11 million, 41.35%), followed by the banking sector ($283.3 million, 26.03%) and financing ($135.59 million, 12.46%). Stanbic IBTC Bank Plc attracted the highest amount of capital inflow into Nigeria during the period under review ($499.45 million, 45.88%), followed by Citibank Nigeria Limited ($229.06 million, 21.04%) and Rand Merchant Bank Plc ($85.85 million, 7.89%).

### Outlook and Implications

The Central Bank of Nigeria (CBN) has remained steadfast in its efforts to enhance confidence and transparency in the foreign exchange market, and these endeavours have proven fruitful, evidenced by the rise in foreign investor engagement in Nigerian government securities. If this is sustained, we expect to see a continued increase in capital importation into Nigeria in the near term, particularly in terms of foreign portfolio investment..

## Capital importation surges by 66.27% to $1.09bn in Q4 2023

Total capital importation into Nigeria surged by 66.27% to $1.09 billion in Q4 2023 from $654.65 million in Q3 2023, reflecting renewed confidence in the Nigerian economy. Among the three categories of capital inflows, portfolio investment, commonly referred to as hot money, saw the most substantial increase (up 255.6% to $309.76 million), followed by Foreign Direct Investment (up 207.8% to $183.97 million) and other investments (up 17.13% to $594.75 million).

The principal countries of origin were the United Kingdom ($267.24 million, constituting 24.55% of the total), Mauritius ($226.18 million, 20.78%), and the Netherlands ($149.93 million, 13.77%). Lagos State retained its position as the primary destination, accounting for 65.38% of the total capital inflows ($771.68 million), followed by Abuja with 34.07% ($370.8 million) and Rivers State with 0.55% ($6.00 million).

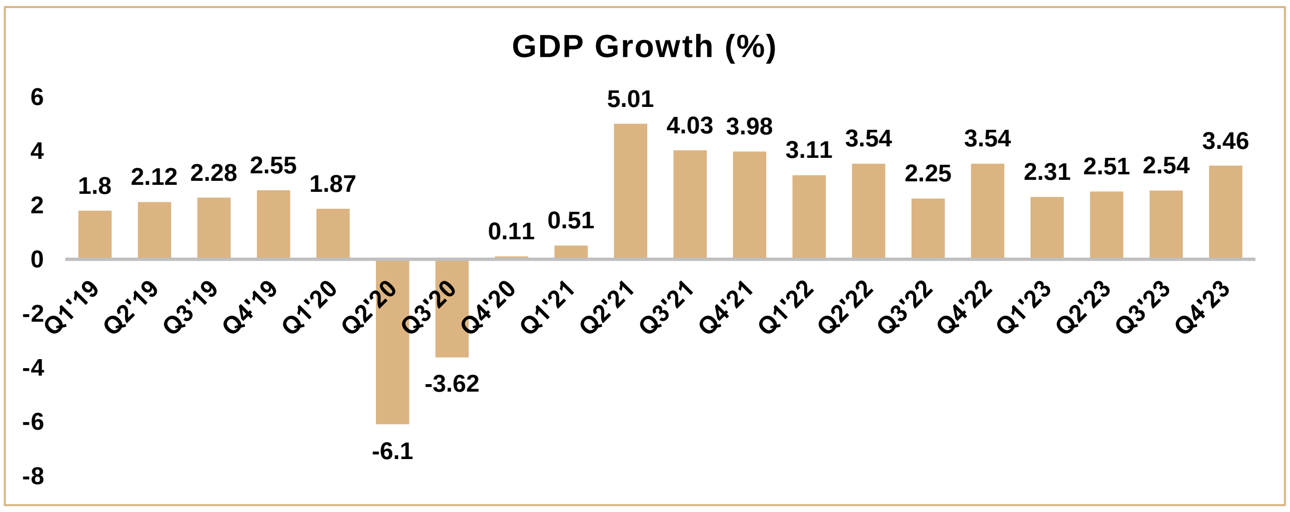
In terms of sectors, the production/manufacturing sector received the highest inflow ($450.11 million, 41.35%), followed by the banking sector ($283.3 million, 26.03%) and financing ($135.59 million, 12.46%). Stanbic IBTC Bank Plc attracted the highest amount of capital inflow into Nigeria during the period under review ($499.45 million, 45.88%), followed by Citibank Nigeria Limited ($229.06 million, 21.04%) and Rand Merchant Bank Plc ($85.85 million, 7.89%).

