

Doom and Gloom

Economic Outlook for 2022





Who We Are

The Parthian Group is a leader in global fixed-income, equities and structured finance. We leverage technology to provide a bouquet of diverse financial services to individuals and institutions , enabling growth at all levels

Our Vision

To be Africa's Dominant Market Maker in Fixed Income, Currencies and Commodities.

Our Services

- Facilitate trades between wholesale market participants
- Increase Liquidity in the OTC markets
- Provide counter-party management
- Provide price discovery
- Match local and foreign trade interests



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The Global Economy-2021

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Global Economic Events



Global growth

Global Recovery seen during the year although with weakened momentum, growth concentrated in a few major economies as EMDEs lag according to World Bank. Growth Rate revised lower to 5.9% from 6.0% as supply chain disruption persists in most major economies.



Covid-19 Update

Various mutations of the virus have emerged since 2019. About 9.26 billion doses have been administered globally, while only about 8.5% of people in low-income countries have received at least 1 dose according to Bloomberg.



Crude Oil

Crude Oil price surged, peaking at \$86.10 in October 2021, the highest in 3 years. This was driven by supply management by OPEC+ and improved demand given the high price of Coal and Natural Gas. Gas production has recovered at a slower rate from its pandemic levels than Gas consumption, this pressure drove prices higher.



Global Economic Events ...cont'd



Global Inflation

Rise in Inflation witnessed globally as economies reopened in the wake of 2020's lockdown; fueled by stronger consumer demand amidst supply chain challenges. US, Canada, UK and eurozone saw prices rise at their fastest pace in about 3 decades according to financial times.



US Tapering

With the aim to roll back economic stimulus, the Feds announced a tapering of \$15b monthly which began December 2021, purchases declined by \$10b in treasuries and \$5bn in mortgage backed securities leading to a rise in treasuries yield.

