FINANCIAL DERIVATIVES COMPANY LIMITED

Volume 6, Issue 79

February 22, 2017

Bi-monthly Economic & Business Update

CBN Steps in the Right Direction but still Falls Short

A currency is no more than a piece of paper supported by confidence - Anonymous.

The Central Bank of Nigeria (CBN) recently made some adjustments to the implementation of its forex policy to boost the market's efficiency and ostensibly reduce pressure on the currency. The new policy seeks to achieve the following; separate invisibles (services) from tradables (physical goods), remove the 60:40 allocation rule, reduce the average tenor of forward transactions from 180 to 60 days and increase supply as a whole to the market. It is easy to understand why the CBN took this decision. The forex market has been illiquid, segmented and lacked transparency, leading to a crisis of confidence and liquidity.

The rationale for seeking exchange rate unification has been the concerted pressure from domestic and international stakeholders and the burgeoning external reserves of $29.28bn. As the CBN begins to increase supply into the market, we will witness a depletion in the external reserves position but not enough to cause concern at this time.

This latest policy adjustment will provide temporary reprieve as there will be an improvement in forex liquidity at a relatively more flexible rate. However, at this point there are multiple exchange rates and this policy change could eventually create another avenue for round tripping by further fragmenting the market. It should also be noted that the market's structure has not changed. The foreign exchange market is an imperfect market, with the

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CBN being the price-discriminating monopolist. Although forex liquidity will increase, the current forex policy is sub-optimal and will remain vulnerable to external shocks.

The only reasonable way to reduce the wide disparity between interbank and parallel market is by restoring market confidence through the consistent implementation of transparent and market-driven policies. Allowing the currency determine its value in the open market will also go a long way. A float of the naira is not necessarily a magic wand, which will resolve the current economic malaise. Instead, it will simply provide a premise for the introduction of policies, which will encourage inward investment and support economic growth. Furthermore, a free float of the naira will restore confidence, as investors will no longer fear an erosion of the value of their investments. This will help improve liquidity in the market and subsequently, reduce the demand being diverted to the parallel market. With time, market rates will tend towards convergence.

Inflation Data vs. Reality Debate: Tit bit

The divergence between the published data by the NBS and consumer realities has long established itself in the Nigerian economy, dating as far back as the beginning of 2016. One only needs to look at the front page of newspapers these days to get a taste of the public outcry regarding rising consumer prices. At the start of 2017, several interest groups came together to orchestrate protests against the government, which they hold responsible for the harsh realities they are contending with. In addition to this, consumers do not agree with the published inflation number of 18.72%, as they perceive the rise in consumer prices to be much higher than documented. In fact the price of some commodities such as rice, flour, beans and garri, have recorded an increase of over 100%.

Inflation can be described as the persistent increase in the price level. Therefore a headline inflation rate of 18.72% means that the consumer price index, derived from the analysis of food and non-food items in the consumer basket, has increased by 18.72% from January 2016 to January 2017. The temptation to join the bandwagon and demand a revision to the methods adopted by the NBS is high. However, the data agency is using a universal methodology adopted in many countries of the world to conduct its analysis on consumer prices. Each of the goods that consumers are lamenting about have specific weights in the consumer basket, therefore although prices of these goods are rising it is their weight in the basket that determines the magnitude and direction of inflation.

On a more positive note, the government's reputation of slow or no response to the economy's problems might be changing. This is because of proactive steps such as setting up a committee to help advice the government on rising prices. It has also expressed its intention to execute steps to mitigate the bottlenecks present in the value chain for domestic goods, which will help ease the pressure on rising prices. Provided that the government sticks to its plans to efficiently clamp down on escalating prices, hopes for less inflationary pressures might actualize.

African Economic Growth: The Ivorian Blueprint

Nigeria's GDP capita was measured at $2,640 in 2015 by the World Bank. This pales in comparison to that of fellow regional power house South Africa – $5,724. Strikingly, Net National Income per capita, a figure that measures the Net National Product less of indirect taxes, gives a higher figure at over $3,000. The discrepancy is accounted for by stolen funds stashed away in foreign lands belonging to Nigerians. Could this new measure keep Nigeria afloat? For instance, it costs an estimated $18mn to rebuild the Abuja Airport. Four years ago, the repairs would have cost as low as $10mn and a complete shutdown could have been entirely avoided. $10mn is the value of cash reportedly found by the EFCC in a bunker owned by a former head of the Nations Oil company. Could sterilized stolen money have the ability to boost the economic recovery if effectively deployed? *Food for thought.*

Nigeria is currently caught in the middle of a recession which can be linked directly to its natural resource dependency — a theme far too common in sub-Saharan Africa.