### Outlook and Implications

The Central Bank of Nigeria (CBN) has remained steadfast in its efforts to enhance confidence and transparency in the foreign exchange market, and these endeavours have proven fruitful, evidenced by the rise in foreign investor engagement in Nigerian government securities. If this is sustained, we expect to see a continued increase in capital importation into Nigeria in the near term, particularly in terms of foreign portfolio investment.

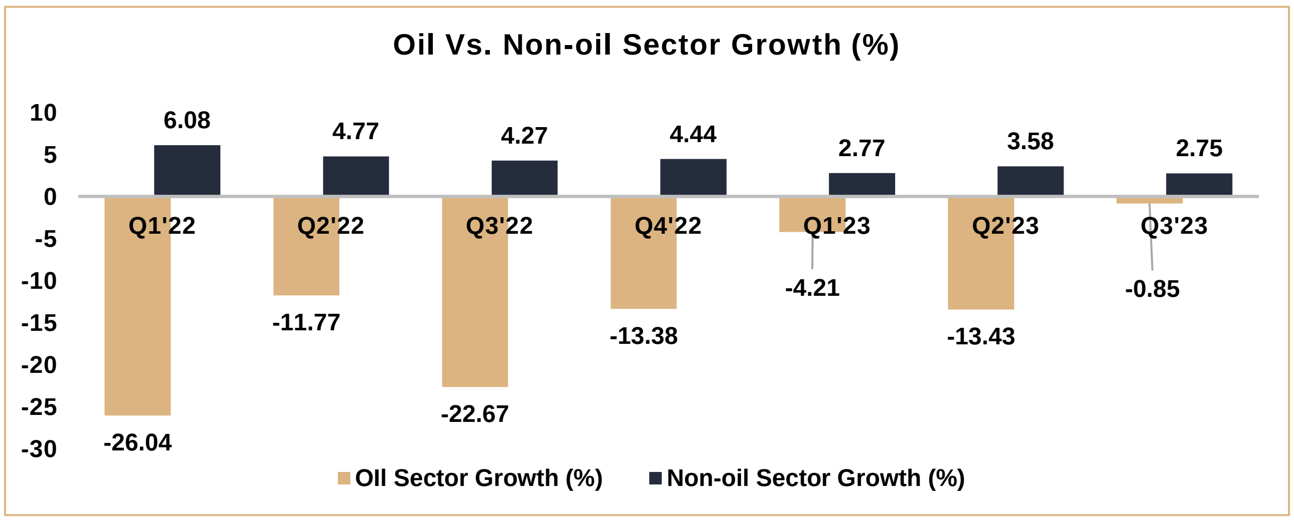
## Real GDP growth sustains its positive trend in Q4 (3.46%)

The Nigerian economy sustained its positive growth trajectory in Q4 2023, expanding by 3.46%, up 0.92% from 2.54% in Q3 2023. This is however marginally lower compared to 3.52% recorded in the corresponding period in 2022. On an annual basis, real GDP growth slowed to 2.74% from 3.1% in 2022 due to macroeconomic headwinds that adversely affected economic and business activities.




After posting negative growth rates for 8 consecutive quarters, the oil sector exited recession in Q4 2023, recording a positive growth rate of 12.11%. This was partly due to improved oil production, supported by the government's intensified efforts to curb oil theft. Average oil production increased by 6.9% to 1.55 million barrels per day in Q4 2023 from 1.45 million barrels per day in Q3 2023.