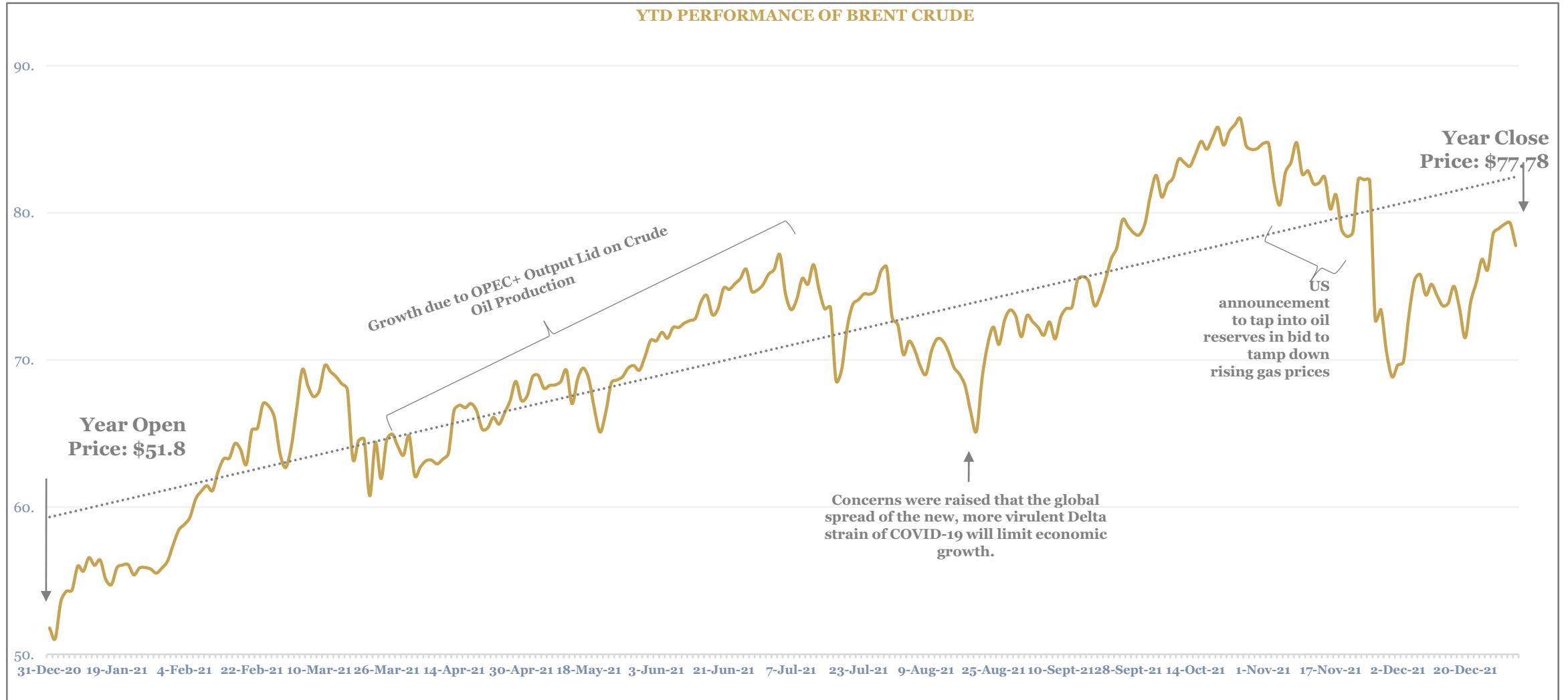


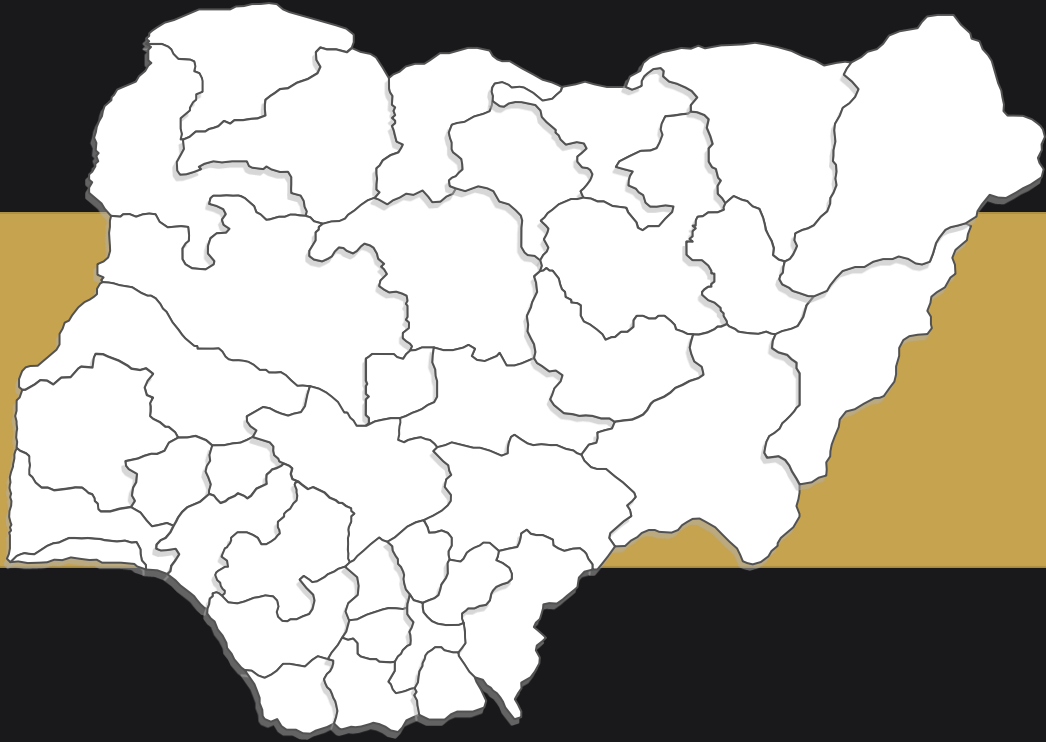
US Infrastructure Bill

In September, the US Senate passed a \$1 trillion infrastructure bill to rebuild roads and bridges and fund climate and broadband initiatives. This increases the government expenditure in coming years.



Crude Oil Price and Production in 2021



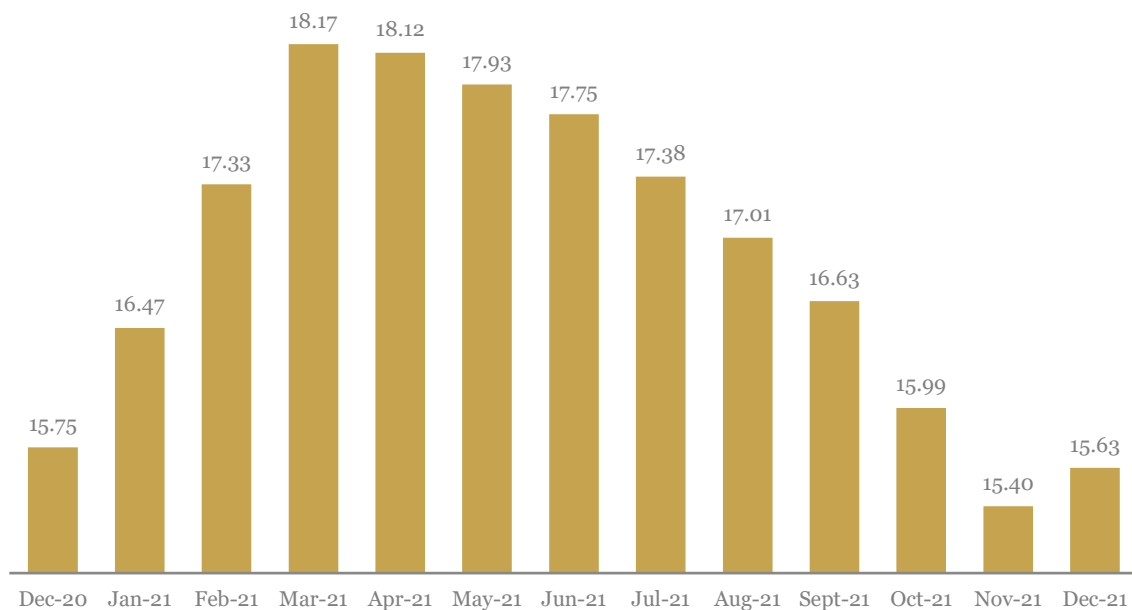


Nigeria Overview

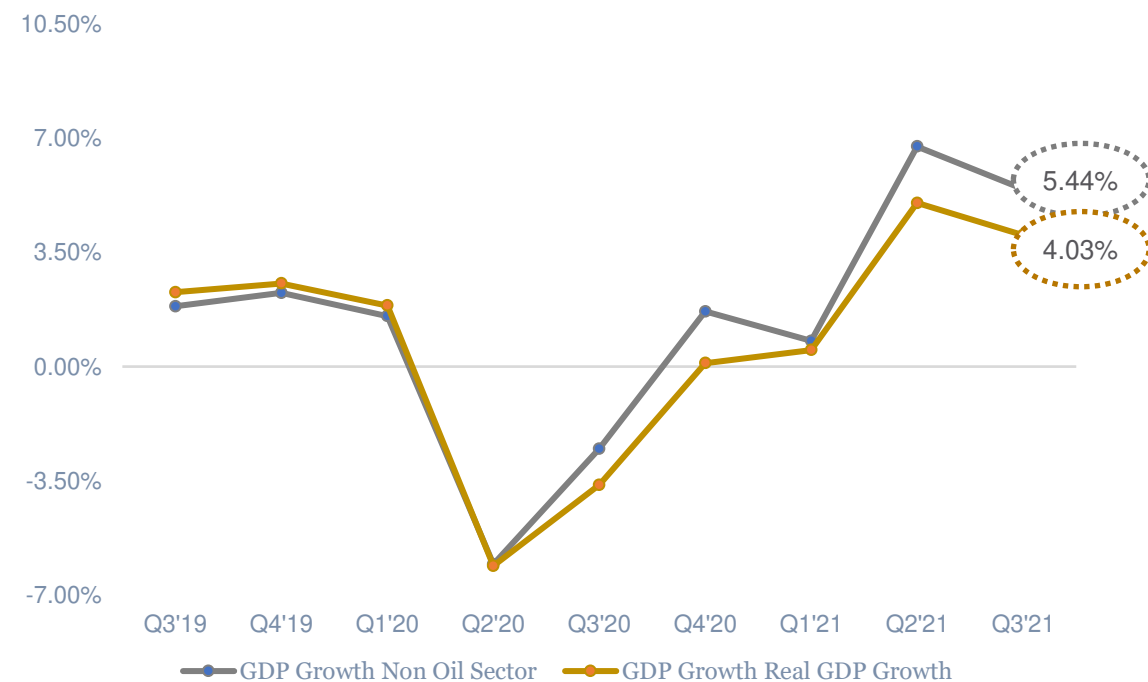


Macroeconomic overview

Headline Inflation (DEC 2020 - DEC 2021)

