THE TENSION & THE TURN: MARKETS AT A CROSSROADS

April 30, 2025 *Economic Report*

Global Market

The first quarter of 2025 was defined by significant shifts in global markets, shaped by evolving trade dynamics, geopolitical developments, and strategic policy decisions. As major economies grappled with both internal and external pressures, market behaviour and economic outcomes reflected a delicate balance between resilience and uncertainty.

A key development was the return of Donald Trump to the U.S. presidency following his November 2024 victory. Within his first 100 days, he reignited a protectionist agenda by imposing sweeping tariffs. Notably, these included:

- A 25% tariff on imports from Canada and Mexico (with later exemptions)
- A 20% tariff on Chinese imports, on top of existing duties
- A 25% tax on all steel and aluminum imports
- A 25% levy on vehicles and auto parts from the rest of the world

These aggressive measures triggered global trade tensions and heightened uncertainty across financial markets.

In response, the U.S. Federal Reserve adopted a wait-and-see approach. While there were concerns that tariffs could fuel inflation, the Fed maintained interest rates at 4.25% throughout the quarter. Encouragingly, U.S. inflation trended downward easing from 3.0% in January to 2.8% in February and 2.4% in March. This decline was largely driven by falling prices in fuel, gasoline, and transportation.

China, at the center of the growing trade conflict, faced its own economic challenges. Consumer prices in March 2025 fell 0.1% year-on-year, missing expectations and marking a second consecutive month of deflation, although less severe than February's 0.7% drop. The People's Bank of China held its benchmark rate steady at 3.10% for the sixth straight month, signaling caution amid persistent uncertainty.

In the United Kingdom, inflation followed a similar downward path, easing from 3.0% in January to 2.6% by March. The Bank of England kept interest rates unchanged at 4.50%, reinforcing a measured approach in line with other major central banks.

Overall, the quarter reflected a global economy navigating policy realignments rather than experiencing widespread disruption. Despite escalating trade rhetoric, most advanced economies showed resilience, with inflation generally easing and monetary policy remaining stable.

In the United Kingdom, the inflation rate followed a downward trajectory as well. Having started the year at 3.0% in January, which was the fastest pace of inflation since March 2024, the rate eased to 2.8% in February and further to 2.6% in March. The Bank of England, mirroring the cautious approach of its counterparts, kept its interest rate unchanged at 4.50% throughout the quarter.

Overall, the first quarter of 2025 reflected a global economy in a state of careful adjustment rather than outright disruption. Despite mounting trade tensions, major economies demonstrated resilience through measured monetary policies and stable interest rates. Inflationary pressures, while initially a concern, generally trended downward across the United States, China, and the United Kingdom.

Outlook

The global economy is bracing for greater turbulence in Q2 2025. While Q1 showed resilience, the U.S.'s sweeping tariff escalation in April introduced a volatile new phase.

On April 2, the Trump administration imposed a baseline 10% tariff on all imports - excluding Mexico and Canada - with additional levies of 10% - 50% on 60 countries. Though branded as a response to trade barriers, the move appears aimed at redressing trade deficits.

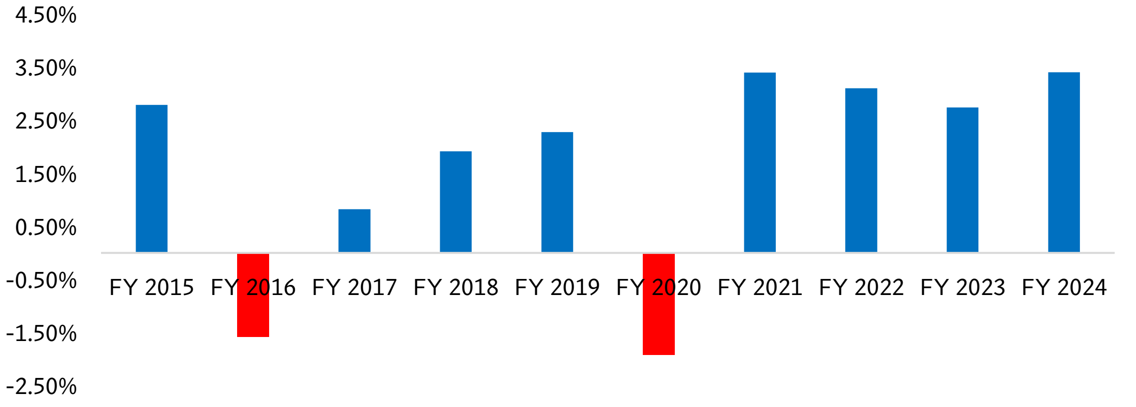
The immediate fallout triggered global market instability. By April 9, a partial rollback introduced a 90-day pause on reciprocal tariffs for most nations. However, a 10% levy remains in force. In retaliation, China raised its own tariffs, prompting the U.S. to respond with a 145% tariff on Chinese goods. While electronics like smartphones received exemptions by April 12, the broader tariff regime remains intact. The U.S. effective tariff rate is now averaging 22.5% - its highest level in over a century.