The African continent has had more than its fair share of boom and bust economic growth stories associated with the global commodity cycle. Many African countries, hugely reliant on commodity-exports, have suffered significant revenue and foreign exchange losses leading to a wave of currency depreciation around the continent and downward inflationary spirals. Some of these countries, perhaps in the hope of another boom in prices have been guilty of incomplete and belated policy adjustment to the commodity price shock and have suffered even more. The lesson is quite unequivocal – natural resource dependence leaves you vulnerable to external shocks that few African countries are equipped to withstand.

One African country that has bucked the trend and offers a blueprint for others is Ivory Coast. After many years of political strife, a period of stability has led to increased spending on infrastructure – new highways, dams and in the energy sector – resulting in the fastest growth rate on the African continent. Ivory Coast has averaged 9% growth since 2012 and is forecast to grow at 8% in 2017 by the International Monetary Fund (IMF). The government plans to spend $60bn on infrastructure between 2016 and 2020, with the private sector accounting for 68% of this. The world's largest producer of cocoa – responsible for about 45% of global output – has also taken major steps to attract foreign investment by improving its business environment. Ivory Coast currently ranks 46th out of 189 countries in ease in starting a business. Overall, it still ranks poorly in the ease of doing business rankings at 142nd but it is taking visible steps to improve and investors globally have taken notice.

The government has cut the cost of creating companies by over 70% and has introduced a two-year tax break to help new companies. The government has also resolved to invest 22% of its expenditure in education to ensure it has a trained citizenry for the future. Political stability, political will and a strong business environment have essentially paid off. This is a model other African countries would do well to emulate.

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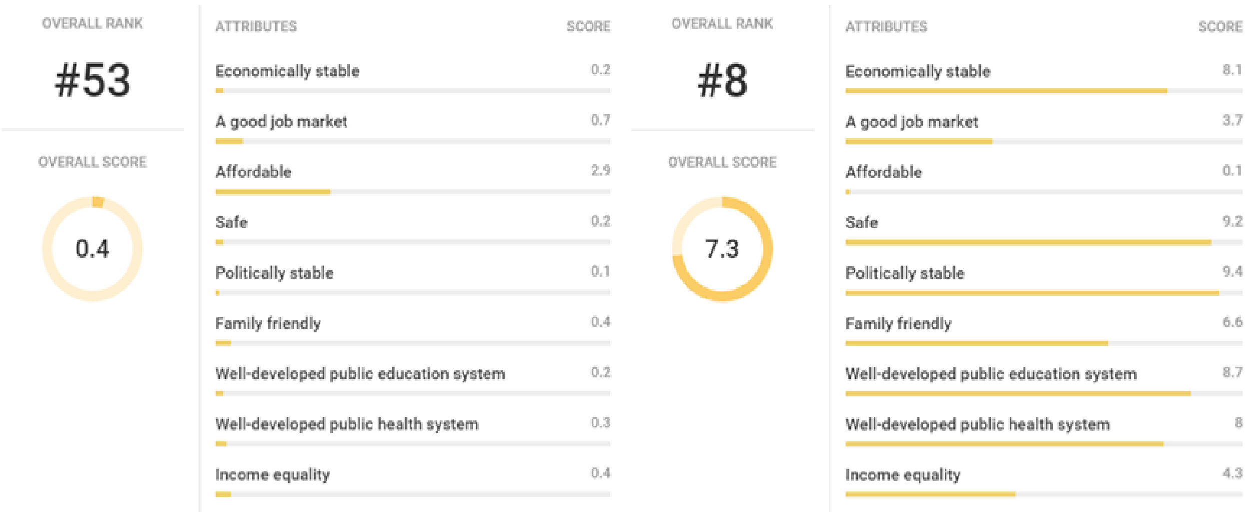
The Importance of Building Nigeria's Industrial Economy

Nigeria is the 26th largest economy in the world. It is larger than Norway, which has a gross domestic product (GDP) per capita in excess of $89,000. It also surpasses Austria, which the US News ranks No 8 in the world for quality of life. Yet, Nigeria is light years behind these countries in terms of development and average quality of life (Chart 1).

Chart 1: Shows the Quality of Life in Nigeria (left) and Austria (right



Source: US News Magazine

This phenomenon is not only peculiar to Nigeria, the top 20 and bottom 20 economies in the world have a clear disparity: they are engaged in different types of economic activity (Table 1). The richest economies specialize in industrial or tertiary activities, while the poorest are dependent on the primary sector (mining or agriculture) for income, employment and export earnings. Nigeria needs to shift its attention to building an industrial base if it is going to join the developed nations and translate its economic progress into improved citizens' livelihood.

Table 1: Showing the percentage distribution and GDP contributions of key sectors

Activity Sector	Contribution to GDP (%)
Crop production	26.40
Livestock	1.58
Forestry	0.23
Fishing	0.45
Crude & petroleum & natural gas	8.19
Coal mining	0
Metal ores	0.01
Quarrying and other minerals	0.14

Source: NBS

Nigeria's economy is largely based on primary activities such as oil exploration, mining and agriculture. The primary sector includes all activities that involve the extraction of raw materials. In Q3'2016, this sector contributed 37% to GDP (Table 1).