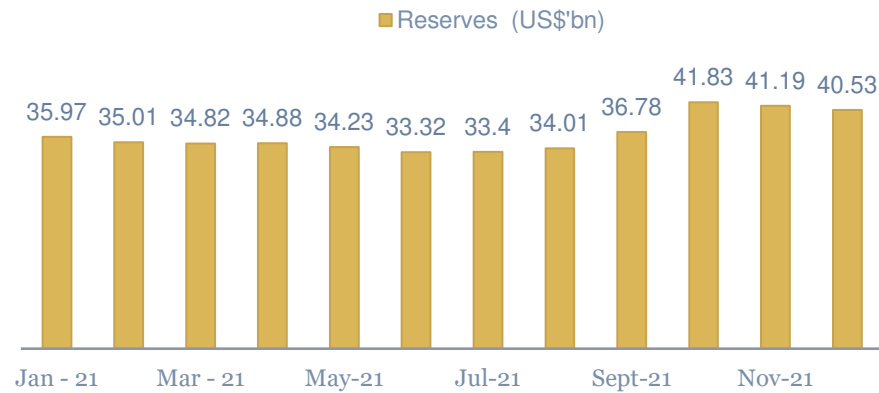


GDP Growth: Post-pandemic recovery due to demand driven expansion in non-oil sector



Macroeconomic overview...cont'd

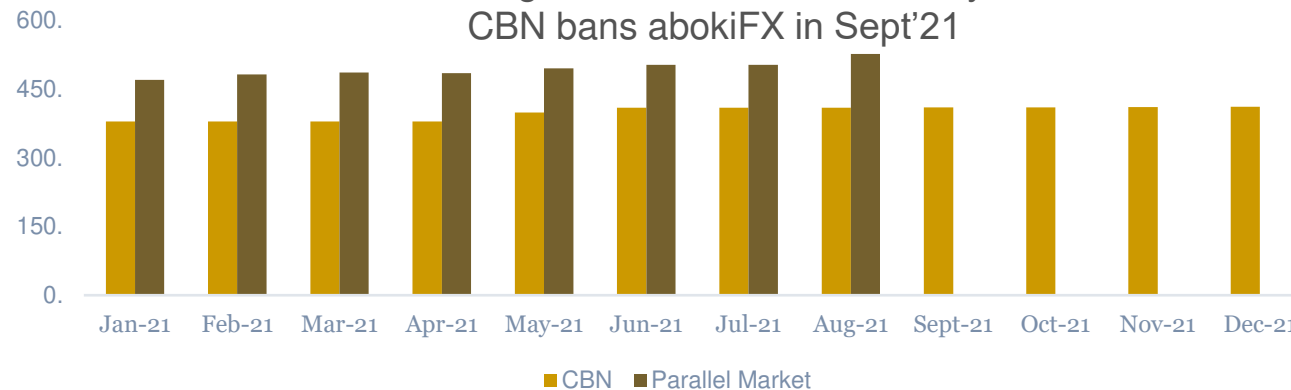
Reserves (US\$'bn): Increased Reserve in October on the back of new Eurobonds issuance



Market Liquidity (N'bn)



Exchange Rate: Devaluation in May'21
CBN bans abokiFX in Sept'21



Key Economic Events

Economic Recovery Rate (GDP)

Nigeria's economy grew by 4.03% in Q3,2021 signaling a rebound as Nigeria steadies' path to recovery post-pandemic. Non-Oil sector shouldering growth with Trade, Transportation, Information & Communication, Manufacturing and Agriculture sectors being the major drivers. Full year GDP forecast reviewed upwards to 2.6%(from 2.5%) for 2021 by IMF.

2021 Budget Performance Evaluation

73% of budgeted revenue (N7.9trn) earned as at Aug 2021, with Non-Oil, CIT and VAT collections exceeding targets as at period under review. On the expenditure side, N8.14 trillion (or 84%) has been spent out of the N9.71 trillion prorated budget. Implementation expected to continue in 2022 on the back of poor implementation of the capital components of the 2020 budget.

CBN's Unorthodox FX Approach

- Naira for Dollar Scheme – An attempt to incentivize diaspora remittance by a N5 bonus for every \$ 1 dollar received
- Stop sale of FX to BDCs – In its bid to safeguard the value of the Naira and ensuring financial stability, the CBN in July announced its decision to stop the sale of foreign exchange to Bureau de Change operators, directing all FX sales through DMBs.
- Crackdown on Fintech Platforms - In August 2021, CBN blocked the accounts of four fintech platforms for 180 days on the ground of illicit FX dealings and contribution to the weakening of the currency, with court orders obtained by Risevest to unfreeze affected accounts
- Shutdown of Aboki FX - The most popular publisher of parallel market rates in Nigeria was suspended. This is as a result of the CBN's efforts to harmonize the exchange rate for the naira.

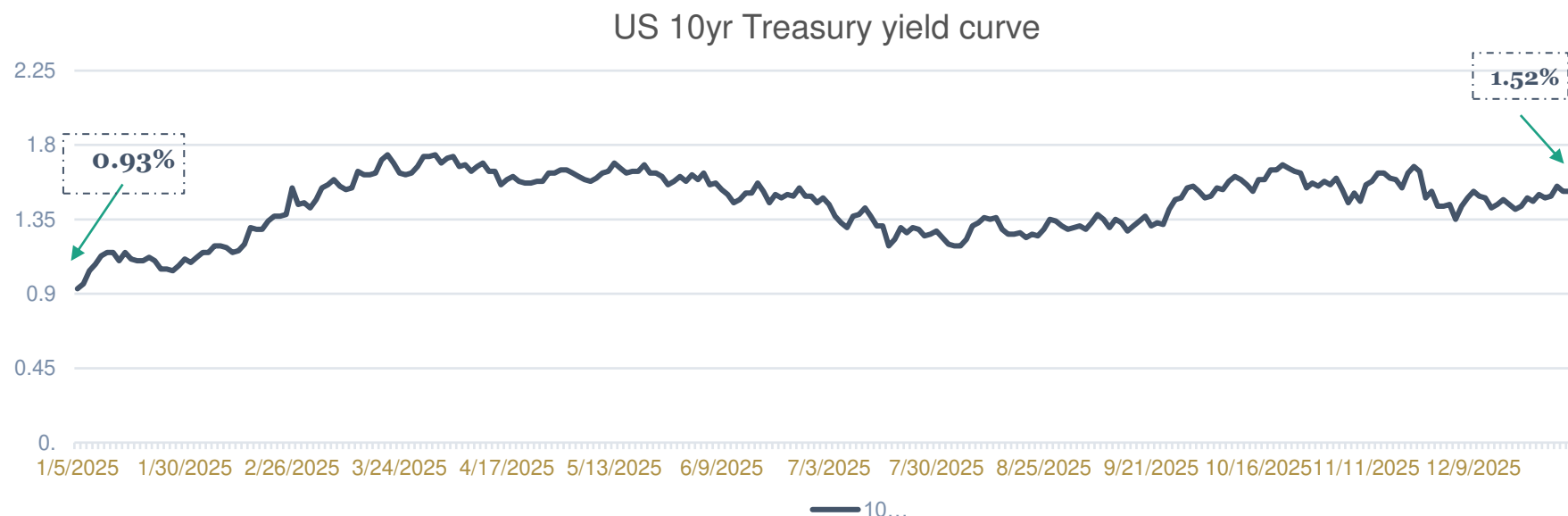
Neither of these actions led to a significant appreciation in the Naira to USD