These developments point to a challenging second quarter, marked by heightened trade tensions, supply chain disruptions, renewed inflation risks and increased global financial markets volatility. While inflationary pressures may begin to mount again despite the earlier trend of disinflation. Central banks will likely adopt even more cautious monetary policies, balancing between supporting growth and curbing inflation. Overall, adaptability, strategic trade diversification, and resilient domestic policies will be crucial for countries hoping to weather the storm. As global cooperation becomes more strained, strategic alignment - not isolation - may be the best path through rising protectionism..

Domestic Economy

Nigeria economy expanded by 3.40% in 2024, slightly shy of our projected 3.48%. This growth represents the highest expansion since 2021 (FY 2023: 2.74%; FY 2022: 3.10%; FY 2021: 3.40%).

Nigeria Real GDP Growth Trend



Sources: National Bureau of Statistics, WSTC Research.

Oil GDP rebounded to the positive growth zone for the first time since 2019. The sector's 5.54% year-on-year growth for FY 2024 underscored the increase in oil production, as improved security measures to combat crude oil theft and pipeline vandalism intensified.

The Non-oil GDP major sub-sectors all faced distinct but interlinked challenges. Specifically, the Agricultural sector contended with below-average harvests due to high input costs, persistent insecurity, and deteriorating infrastructure. These issues weighed on overall productivity and output.

The Services sector was pressured by elevated operating expenses largely due to rising energy prices, FX volatility, higher logistics costs and regulatory disruptions. Notably, the NIN-SIM linkage directive led to widespread disconnection of unlinked mobile lines, significantly affecting growth in the telecommunications subsector.

In the Industries sector, growth in the manufacturing subsector remained subdued. This was driven by inflationary pressures, currency volatility that raised the cost of imported raw materials, and a consistently high-interest rate environment, which increased the cost of capital for producers.

Despite these constraints, the Non-oil sector grew by 3.27% in FY 2024, up from 3.04% in FY 2023 - reflecting moderate resilience. The Services sector was the primary growth driver, supported by improved performance in the Finance and Insurance subsector, a stabilised (though slower-growing) Telecommunications subsector, and strong Q4 growth in Trade services.

A notable development was the return to positive real growth in the oil refining subsector, part of Manufacturing. For the first time since Q3 2017, it recorded a year-on-year growth of 9.59%, driven by increased activity from the Dangote Refinery and the resumption of operations at the Port Harcourt Refinery in Q4 2024.

Inflation

Q1 2025 began with a major shift in how inflation is measured in Nigeria, following the rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS). This exercise adjusted the price basket and weights to better capture current consumption patterns and economic realities.

As a result of this rebasing:

- Year-on-year Headline Inflation dropped sharply to 24.48% in January 2025, from 34.80% in December 2024.
- However, the month-on-month (MoM) inflation spiked to 10.68% in January, compared to 2.64% in December — highlighting immediate price pressures, especially from fuel, transport, and food.

In February 2025, inflation eased further:

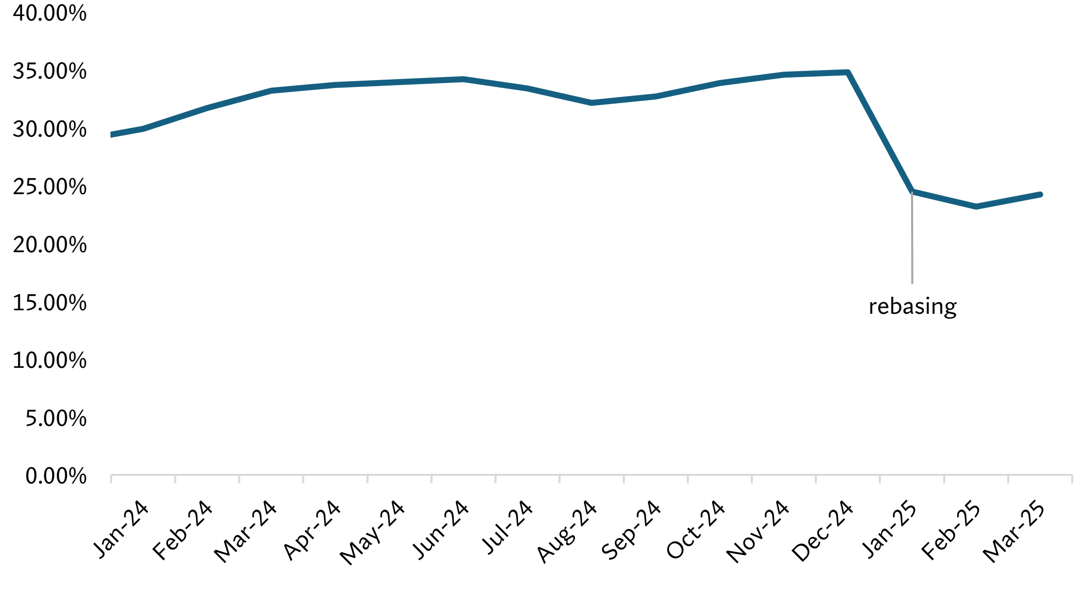
- Year-on-year Headline Inflation fell to 23.18%,
- Month-on-month inflation cooled significantly to 2.04%, suggesting a temporary stabilization in consumer prices.

But by March 2025, inflation picked up again:

- Year-on-year Headline Inflation rose to 24.23%,
- Month-on-month inflation accelerated to 3.90%.

The reversal was driven by higher energy costs and a 3% depreciation of the naira, which increased the local cost of imported goods and services.

One Year Headline Inflation Trend



Sources: National Bureau of Statistics, WSTC Research

Financial Markets Review

Money and Fixed Income Market

For the first time since March 2022, the Monetary Policy Committee broke its streak of successive rate hikes, opting to hold all policy parameters constant in its Q1 2025 meeting. This locked in a steady MPR rate of 27.50% throughout the quarter.

Despite the policy hold, several factors shaped marker rates – including strong system liquidity, expectation of disinflation, anticipated rate cuts later in the year, and increased borrowings.

Treasury Bills Market

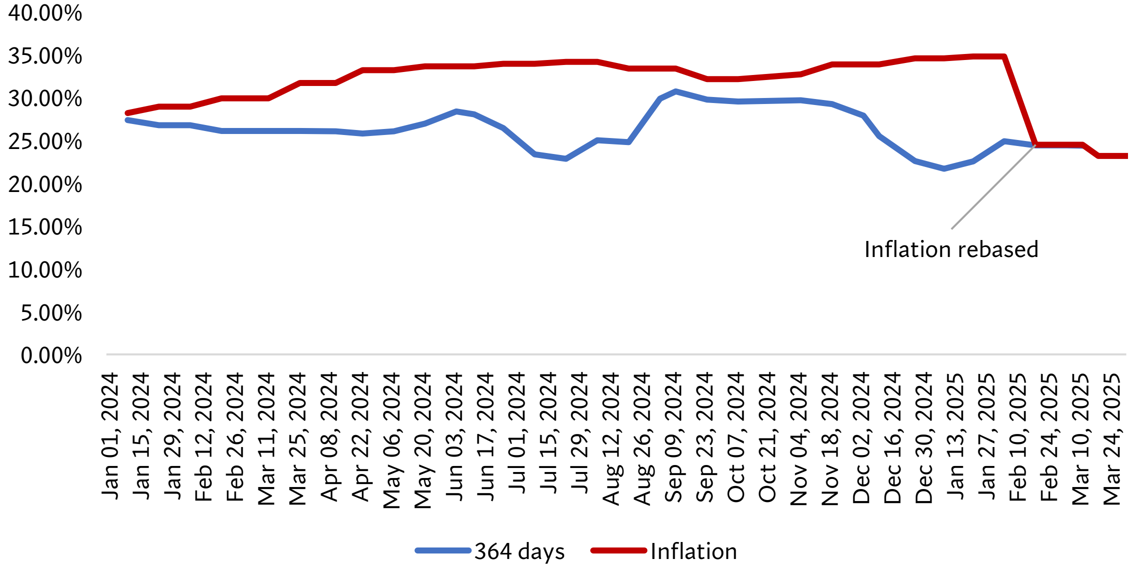
The 364-day yield fell across most auctions. After an initial drop in January, yields continued to decline, except for brief upticks in the second and third auctions in March. The average yield for the 364-day NTB was **24.84%** (Q4 2024: 27.16%).