Mineral fuels, including oil, make up 94.5% of Nigeria's exports. Although the agricultural sector contributes only 2% of exports earnings, it employs over 60% of the labor market.

There is a clear difference in the economic structure of a developed country and a developing one. To be categorized as a developed nation, a country needs to have a robust industrial sector and a per capita income above $12,000.[1] Nigeria's per capita income is $2,548 and the industrial sector is almost non-existent.

The US has the largest economy in the world (Table 1). Its GDP reached an estimated $19 trillion in 2016. The biggest contributors were financial institutions (20.7%) and manufacturing (11.7%). Agriculture contributed 1.1%. Its main exports included machinery (13.7%) and electronic equipment (11.3%). The biggest employers of labor were trade (14.2%) and professional services (12.7%). The agricultural sector accounted for only 1.5% of employment.[2]

Following closely is China with a total GDP of $14 trillion. Exports

[1] Source: (online) Available at http://study.com/academy/lesson/economic-inequality-differences-in-developed-and-developing-nations.html

[2] The government accounts for about 14.5% of total employment. These jobs are only service-providing. Available at: < https://www.bls.gov/emp/ep_table_201.htm >

from China are dominated by industrial products such as electronics (26.3%), machinery (16%) and, textiles and clothing (7.1%). Agriculture contributes 9.3% to GDP, compared to industry and services which contribute 43.9% and 46.1% respectively. [3]

In contrast, Namibia, one of the poorest economies of the world, has a total estimated GDP of $13 billion. Diamonds are 25% of its total exports. Although agriculture contributes only 10% to its GDP, it accounts for 47% of the country's employment.

Gambia's GDP in 2016 was $2 billion. Exports were mainly yarn fabric, coconuts and cashew nuts. It is no surprise that agriculture made up one-third of the GDP and over 70% of employment.[4]

70% of the world's poorest come from countries where agriculture is the primary source of income and unemployment.[5] There are only five countries in the top 30 that depend largely on primary products (mineral or agricultural) as a source of export earnings (Table 2). With GDP per capita less than $12,000, none of these five countries are officially recognized as a developed country. This is because these nations have not benefitted from an advanced and developed industrial sector.

Table 2 : Showing the top exports of the only five developing countries in the top 30 world economies

Country	Top Export(s)
Indonesia	Mineral products (29.5%)
Nigeria	Mineral products (92.6%)
Argentina	Food (e.g. soybean) (24%)
Saudi Arabia	Mineral products (84.3%)
Iran	Mineral products (80.5%)

Source: OEC

The importance of industrialization

Basic economics divides the development of an economy into primary, secondary and tertiary- based levels. According to the three model theory, as an economy develops, it must shift from predominantly primary activities to tertiary. Industrialization is the process of an economy moving from dominantly primary sector

[3] Source: (online) Available at <http://mecometer.com/infographic/china/gdp-composition-breakdown/>
[4] Source: (online) Available at http://www.accessgambia.com/information/economic-profile.html
[5] Source: (online) Available at http://data.worldbank.org/topic/agriculture-and-rural-development

activities to one based on manufacturing of goods. The industrial/secondary sector processes raw materials into finished goods. Sub-sectors include manufacturing and construction. Every developed economy has gone through this process, starting with the Industrial Revolution in Britain in the late 1700s to China's rampant growth in more recent times.

This shift is a result of domestic demand. At low levels of income, people spend most of their money on food. As the income grows, people can afford other items such as clothing, machinery and even leisure products and services. Thus, as income grows entrepreneurs start to give more priority to non-agricultural products, and other industries begin to expand.

Industry and output: Economic growth

Industrial nations are home to 20% of the global population, yet they account for more than 70% of world output.[6] This is because industrialization (which involves machinery and other modern methods of production) amplifies the activities in other sectors such as agriculture and trade. The result is higher productivity and a boost to economic output and growth. Through heavy industrialization and advanced technological infrastructure, developed economies are better positioned to solve problems of supply, thereby reducing the vulnerability of the economy to external shocks. These shocks include movements in global markets and unavoidable phenomena such as drought or storms.

Industry and quality of life: Economic development

Looking at the developed nations of the world, we can see that industrialization brings about economic wellbeing in two ways: prices and income. Higher productivity and output lead to cheaper products, making more items available to the consumption basket of even the lowest earners. This can be associated with a fall in the cost of living. As the skill level of the average worker progresses, so does average income. This translates to a rising standard of living. In Britain in 1850, following widespread industrialization, the average worker earned more than ten times the annual income of those

[6] http://www.investopedia.com/ask/answers/042015/how-can-industrialization-affect-national-economy-less-developed-countries-ldcs.asp

in non-industrialized nations. Today, with an average yearly income of $33,000, British laborers earn at least 33 times more than the average Nigerian worker.[7]

Challenges and the way out

Industrialization is a necessary precursor to sustainable growth and is essential for creating permanent and cumulative economic and human development. In order to move away from the current stagnant path, Nigeria needs to industrialize.