Global Markets 2021



Global Markets 2021



- Anticipation of higher interest rates and rising inflation caused a continuous rise in US treasury yields
- Yields on the 10yr peaked at 1.74% in March.
- Announcement of tapering pushed yields higher in October with a reversal seen in Nov following the FOMC signaling mild tapering

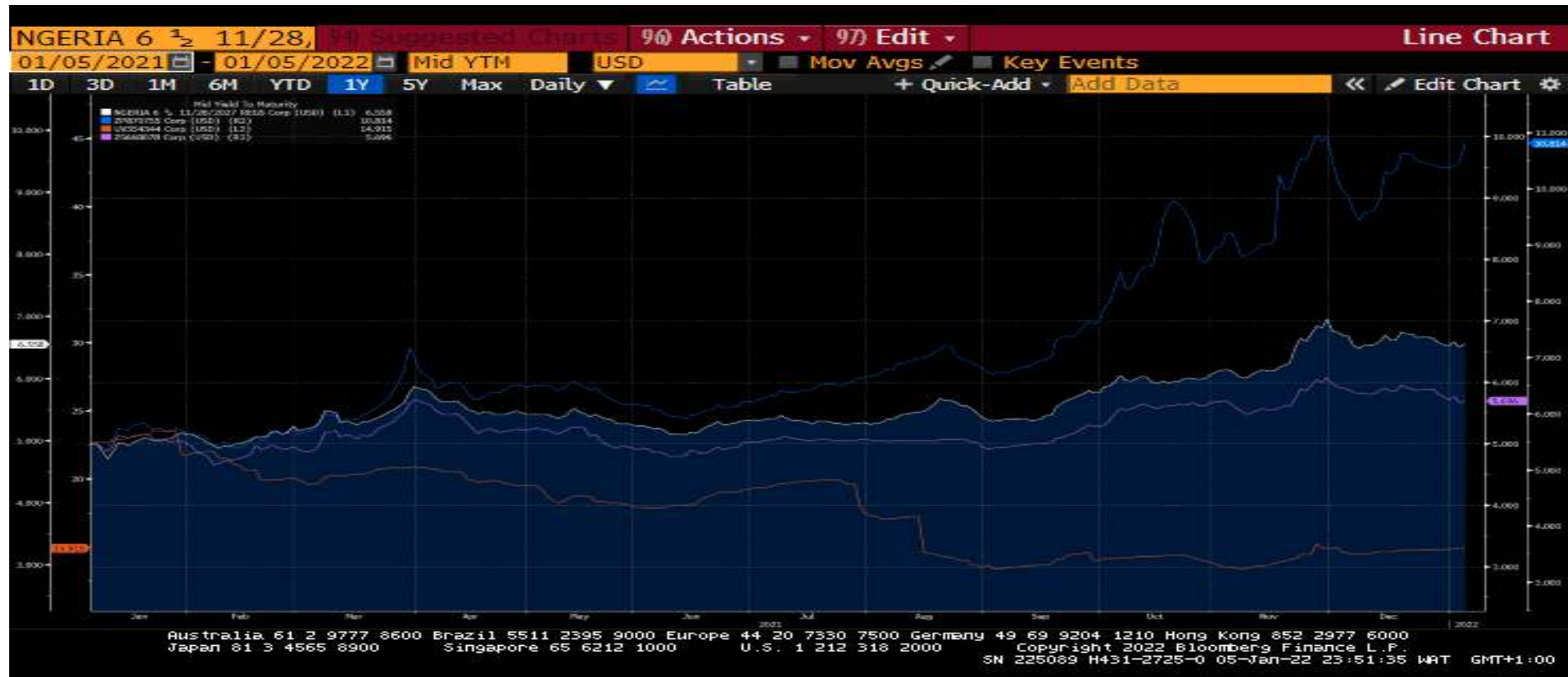


SSA Eurobonds Markets 2021

- Positive start in the SSA space on the back of rising crude oil prices and accelerated vaccine distribution across most economies.
- In order to finance maturing debt and meet fiscal obligations, SSA countries took turns in raising funds in the international debt market through the year, about \$15.5b raised (including €3.35b) from Nigeria, Egypt, Ghana, Kenya, Benin Republic, Senegal, Ivory coast and Cameroon.
- Rise in US treasuries and inflation rate spurred bearish sentiments in the SSA space with yields inclining across most countries despite the

uptick seen in crude oil prices and most commodities.