Notably, the Central Bank of Nigeria (CBN) conducted eight auctions in Q1 2025, deviating from its calendar. Specifically, March saw four auctions, breaking the typical bi-weekly auction per-month trend. Investors' appetite for treasury bill remained strong, with total bids amounting to **N15.20 trillion** against a total offer of **N5.12 trillion,** translating a strong bid-to-offer ratio of **2.97x**.

OMO Market

The CBN also sustained issuance of OMO bills during the quarter, focusing heavily on the 365-day tenor. All eight auctions held in Q1 2025 were for 365-day bills, underscoring the CBN's preference for locking in longer-term liquidity. Yields on OMO bills followed a downward trajectory, falling steadily from 31.54% at the final auction in 2024 to **24.15%** by the end of Q1 2025

Real Return Trend



Sources: CBN, NBS, WSTC Research

Equities Market

The equities market in Q1 2025 balanced mixed sentiments - on one hand, investor pessimism driven by net losses from key FMCG and telecom firms, and on the other, renewed optimism fueled by strong dividend declarations and positive corporate actions across multiple sectors. Some of the notable corporate actions during the quarter included:

- NCC's Tariff adjustments approval for telecommunications operators.
- Aradel's announcement of the completion of the 100% equity acquisition in the Shell Petroleum Development Company of Nigeria (SPDC) by Renaissance Africa Energy Holdings.
- MRS Oil announcement to delist from NGX and subsequent admission to the NASD OTDC Securities Exchange.
- Oando's expansion of its African Upstream Portfolio with successful bid for block KON 13 in Angola, and also its announcement as being selected as preferred Bidder for Lease of Guaracara Refinery in Trinidad & Tobago.

Specifically, the market posted positive returns of +1.53% and +3.18% in January 2025 and February 2025, respectively, but March 2025 saw sell-offs resulting in a -2.00% decline, despite some late-month support from dividend declaration. Overall, the market demonstrated resilience, finishing Q1 2025 with a positive return of +2.66%.

Sectoral performances were decidedly mixed, with four out of seven sectors making gains, while three sectors posted losses.

Sectorial Performance

Description	Q1 2025
Agricultural Index	+45.24%
Telco Index	+17.41%
Banking Index	+6.96%
Consumer Goods Index	+4.86%
Industrial Index	-2.30%
Insurance Index	-2.71%
Oil & Gas Index	-9.34%

Sources: NGX, WSTC Research

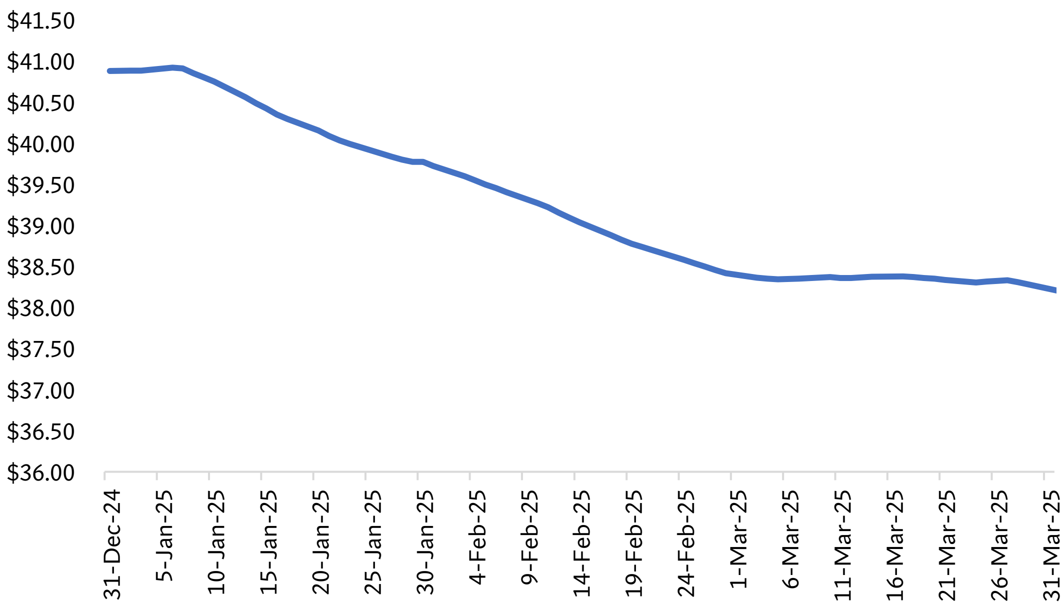
Foreign Exchange Market and External Reserve.