Nigeria's industry faces two major challenges: low investments and high operating costs. These challenges present a chicken-and-egg scenario; investments are low because operating costs are high and operating costs are sky high, because investments are low.

The most important solution is investment in electricity. The unavailability of steady electricity has increased costs for manufacturers who have to spend millions on alternative power supply. It also discourages investments in heavy industrial activities. Secondly, investment in educational and vocational training is critical. This will lead to improved average skill levels. The increased supply of high skilled labor will drive down the price of the same. This is good because it implies reduced operating costs for employers and business owners. Additionally, government initiatives such as the Bank of Industry need to be harnessed and amplified.

In summary, although Nigeria is one of the largest economies in the world, it lags when development parameters are considered. The average citizen lives in poverty, and a reasonable quality of life is expensive. To tick all the boxes of economic development, Nigeria has to transition from being an agricultural based economy to an industrial one.

[7] FDC Think Tank estimates Nigeria's average annual income at $1000. This estimate takes into consideration the percentage of Nigerians who live on less than a dollar a day, the current minimum wage of N18,000 and the income of middle class. ($1 = N305)

Cognitive Bias and the Role of Ethics in the Business Environment

The role of ethical principles and behavior is important for the longevity of businesses in all industries. As most markets carry a weight of imperfection, ethical practices and a culture of ethical thinking need to be harnessed in order to foster trust and market activity. An imperfect market is one where there is asymmetric information, differentiated goods and avenues for some market participants to significantly outperform the market. In industries where products are intangible (financial services sector for example), it becomes increasingly difficult to test these products and to know if you are being cheated, hence the risk of default in quality or quantity discourages further transactions between intended parties.

The American economist, Douglass North, argued that in order for economic interactions between individuals to take place effectively (efficient markets), certain institutions that foster trust have to be set in place. The key word here is trust. I am less inclined to do business with someone in Rangpur Bangladesh who I'm not familiar with and might not easily have access to inspections and tests. The major force that propels me to incur the risk associated with international transactions such as this one is trust. What fosters trust is a solid ethical culture and framework irrespective of the location of the market and the product offerings in these markets.

What are ethics?

Ethics can be defined as a set of moral principles that guide behavior expected from oneself and the society. In certain professions and industries, there is a code of ethics that exists alongside legal rules and regulations applicable to that industry. This is because rules and regulations are necessary but insufficient conditions that prevent or correct unethical behavior.

Ethics in Nigeria

Nigeria is plagued with the curse of a system that inadvertently or knowingly rewards unethical behavior and punishes ethical practices. This contributes to the reason why many market analysts have argued that many indigenous companies do not have a life span lasting more than 40-50 years. This is because of the myopic foresight that many business managers have when it comes to their businesses. This is yet to be scientifically tested, but if you give an average manager of an SME, who has be conditioned to the 'Nigerian way' of doing things, the decision between doing the right thing or 'saving' your business from undue attention from regulator, the latter is the go to option. Doing the right thing will go a long way in ensuring longevity of the business. However, it may come with certain consequences that might be painful to the business in the short term. It ensures that the manager is free from any practices that may be used against him or his company in the future.

The characteristics of the business culture in Nigeria transcend all aspects of the Nigerian economy and sociopolitical landscape. This is a system where those elected to office and those in charge of serving the public fail their most important stakeholders, the Nigerian population. Just recently $9.8 million cash was found in a secret bunker belonging to the former managing director of the National Nigerian Petroleum Corporation (NNPC), Andrew Yakubu. Resources have been redistributed from the people into the pocket of one. The former aide turned whistle blower, who informed the authorities of the loot, has argued that there are as many as 3 other bunkers – each with about the same amount of cash – that are yet to be discovered. This criminal and amoral practice is just a tip of the iceberg compared to the many other cases of corrupt and unethical practices that go on in this country and which are rewarded if you have the good and common chance of not getting caught.

Challenges to ethical behavior

A major challenge to ethical decision-making is cognitive bias. Most people pride themselves on their 'ethical and moral' views on life and business without factoring human bias that may contaminate ethical behavior and practices and produce unintended consequences. Overconfidence is a very important factor to consider as we get caught up on internal traits and incentives such as 'I'm honest' or 'I can never steal' and do not factor in the fact that when push comes to shove human beings are capable of committing acts that are not first nature to them.