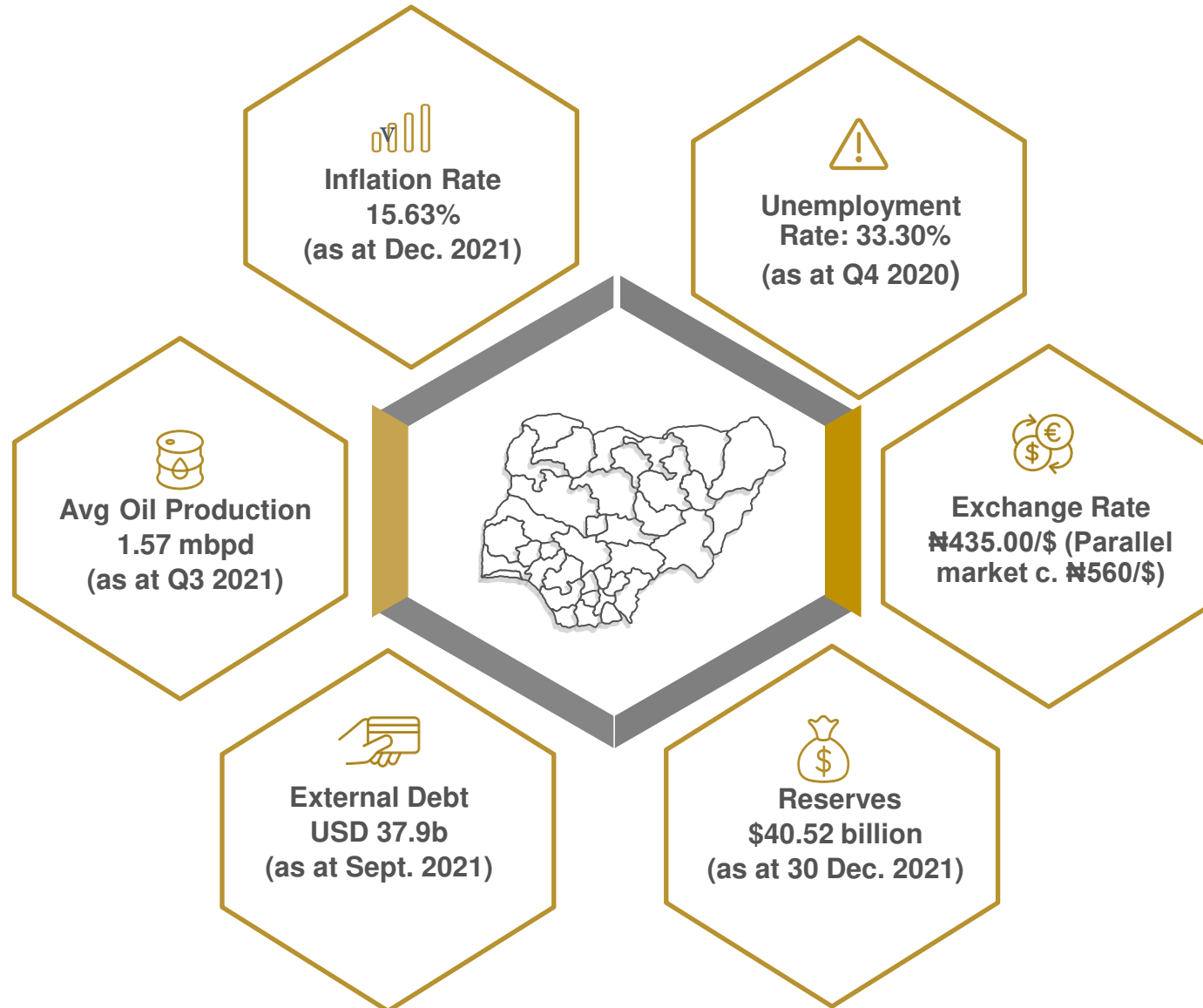
- Yields on Zambia Eurobonds however declined in Q3 following a tense but successful election boosting investors confidence as the opposing party won, President Hichilema promises an economic reconstruction.
- Influx of issuance especially in Q3 further fueled bearish sentiments despite the oversubscribed primary issuances while renewed covid-19 sentiments spurred risk-off sentiments to close out the year.



Eurobond Markets 2021

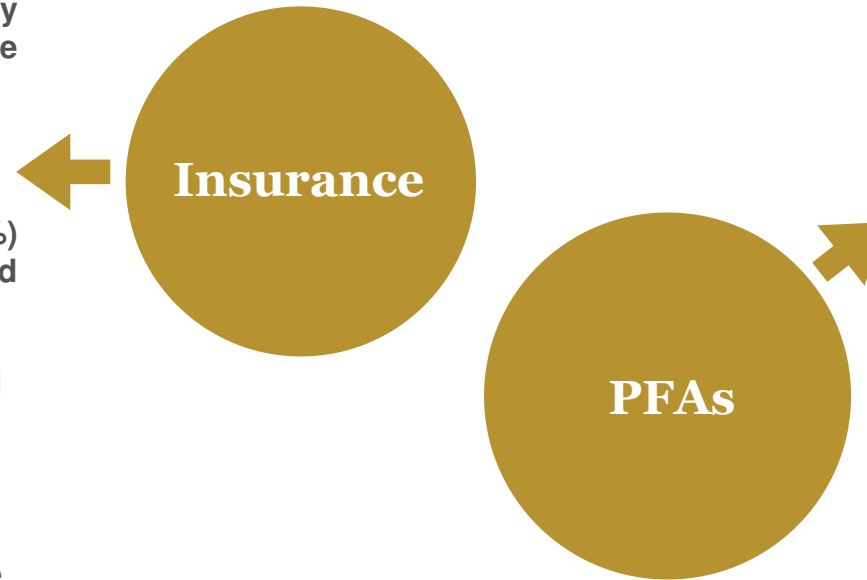
	Ghana	Kenya	Nigeria	Zambia
Total Outstanding	\$11.5bn	\$7.1bn	\$14.67bn	\$3bn
2021 Issuance	\$3.025bn • 2 times oversubscribed	\$1bn • 2 times oversubscribed	\$4.00bn • 4times oversubscribed • Sold \$1bn more than offer	Nil
2022 issuance	Not likely • Plans abandoned amidst high yields on local bonds	Likely • \$2.19b expected to be raised in 2 tranches by Jun'22	Likely • DMO weighed raising additional \$2.18bn in Dec 2022 • N2.51tn to be raised internationally according to 2022 budget	Likely • To restructure \$750m Eurobond maturity
Major export products	• Gold • Crude Oil • Cocoa	• Coffee • Tea • Spices	• Crude oil • Petroleum products	• Copper • Gold • Precious stones
Events to watch out for		• Presidential election holding in Aug'22	• Pre election year	• Efforts to restructure debts are underway • \$750m Eurobond maturity
Activity level	2	4	1	3

Nigeria 2021



Sectoral Review

- As of Q1 2021 and based on the available financials, of the twenty-two (22) listed insurance companies, sixteen (16) didn't meet the required threshold for Capitalization set by the industry regulator, the National Insurance Commission (NAICOM).
- By the 30th September deadline, only 7(32%) have met the minimum capitalization threshold of ₦8billion paid up capital
 - Shares reconstruction by Axa Mansard Insurance and NEM Insurance
 - Acquisition of ARM Life by Tangerine Life
 - Norenberger Advisory partners to acquire IEI



- Total Pension asset at N13trn as at Q3'21 from N11.57trn in Q3'20
- The National Pension Commission (PenCom) formally launched the commencement of the transfer window in November 2020 that allows RSA holders to transfer from one PFA to another.
- By the end of Q3 2021, a total of 38,518 RSA accounts had been transferred, representing ₦102.56 billion in Pension asset.