The non-oil sector grew by 3.07%, higher than 2.75% in Q3 2023 but lower than 4.44% in Q2 2022. The sector's expansion relative to the preceding quarter was mainly driven by activities in the financial and insurance, ICT, Agric, trade, construction, manufacturing and real estate sectors.




Of the 46 activities tracked by the NBS, only 14 expanded, 18 slowed while 14 contracted, largely reflecting the effects of the unfavourable macroeconomic environment. The employment elastic sectors recorded mixed movement. While the agriculture sector expanded to 2.10% from 1.30%, the trade sector slowed to 1.40% from 1.53%.

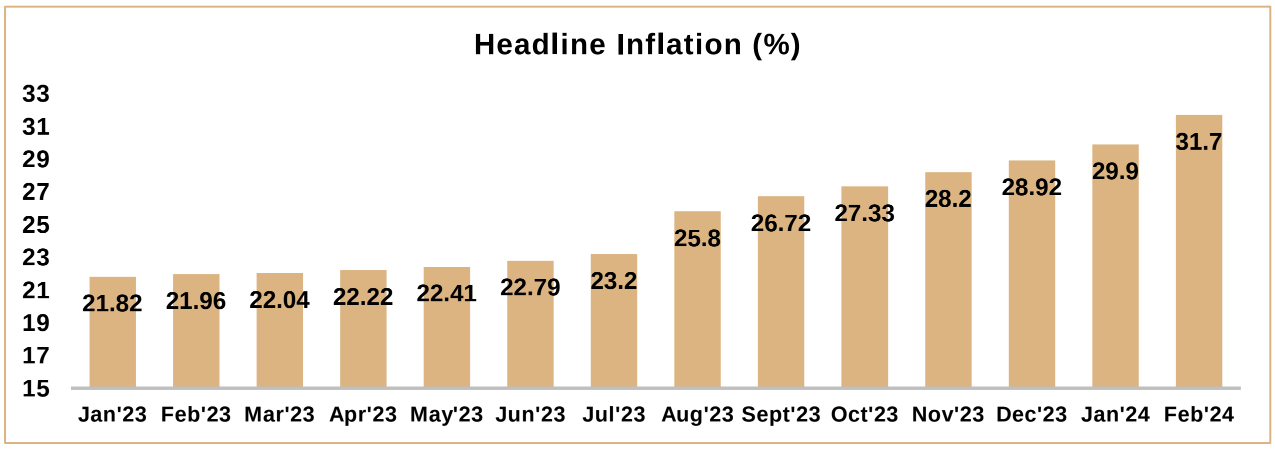
### Outlook and Implications

We expect real GDP growth to maintain its positive trend but is likely to slow in Q1 2024 to 2.39% due to the typical lull in economic activities at the beginning of the year coupled with the elevated inflation level and higher interest rates. However, as the exchange strengthens, most of the companies that rely on imported raw materials will record lower imported costs, which could be significant to offset the impact of higher interest rates. Also, the service cost of dollar obligations will reduce.

### Headline inflation maintained its upward trajectory in Q1'24

Nigeria's headline inflation has increased consistently in the last 14 months, rising to 31.7% in February 2024 (highest level in almost three decades). Notably, all inflation sub-indices moved in tandem with the headline inflation. Month-on-month inflation rose by 0.48% to 3.12%, food inflation increased by 2.51% to 37.92% while core inflation was up 1.54% to 25.13%.

The average inflation rate in Q1 2024 (January/February) was 30.8%, 2.65% higher than an average of 28.15% in Q4 2023. The continued spike in inflation can be largely attributed to the exchange rate pass-through effect, higher logistics costs and money supply saturation.




#### Outlook and Implications

Headline inflation is projected to continue its upward trend in March, although it is anticipated to stabilize in the following quarter and subsequently decline. This forecast is bolstered in part by the Central Bank of Nigeria's dedication to maintaining a hawkish monetary stance, which aims to tighten monetary conditions and reduce liquidity in the system, alongside ensuring exchange rate stability.