Therefore, separating oneself from this bias is important for every business, as it makes sure that all perspectives are considered and not inhibited by personal connotations on moral behavior. Another bias that people disregard or do not fully appreciate is an external bias or situational influences. These are certain events that arise and are idiosyncratic to particular situations that might skew ethical behavior. For example, in government, a civil servant might be inclined towards unethical behavior if everyone in his ministry is engaging in unethical practices. Undue influence from his bosses and peers might push him to go against his own ethical principles.

Framework for ethical decision-making

There are several frameworks prescribed in business to help develop an ethically aware culture of conducting business that ultimately fosters trust in the sector as a whole. A framework for more ethical decision-making incorporates possible biases and helps the decision maker look at a problem from all perspectives and reevaluate his decision for kinks and alternative options.

Table 3: Framework for ethical decision-making

Identification stage	• What are the facts surrounding this particular problem? • Who are the stakeholders affected by my decision? • What principles do I subscribe to when conducting business? • Am I going to purge myself in this whole process?
Consideration stage	• What external forces are going to influence my decision? • What personal biases do I have to put in check? • Do I need help from my peers, supervisors, market practitioners etc.?
Decision time!	
Reevaluation stage	• Do I make the most ethical choice given all circumstances? • Could I have avoided some mishaps that occurred as a result my decision?

Source: CFA Institute Decision making framework

Having a framework for making decisions is important and following this process might not be as easy as it is stipulated in the table above. You might have to iterate through stages to come to a reasonable decision but this is nonetheless a useful framework to imbibe in every business environment. It is important to restate once more that markets cannot survive without trust, as the risk adverse nature of participants will limit the frequency of transactions. Therefore, ethical practices have to be fostered in order to build on this trust.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Global Perspective

Reasons to be cheerful about emerging markets- Culled from the FT

Trump, protectionism and populism have not delivered the blow to EMs that many expected

I don't think many people would have bet on emerging markets in the immediate aftermath of the surprise Trump victory in last year's US presidential election. At that point the best case seemed to be the emergence of the US reflation trade, with the Fed being forced into early and aggressive policy tightening as US fiscal pump-priming accentuated the already nascent US recovery.

Memories of the EM taper tantrum in mid-2013 made this an unpalatable prospect for traditional high-rolling EM credits. And worse could have been expected, with the assumption that Trump would lurch to protectionism, bringing a speedy unwind of the globalization and trade liberalization agenda that had done so much to underpin the growth and development of emerging markets as a distinct and a successful asset class over the past two or more decades. Added to that was the prospect that Trump's victory, following Brexit, would lead to an upsurge in populism; potentially bringing seismic political changes globally but particularly in Europe, with Dutch, French, Italian and then German elections having the potential to destabilize the EU — one of the three pillars of the globalization agenda along with the US and the rise of China and its integration in to the global economy.

And if that were not enough, the prospect also of a hawkish geopolitical stance from Trump towards the Middle East, North Korea and China raised the likelihood of a much more unpredictable world — hardly reassuring for EM investors.

In the event, emerging markets have performed remarkably well so far this year, with EM local and hard currency bond indices still posting decent double digit annualized rates of return, most EM equity indices heavily in green territory, and the bulk of EMFX also posting gains this year even against the greenback. So what has gone wrong, or rather right, in terms of the EM trade this year?

First, I guess Trump's victory came as the US economy was already beginning to fire up even under Obama, and the prospect of tax cuts, infrastructure spending and deregulation raised the prospect of a supercharged US recovery. This came in parallel to data flow showing a pretty synchronized global recovery, with stronger data out of the EU but also China and Asia. Ultimately, a strong global economy is seen as good for EMs, which are typically more export oriented with a strong commodity underbelly. Prospects of stronger DM economies and demand appear to have counterbalanced fears over the potential hit to EM from a rise in protectionism.

Second, and even on Trump's protectionist agenda, many in the market appear to be willing to adopt a more sanguine view. Either the view is that Trump is not serious about risking a global trade war with China, and that his harsh rhetoric is just meant for his domestic blue-collar voter base, and that the business underpinnings of the GOP will blunt any efforts towards protectionism, or, I think there is a view that ultimately Trump is looking to cut deals with bilateral trade partners and ensure win-win scenarios, biased in favour of the US but putting right some of the inefficiencies in existing multilateral trade deals.

Third, much of EM remains a commodity asset class, and a combination of the OPEC deal last year with stronger demand for commodities as a reflection of the improving growth outlook for the global economy has given oil and commodities a better tone. A year ago, oil was at $25 a barrel and looking to go lower. Since then the price has doubled, and this has helped many EM commodity credits in their much needed adjustment. When oil was at $25, many oil credits were formulating anti-crisis strategies, adjusting budgets lower and thinking of countermeasures including state asset sales and cash/revenue raising measures. Most of these plans are still in place, which has yielded some fundamental improvement across the EM commodity spectrum that has endured through the partial recovery in oil prices — few of these countries are confident now of the durability of oil/commodity prices and are trying to make painful adjustments.