Impact of Payment Service Banks on Banking

The CBN has introduced various initiatives to provide financial services to the unbanked. This is the market that PSBs aim to serve and stands as a significant loss of potential market share for traditional banks.



Nigeria Equities Market 2021





Parthian Securities Limited

**Your Smart Brokerage
Partner**

Parthian Securities Limited (formerly PSL Capital Limited) is a Trading License Holder of the Nigerian Exchange and a member of the Parthian Group.

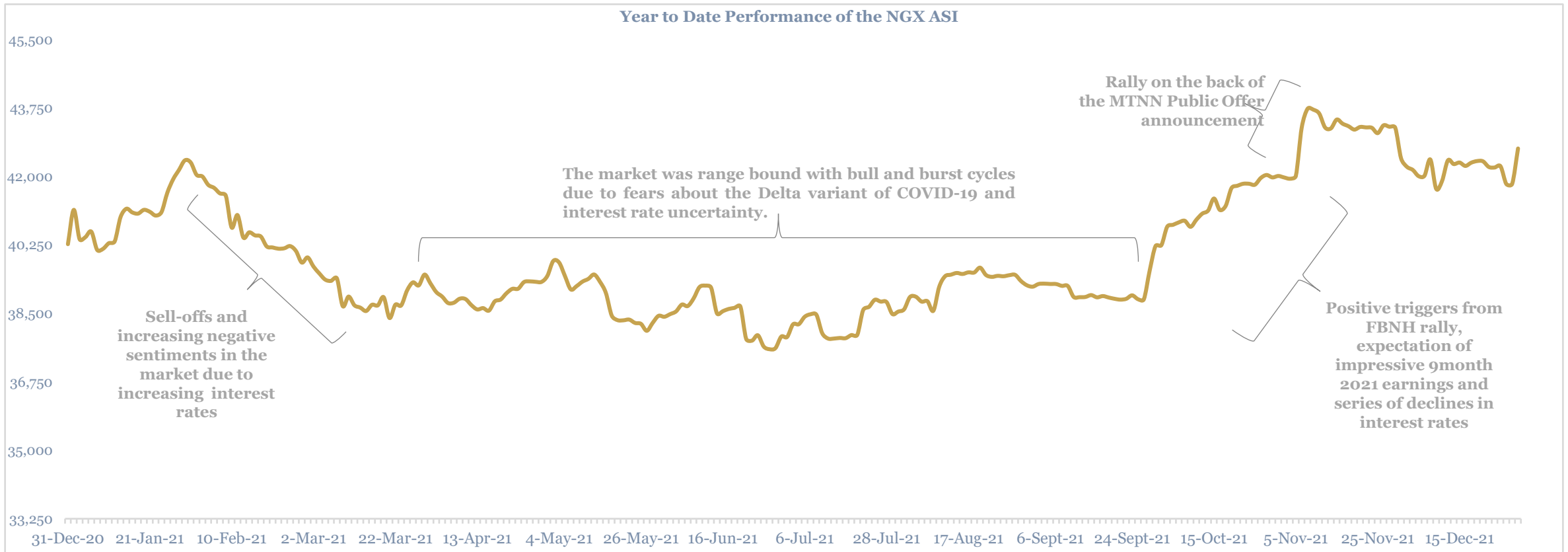
Parthian Securities Limited was incorporated in 2016 to provide individuals, financial and non-financial corporates access to securities on the NGX, NASD OTC, and FMDQ Securities Exchanges, with the main aim of ensuring that their various investment needs are adequately met.

Parthian Securities Limited offers securities dealing on various financial markets, investment advisory services, research on securities and companies, and other value-added services.

It leverages cutting-edge technology to provide best-in-class services that connect you to your preferred investment opportunities.

Nigeria Equities Market – 2021

After the Q1-2021 selloffs triggered by worldwide concerns about the Delta Variant of COVID-19, the Nigerian stock market was especially volatile. With many stocks trading at substantial discounts and delivering greater dividend yields than fixed income space, the stock market created a massive opportunity for bargain hunting from mid Q2 to Q3 2021. The 2021 performance was 6.07% YTD

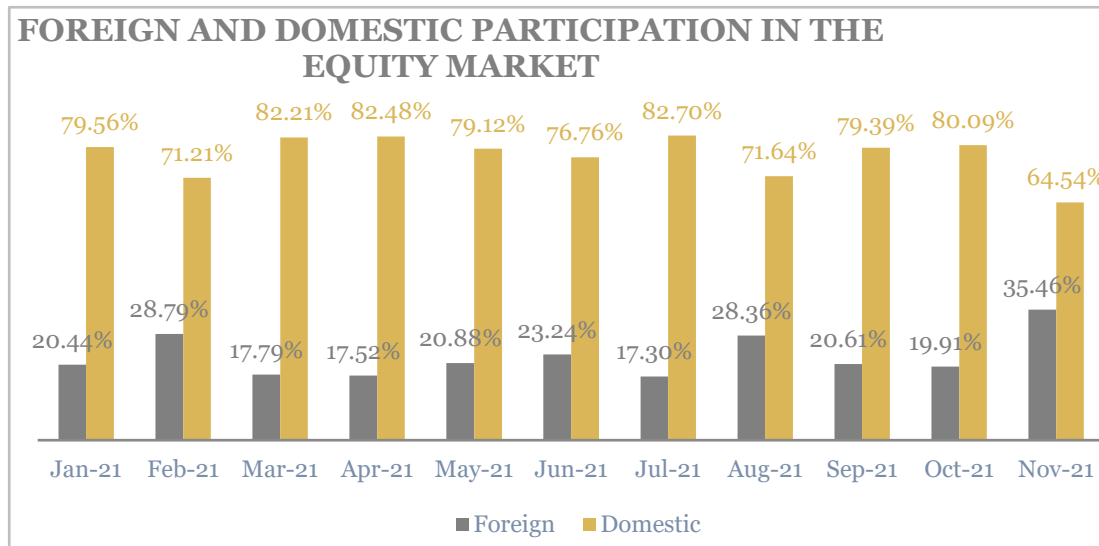
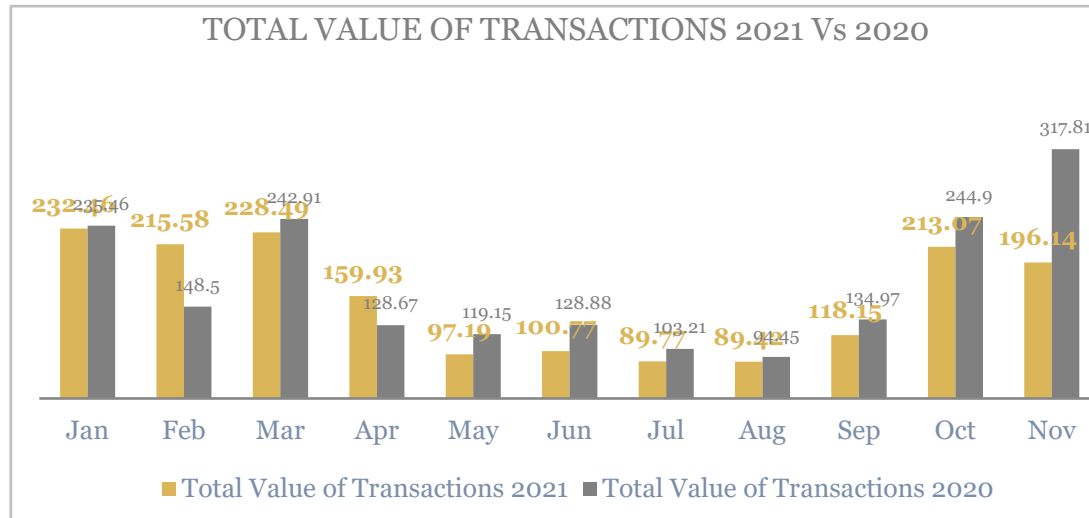