### Oil Market

Brent crude prices closed the first quarter at a four-month peak of $87.48 per barrel on March 28th. This uptrend was fuelled by geopolitical tensions in the Middle East and Europe, which posed a threat to global oil supply, coupled with the decision by OPEC+ to uphold output cuts. On average, oil prices experienced a slight decrease of 1.36% to $81.72 per barrel in the first quarter of 2024, down from $82.85 per barrel in the fourth quarter of 2023.

Domestic oil production averaged 1.453 million barrels per day in Q1 2024 (January/February), marking a 5.21% increase from the 1.381 mbpd recorded in the fourth quarter of 2023. This growth can be primarily attributed to intensified efforts to combat pipeline vandalism and oil theft in the oil-producing regions. Despite endeavours to enhance oil production, Nigeria's output still falls below the country's OPEC quota of 1.58 mbpd and the proposed production estimate for 2024 of 1.78 mbpd. Meanwhile, Nigeria maintained 16 active oil rigs in February, consistent with the number recorded in December.

#### Outlook and Implications

Oil prices are expected to stay high in the near term due to ongoing geopolitical tensions in the Middle East and Europe. While higher oil prices can benefit Nigeria with increased export earnings, they might also exacerbate inflationary pressures or escalate government spending on petrol subsidies.

### Money market

In the first quarter of 2024, the average opening position of banks slipped into negative territory, standing at ₦180.21 billion short. This represents a 156.39% decrease from the ₦319.58 billion long position observed in the fourth quarter of 2023. The decrease in market liquidity was primarily attributed to a net outflow of ₦942.2 billion in Open Market Operations (OMO), comprising OMO sales amounting to ₦2.06 trillion and OMO repayments totalling ₦1.12 trillion. As a result, the average Overnight Buy Back/Overnight (OBB/ON) rate increased significantly by 813 basis points to 21.87% per annum from 13.74% per annum in the fourth quarter of 2023.

A total of N5.64 trillion was auctioned at the primary Treasury Bills (T-bills) market in the first quarter of 2024, marking a substantial increase of 112.83% from ₦2.65 trillion in the fourth quarter of 2023. Across the three tenors, T-bill yields experienced an average increase of 837 basis points.

| Tenor | Primary market (December 27th, 2023) (%) | Primary market (March 27th, 2024) (%) |
|---|---|---|
| **91-day** | 7.00 | 16.24 ⬆ |
| **182-day** | 10.00 | 17.00 ⬆ |
| **364-day** | 12.24 | 21.12 ⬆ |

### Outlook

We anticipate that effective interest rates will stay high as the Monetary Policy Committee (MPC) maintains its hawkish stance. This will enhance returns on fixed-income securities. Elevated interest rates are likely to raise the return on investment and prompt a movement away from the equities market.

### Forex Market

In the parallel market, the Naira plummeted a historic low of ₦1,915/$ on February 21st due to heightened demand and speculative activities. However, as a result of several policy reforms by the Central Bank of Nigeria (CBN) and interest rate hikes, the Naira regained ground to end the period at ₦1,310/$ on March 28th, reflecting a depreciation of 7.64% compared to its close of ₦1,210/$ in Q4 2023.

Similarly, at the NAFEM window, the Naira depreciated at he beginning of the quarter before appreciating towards the end of the quarter. The average daily turnover at the NAFEM window increased by 70.70% to $191.34 million from $112.09 million in Q4 2023.
Nigeria's gross external reserves grew by 2.80% to end the quarter at $33.83 billion, up from $32.91 billion at the end of Q4 2023. The country's import and payment cover rose to 6.97 months, reflecting a 2.80% increase from 6.78 months at the end of the previous quarter. The increase was partly because of increased dollar inflows from FPIs, Diaspora Remittances and higher oil prices.