Fourth, in the aftermath of the taper tantrum, currencies adjusted very significantly weaker — many of the big liquid EM currencies (BRL, TRY, RUB, IDR and INR) saw losses of 30-50% — and while

2016 saw a strong bid again for many of these, most have only recovered half of their prior level. Some, such as MXN and TRY, have continued to weaken. The TRY, for example is now back to 2003 levels on a REER basis. This suggests that much of EMFX is still cheap, and this provides some durability even to further global shocks — it should still help in terms of BOP adjustment, helping to reduce vulnerabilities.

Fifth, I think there is recognition that even in a scenario where the Trump presidency might be net bad/challenging for EM, it is still possible to pick potential winners and losers. Which credits, for example, could potentially benefit from new security realignments? Trump's focus on countering the threat from ISIS and global terrorism could see support for autocratic regimes and monarchies in the Middle East, many of which also benefit from being oil/energy plays. Trump has clearly realigned with Saudi Arabia and Israel, and this could be to the benefit of Saudi proxies in the region, including Egypt, Bahrain, the UAE/Qatar and even perhaps Tunisia. Russia and Turkey could also be beneficiaries, albeit the Russia/US story is complicated by Ukraine, Syria and the Putin persona, and Syria and then Turkey by the increasing dominance of Erdogan over domestic politics and also by the regional security setting.

Sixth, there is perhaps recognition that EM is increasingly represented by much differentiated country and even regional stories. Indeed, it is hard now to sell a single EM beta story for big, liquid EM credits such as Argentina, Brazil, India, Indonesia, Turkey, Russia and South Africa, et al, and even across regions. I would argue that it is now about spotting Country Alpha — which are the improving credit stories, and which have strong standalone reasons to invest that should be durable even in the face of less clement results of the Trump presidency? In terms of regions, emerging Europe, for example, appears pretty durable even to back draught from unfavourable Trump policies — solid growth fundamentals, generally improved/strong public finances, limited external imbalances, and the region is more focused on exports into the EU which is in recovery mode, and appears much less vulnerable to a Trump-China trade war. In Asia, the country stories are much more mixed, but with a strong message of country differentiation again coming to the fore — strong balance sheets of Indonesia and the Philippines suggesting more durability, and reform prospects and the large domestic market offering similar opportunities in India. South Korea, Singapore and Malaysia appear more vulnerable for different reasons, but are much more tied to the China story, alongside their own domestic/geopolitical vulnerabilities.

Seventh, the above is not to say that EMs don’t have their own problems and risks — it’s the nature of the asset class that they tend to have political flux, not helped by wider inequalities, and key development challenges, often laid bare by single export dependence. But heightened political risks now in the US and Europe perhaps put political risks in EM into a more favourable context — the institutional gap between EM and DM perhaps narrows when political developments in DM are raising fundamental questions over political stability, the rule of law and the very basis of development — market liberal democracy, versus a more statist/ nationalist agenda. It is incredible that Trump policies are leading some to question the rule of law in the US, alongside ethical governance. Perhaps more simplistically, the fact that Trump, and the now complicated/confrontational and populist political scenes in Europe seem to be making the headlines (and Twitter feeds) on a constant daily basis, means that some of the less savory aspects of politics/policy in EM are not grabbing the headlines.

China is a good example — a year ago, China risks were capturing the news headlines on a daily basis and I think creating a vicious market psychology, but Trump has taken China off the front pages for the past year. This has reduced media/market perceptions of China risk — helping calm markets and investors, although I am not sure if there has been any real fundamental change in the China story. Now the hope is that the factors detailed above will endure for EMs. Clearly some big challenges still lie ahead in European elections, the Greek debt crisis and looming talks on trade, plus the eventual move by the Fed to hike rates — perhaps in the wake of these events markets will see some more dislocation. But a big take-out from the above is regional/country differentiation, and the hope that Country Alpha will provide durability when markets turn more volatile — which they inevitably will, as it is the nature of the beast.

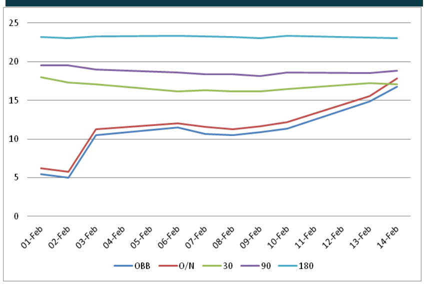
Macroeconomics Indicators

Money Market

The money markets opened with a liquidity position of N303.41bn long in the month of February compared to N235.73bn in January.