Nigeria Equities Market – 2021

2021 Sectorial Review			
Positive ▲		Negative ▼	
Industry	Key driver	Industry	Key driver
Banking	CBN Ban on FX Sales to BDCs	Consumer goods	FX Pressure and Supply Chain Disruptions
Industrial goods	Infrastructure Developments (Roads)		
Oil & Gas	Improvement in Crude Oil price		
Telecommunications	PSB License Provisional Approval Announcement		
Insurance		Recapitalization and Restructuring	



Nigeria Equities Market – 2021



- Investor participation in the equity market was marginally lower by 8.32% in 2021 compared to 2020 with domestic investors outperforming foreign investors owing to the frequent citation of a lack of access to foreign currency as a significant hurdle to capital repatriation from Nigeria.
- The total value of transactions year-to-date as of November 2021 declined to ₦1.740 trillion (for both Foreign and Domestic investors) from ₦1.898 trillion printed in 2020.
- Some of the toast for the year were,
 - Honeywell Flourmills: Year start price (₦1.39), Year end Price (₦3.40)
 - United Capital: Year start price (₦4.71), Year end Price (₦9.85)
 - Vitafoam: Year start price (₦8.65), Year end Price (₦22.50)
 - FBN Holdings: Year start price (₦7.85), Year end Price (₦11.50)
 - MTN Nigeria: Year start price (₦168.66), Year end Price (₦182.00)
 - Airtel Africa: Year start price (₦854.02), Year end Price (₦955.00)



2022 Outlook



2022 Global Economic Outlook

Covid-19: Pandemic to Endemic

The disease has progressed from pandemic to endemic. All pandemics wane over time, and the coronavirus is predicted to be no exception. With various mutations arising, the pandemic might be a thing of the past as global vaccination rate increases as antibodies are built

Monetary and Fiscal Policy: The 3T's (From Transitory to Tapering to Tightening)

The effects of ultra-easy monetary policies, massive fiscal spending and surge in inflationary prices/pressures, has pushed the timing of both Fed tapering and tightening forward; Feds have signaled 3 rate hikes in 2022 to assuage the effects of tapering and anticipated rise in inflation. However, this is dependent on the impact of more mutations of the virus in 2022.

Supply Disruption expected to slowly unwind:

Supply chain bottlenecks expected to persist with a slow unwinding as manufacturers seek alternatives to supply networks. Rise in inflation expected to fuel already existing bottlenecks

Oil Production and Price:

Global oil inventories expected to build 2022, driven by rising production from OPEC+ countries and the United States and slowing growth in global oil demand, consequent downward pressure seen on price, expected to average \$72/b according to EIA

Global Growth:

Global growth forecast at 4.9% according to IMF citing additional fiscal support in a few large economies and improved health metrics



Nigeria 2021: Expectations vs Reality

EXPECTATION

Slow growth pace if inflation continues to exceed interest rates

Year of Primary Issuances

Unconventional means of raising funds

Interest rates hike but not up to 15%

REALITY

Recovery in the Nigerian economy with GDP at 4.03% in Q3'21; Inflation rate above interest rates all through the year

\$4b raised by the federal government via Eurobonds , Corporate issuances include-N272.7b commercial papers, N216.2b in corporate bonds and \$3b in corporate eurobonds

CBN Introduces special bills ranging from 90-180days

1yr NTB rate peaked at 9.75% in May and 13.85% on the 25yr bond in April. negative real returns on FGN securities as inflation although declined remained elevated



Nigeria 2022: Pre-Election Year



Nigeria's 2022 Budget

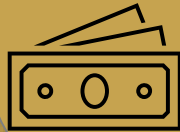
Budget Assumption/ Fiscal Parameter	2021 Budget	2022 Budget	Possibility
Benchmark Oil Price	US\$40 per barrel	US\$62 per barrel	Feasible
Oil Production Volume (Bpd)	1.86 million	1.88 million	Not feasible (current average at 1.57mbpd)
Inflation Rate (%)	11.95	13	Not feasible (rates expected to remain elevated)
Average Exchange Rate	₦379/ US\$1	₦410.15/ US\$1	Not feasible (possible narrowing by CBN)
GDP Growth Rate (%)	3%	4.20%	Not feasible (slower growth expected as base effect wanes)
Capital Expenditure	₦4.98 trillion	₦5.47trillion	
Statutory Transfer	₦496.53 billion	₦869.67 billion	
Debt Service	₦3.12 trillion	₦3.88 trillion	
Recurrent Expenditure (Non-debt)	₦5.76 trillion	₦6.91 trillion	
Total Revenue	₦8.13 trillion	₦10.53 trillion	
Total Expenditure	₦14.57 trillion	₦17.13 trillion	
Fiscal Deficit	₦6.45 trillion	₦6.6 trillion	