### Outlook and Implications

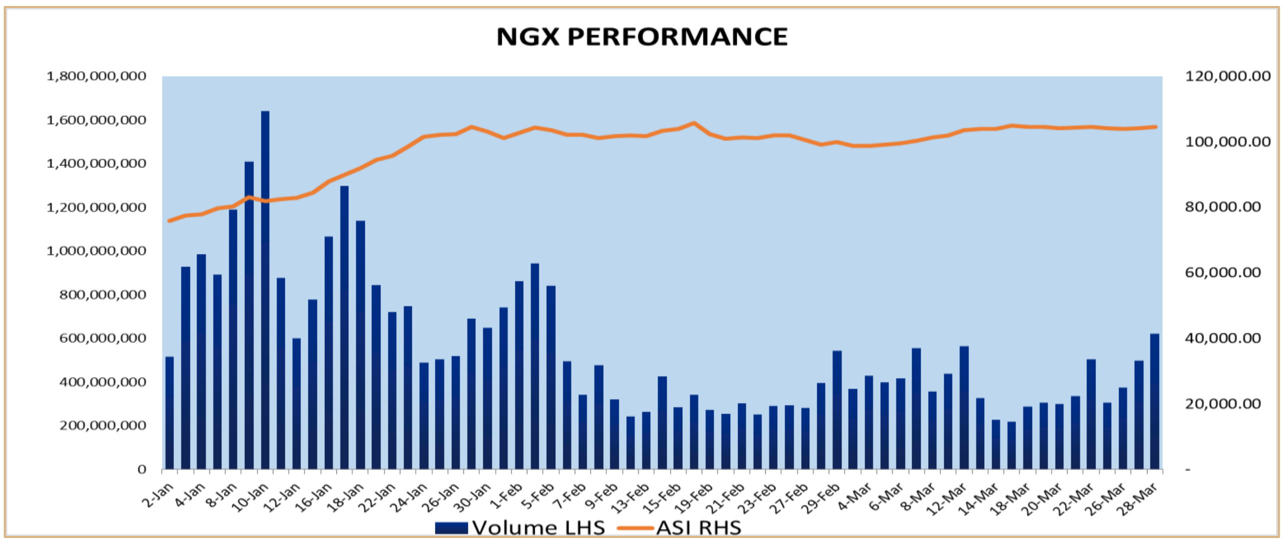
We expect the Naira to remain relatively stable in the short term due to the CBN's increased forex supply. An appreciation in the Naira's value will result in reduced import costs for import-dependent sectors such as manufacturing.

Nigeria's gross external reserves are projected to experience a slight decline in the upcoming quarter as the CBN intervenes in the forex market to maintain Naira stability. However, sustained increases in oil production and higher projected oil prices could mitigate this decline.