Short-term interbank rates (OBB, O/N, 30-Day) averaged 13.02% per annum (pa) from the 1st to 14th of February, 96bps higher than the corresponding period (1st to 16th) in January of 12.06% pa. As at February 14th, short-term interbank rates, OBB and O/N rates closed at 16.75%pa and 17.83%pa respectively. Interests rates spiked on the 10th of February, due to an OMO auction of N391bn.

Chart 3: Short-Term Interbank Rates (%)



[8]

Average yields from t-bills have fallen marginally during the period under review. 91-day T/bills and 182-day T/bills fell by 12bps to 14.17% and 182-day 18.75% respectively.

Outlook

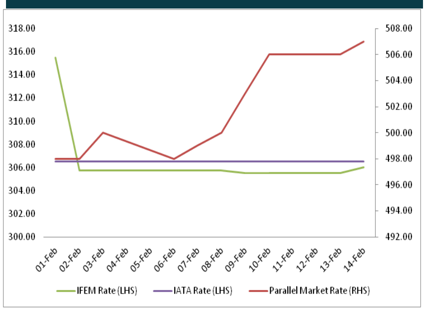
T/bills rate have remained sticky due to the excess demand for the debt instrument. The high yield and minimal risks make it highly attractive. We expect rates to stay relatively flat in the coming weeks, before falling sharply in the short to medium term. This will be driven by a fall in local debt as international borrowing plans (Euro & Diaspora bond) are rolled out.

Oil Market

Oil Prices

Brent crude prices averaged $56.09pb between the 1st and the 14th of February. This is a 0.34% increase from January's average of $55.9pb. Prices have stayed above $50pb throughout 2017, and closed the period at $55.97pb on February 14th.

Chart 4: Brent Crude ($pb)



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[8] CBN, FDC Think Tank

[9] Bloomberg, FDC Think Tank

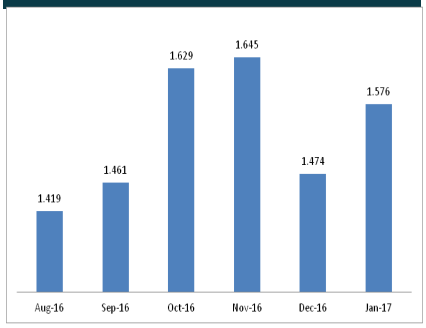
Outlook

Rising U.S. inventory and output levels will continue to mitigate the effects of the high level of compliance to the OPEC production deal. This is a risk to prices in the near to medium term. Brent oil price is expected to stay within the band of $54-56 in the coming weeks.

Oil Production

Production levels reached 1.576 mbpd in the month of January. This is 6.92% higher than December 2016's production levels, but 4.2% lower than November levels. The increase could be linked to the recovery from interruptions caused by worker strikes in December and early January.

Chart 5: Oil Production (mbpd)



[10]

Outlook

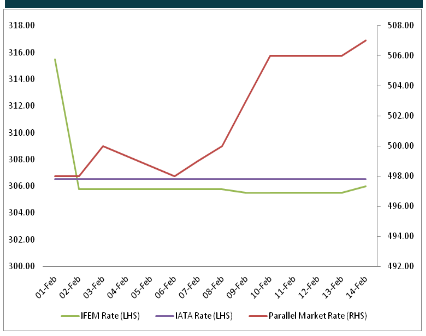
The fate of Nigeria's oil production continues to lie primarily in its ability to combat or constructively engage with the Niger Delta militants. Currently, negotiations appear to have reached a grid lock. Still, the number of pipeline attacks has dwindled so far this year compared to the prior year.

Forex Market

Exchange Rate

At the parallel market, the naira crossed the N500/$ psychological ceiling, closing the period at an all time low of N507/$. The parallel market averaged N501.50/$ from the 1st to the 14th of the month, a 1.75% depreciation from January's average of N492.7/$. The IFEM opened the period at a 4-month high of N315.50/$ before simmering down to close at N306/$ on 14th February. IATA rate stayed relatively flat, closing at N306.5/$.

Chart 6: Exchange Rate (N/$)



[11]

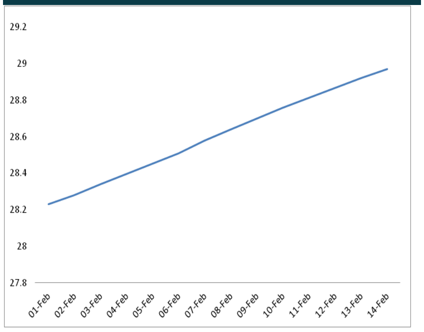
Outlook

Despite the increase in forex earnings as a result of higher oil prices, forex shortages still remain an issue. The controls remain

[10] OPEC
[11] CBN, FDC Think Tank

in place while Personal Travel Allowance (PTA) is difficult to obtain. Thus, the parallel market still faces a significant pressure, as dollar sources remain scarce and demand remains at peak levels. We expect this trend to continue until the liquidity problem is resolved.