Nigeria 2022: Pre-Election Year

**Raising
Cash**



**Spending
Cash**



**The Journey
to 2023**



- **Increased revenue drive:**

Out of control	Within Control
Oil revenue (however assumption of \$62 seems attainable)	<ul style="list-style-type: none">• Taxes- digital tax, beverage tax• Finance Act• SEC fees• More to come

- **Increased borrowing: deficit to be financed by new borrowings, privatization proceeds and drawdown on project-tied loans**

- **Sectors to benefit from budget- Security, Infrastructure, Social development/poverty eradication, Education**
- **Fuel subsidy pallative (transport grant)**
- **Party primaries**



Nigeria 2022 Outlook

01

Impact on the Economy

- Stealing from Peter to pay Paul...How much taxing is too much?
- Possible resignation of officials to focus on their ambitions
- Elevated inflation figures due to increased spending, possible subsidy removal and erosion of base effect

02

Impact on the Financial Market

Fixed Income

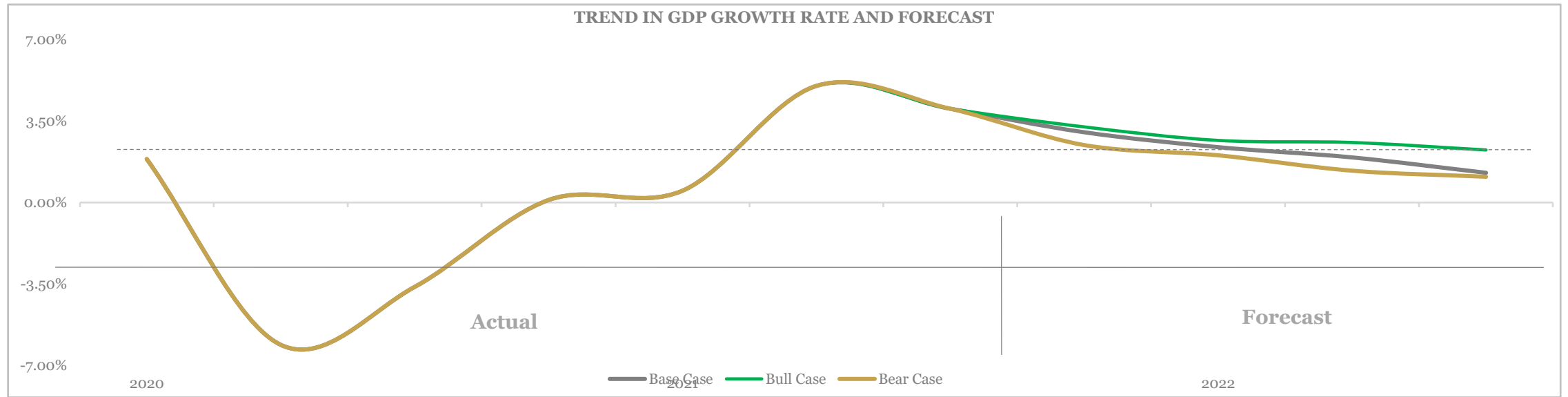
- Tax free status on bonds expiring in 2022
- Proposed SEC fees
- Slow down in secondary market activities
- Increased borrowings expected to keep rates high but managed
- FPIs not expected in 2022
- Corporate debt issuance expected as it continues to be cheaper than bank lending
- Continued borrowing by DMO

03

Impact on FX

- Narrowing of rates
- Possible appreciation of Parallel rates to paint a better election story
- Continued restrictive policies

Nigeria 2022 Economic Outlook



Key Drivers Of GDP in 2022

- Increased government spending as a result of electioneering
- Possible increase in crude oil price
- Implementation of the PIA should cause investment boost in the Nigerian oil and gas sector as the sector is restructured
- Tax revenue accretion and allocation proceeds from subsidy removal

Our Expectations

- Lower GDP growth rate as base effect wears off
- For our best case, GDP growth rate will be slightly higher than 2.00%.
- The major determinant of that growth lies in the Crude Oil sector: Completion of the Dangote Refinery and Optimization of Crude Oil production
- For the Non-Oil sector, increase in forex supply and stability in exchange rate reforms (especially in the parallel market) should prop activities in the manufacturing and industrial sector



Nigerian Equity Market 2022: Key Performance Drivers

Liquidity Due To Elections

If liquidity levels are high, due to increased spending for elections, the CBN might react by increasing interest rates.

Impact: Negative for the equities market.

Infrastructure Development

We expect that the savings from the removal of subsidy should go into infrastructural development.

Impact: Positive for stocks in the building materials and construction sector

Implementation of the Holding Group structure for the banks

Most banks would consider adopting a HoldCo structure if the current tight monetary policy regime continues and improved performance in banks with approvals. As a general trend, many banks are gradually diversifying into non-core banking activities.

Impact: Positive for stocks in the banking space

Acquisitions and Corporate Mergers

We expect to see some acquisitions in 2022 one of which is the indication by some financial institutions to acquire assets of Atlas Mara Group.

Impact: Positive for the equities market

Removal Of Fuel Subsidy

On the condition that the federal government implements the subsidy removal, we expect petrol prices to range between ₦340 - ₦360.

Impact: Positive for stocks in the downstream oil and gas sector

Payment Service Bank (PSL) License Approval

In view of the approval in principle given to the telecommunications companies (telcos), we expect the key players in the telco industry to benefit in terms of increased earnings.

Impact: Positive for stocks in the telco industry

Global Inflation and its impact on Commodity Prices

Global policy makers reaction to alleviating inflation and its ripple effect into the commodity market which may impact companies' corporate earnings especially those that depend on the commodities as an input in the production process.

Impact: Negative for the equities market

FG to support the Health Care Sector

The federal government has made commitments to invest in and support pharmaceutical and research agencies to develop vaccines for COVID-19 locally.

Impact: Positive for the companies in the healthcare sector.

Nigerian Equity Market 2022: Watchlist

Downstream
Oil and Gas



Total Nigeria

Tele-
commu-
nication



MTN Nigeria

Health
Care



Fidson Healthcare
May and Baker Nigeria

Commodity
Linked Sectors
such as Crude
Oil and Crude
Palm Oil



Okomu Oil
Presco

Building
Material &
Construction



Lafarge Africa
Dangote Cement
Julius Berger

Banking



Access Bank
Guaranty Trust
Holdings Company
Sterling Bank



Thank you