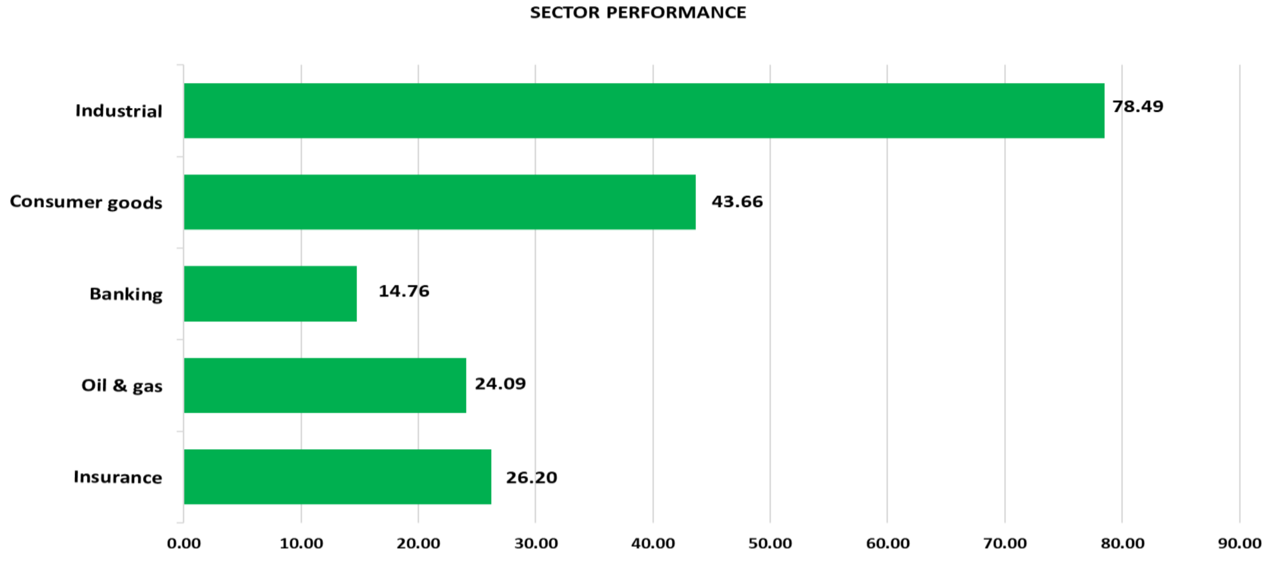
### Stock Market

The NGX concluded the first quarter of 2024 on a positive trajectory, with a notable increase of 39.84% to close at 104,562.06 points on March 28, compared to 74,773.77 points on December 29th. Likewise, market capitalization surged by 44.48% to reach ₦59.12 trillion on March 28th, up from ₦40.92 trillion on December 29. The initial boost in market performance was fuelled by heightened investor sentiment in key stocks, particularly DANGCEM. Additionally, increased participation from foreign investors, facilitated by improved transparency in the forex market, further uplifted market performance by the end of the quarter.

During the review period, market breadth remained positive at 2.05x, with 78 stocks experiencing gains, 37 stocks remaining unchanged, and 38 stocks encountering losses.




Market activity displayed a positive trend during the review period. The average trading volume witnessed a rise of 31.68%, reaching 568.24 million units compared to 431.52 million units in Q4 2023. Similarly, the average trade value saw a significant increase of 74.70%, reaching ₦12.28 billion from ₦7.03 billion in the previous period.



# Berkshire Finance Company Limited

# Research and Insights

**April 12, 2024**

## Berkshire Market Briefs

During the review period, all five sectors experienced growth, with the Industrial sector leading with a gain of 78.49%. Following closely were the Consumer goods sector with 43.66%, the Insurance sector with 26.20%, the Oil & Gas sector with 24.09%, and the Banking sector with 14.76%.

### Outlook

In the first quarter of 2024, the NGX saw a surge of 39.84%, representing nearly 90% of its overall 45.9% performance in 2023. This has raised worries about a potential asset bubble and the likelihood of a market correction, particularly given the context of high inflation and interest rates. We expect the market to turn bearish in the near term, as projections indicate further increases in interest rates, making fixed-income assets more attractive to investors.

### Fixed Income Market

In the first quarter of 2024, four existing bonds were reopened in January with maturity dates in [10-year (APR 2029), 10-year (JUN 2033), 10-year (MAR 2027), and 15-year (JUN 2038)], while three new bonds were issued in February and March (with maturity dates in [7-year (FEB 2031), 10-year (FEB 2034), and 3-year (MAR 2027)]. The total value of bonds offered in the market rose to ₦3.31 trillion, marking a significant increase of 206.48% compared to ₦1.08 trillion in the previous quarter. Total allotment in Q1 2024 also surged by 144.48% to ₦2.39 trillion, compared to ₦979.15 billion in Q4 2023. The marginal rates for the 3-year, 7-year, and 10-year bonds were 19.94%, 20.0%, and 20.45%, respectively.

### Outlook and Implications

As the Monetary Policy Committee (MPC) persists in implementing a restrictive monetary policy stance, interest rates are likely to see further increments. This rise in the policy rate is expected to elevate the yields on fixed-income investments. Consequently, investors are expected to adjust their portfolios to favour fixed-income securities.

**Follow us on:**