FX market conditions in Q1 2025 mirrored the stability seen at the end of 2024, with the Naira appreciating by 4% in January in the NAFEM window. This was largely driven by gains from the implementation of the Electronic Foreign Exchange Matching System (EFEMS) and extension of access for BDCs to buy up to $25,000 weekly from the official market.

However, this momentum faded by February and March, as rising business and personal demand triggered a 1% and 3% depreciation respectively in the NAFEM market. Despite intensified interventions by the Central Bank of Nigeria (CBN), FX pressures persisted due to continued demand-supply gaps. As of the end of Q1 2025, Naira rate in both the NAFEM market and the parallel market stood at N1,531/$ and N1,543/$ respectively .

Foreign reserves also took a hit, declining 6% to $38.31 billion by the end of Q1, down from $40.88 billion in December 2024. This drop was driven by CBN's market interventions and outflows tied to foreign debt servicing.

External Reserve



Sources: CBN, NBS, WSTC Research

Outlook

Economy

We expect the NBS to release a rebased data for GDP starting from Q1 2025, as they held a workshop in January 2025 to discuss plans to rebase the GDP. The rebased data will have 2019 as the base year and also include new sectors for more accurate representation of the county's economic activity. We believe that the incorporation of new sectors following the rebasing of the GDP will drive upward revision in the GDP numbers.

While we retain our expectation of sustained positive growth trajectory in the oil sector as efforts to boost production levels continues, we are cautiously optimistic about the expected GDP numbers for oil sector in near term, as attacks on oil infrastructures in the Niger Delta and also Bayelsa, particularly on Oando's pipeline expected to have disrupted flow and impact the sector's output.

For the Non-oil sector, in addition to the expected impact of the inclusion of new sectors, our expectation of easing macroeconomic headwinds boosts our optimistic for further expansion in the sector.

Inflation

The temporary pause on country-specific reciprocal tariffs has done little to ease global uncertainty. Paired with Nigeria's underperforming oil revenues - as oil prices remain below the $75/barrel benchmark - the outlook for dollar inflows from oil exports and foreign investments is dim. As a result, FX market volatility is likely to intensify in Q2 2025, driving up import costs and keeping Headline Inflation elevated, especially given Nigeria's heavy reliance on imports.

Fixed Income

We expect fixed income yields to remain sensitive to government borrowing needs, the MPC's inflation stance, and efforts to attract foreign portfolio investments. Given renewed pressure on both the Naira and inflation, if these trends persist through April and May 2025, the Monetary Policy Committee (MPC) may either maintain its HOLD stance or resume monetary tightening, albeit sluggishly, at its next meeting scheduled for May 19-20, 2025.

Moreover, oil prices currently trading below the 2025 budget benchmark of $75/barrel pose a threat to revenue performance. If this continues, it could result in a wider-than-expected budget deficit, compelling the government to increase domestic borrowing. This may exert upward pressure on fixed income yields, especially as the CBN is expected to continue OMO issuances to attract FX inflows and support market liquidity.

Equities Market

Ongoing global tariff tensions have triggered a more cautious outlook for the equities market in Q2 2025. The rising uncertainty in global trade dynamics is expected to sustain volatility, potentially dampening foreign investor interest in Nigerian equities, given their relatively low participation and a preference for fixed income instruments in times of global risk.

Nonetheless, strategic domestic and institutional investors may provide some support to the market. We anticipate selective positioning ahead of dividend qualification dates for half year financial results (H1 2025), as well as bargain hunting in fundamentally strong stocks trading at discounted prices. These contrasting forces are likely to drive persistent volatility, with market sentiment swinging between risk-off reactions and value-driven accumulation.

FX Market

As of April 1, 2025, the Central Bank of Nigeria (CBN) reported a net external reserve of US$23.11 billion - the highest in over three years (2023: $3.99 billion; 2022: $8.19 billion; 2021: $14.59 billion). This marked improvement highlights the impact of the CBN's targeted reforms to restore market confidence and build long-term resilience.

While the stronger reserve position may improve investor sentiment, external risks - such as capital outflows driven by global uncertainties and weaker oil revenue pose a threat to sustaining this momentum. As demand pressures clash with potential supply shortfalls, short-term FX stability in the near term hangs in the balance.

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- Buy Rating: estimated fair value is ≥20% above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is ≤ -10% of current market price.

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