Chart 7: External Reserves($ 'bn)



[12]

External Reserves

External reserves reached a 13-month high of $28.97bn on February 14th, a 2.62% ($740m) gain from the opening level of $28.23bn on February 1st. The external reserves level is now 0.14% higher than 2016's peak of $28.93bn and 16.05% below 2015's peak of $34.51bn.

Outlook

The accretion in the external reserves level is expected to continue, given increasing oil prices and improved production. Nigeria's production level is reportedly at 2mbpd. The issuance of the Eurobond and other borrowing programs will also contribute significantly to the external reserves. This is expected to improve the CBN's ability to defend the naira.

[12] FDC Think Tank, CBN

Avant-garde
Academia
Limited

Who We Are

Avant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services.

The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisors, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

A reputable education advisory service firm, the lead consultant Ms. Peggy Hanefors has over 10 years experience in admissions; including a position as the Assistant Director of International and Transfer Admissions at the University of Pennsylvania. She was first reader and evaluator of about 3,000 applications for students from across the globe.

What We Offer

- Information and advice about the American University System and its application process.
- Evaluation of student's record prior to application.
- Assistance in selecting curriculum and summer activities that will match the student's desired course of study and also highlight his/her personality and interests.
- Development of personal application timeline, that includes standardized testing, college visits, application deadlines, etc.
- Help in selecting teachers for recommendations
- Guidance in presenting extracurricular record
- Guidance in putting together an overall great college application that highlights the unique attributes of the applicant
    - Essay topic brainstorming
    - Editing
    - Proof-reading
- Guidance in choosing the most suitable college among acceptances.
- Interview preparation

Our Packages

Package 1: 8th to 10th Grade (Final 3-5 Years)

This package is a program designed for candidates from as early at the 8th grade (Junior Secondary School - JSS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

Package 2: 11th and 12th Grade (Final 1-2 Years)

This package is similar to Package 1 but is designed for students in the final two years of high school.

Package 3: (Per Application)

Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

We host a Parents Admission Support Forum in Lagos bi-annually with the aim of giving parents the information they need to ensure their child(ren)/wards gain admission into reputable universities in United States of America.

To attend one of our events, kindly contact or visit us at
9a Idejo Street, Victoria Island Lagos.

For more information about Avant- Garde Academia Limited please go to our website: www.avant-gardeacademia.com
For enquiries or consultation E-mail us: info @avant-gardeacademia.com Or call Chinyere Ubani 08039238138 | Tope Vincent 08034017603

Stock Market Update

The first half of February has been dominated by political headlines with wide ranging implications on investors and companies. These flashpoints include the extension of President Buhari's vacation, successful raising of the $1bn Eurobond, and exchange rate movement to N507 at the parallel market (February 14, 2017). Economic data released so far, has been weak and this has increased the bearish sentiment on the Nigerian equities market.

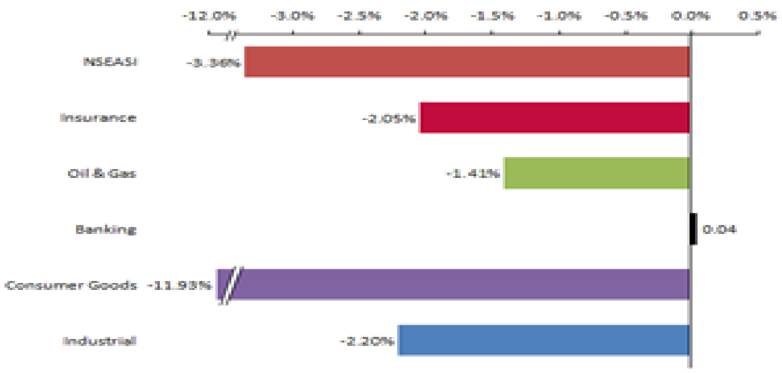
The Nigerian equity market index declined by 3.36% from 25,903.55 to 25,032.17 compared to a 3.38% gain in the same period last year. 29.46 billion Ordinary shares of Jaiz Bank Plc were listed on the Nigerian Stock Exchange at N1.25 per share. JAIZBANK's listing added N36.83bn to market value, nevertheless, market capitalization declined by N264.1bn to N8.66trn during the period under review. Consequently, the year-to-date (YTD) return on the market was -6.86%. The liquidity weighted SFNG Blue Chip 30 Index declined by 4.97% during the mid-month of February to close at 826.72 from January's close of 869.96. The average Price-Earning (PE) ratio of stocks listed on the Nigerian equities was 14.4x in the review week. Market breadth was negative at 0.42x as 20 stocks advanced against 47 stocks that declined, while 109 stocks remained unchanged.

Sector Performance

The banking sector emerged a lone gainer in the NSE sub-sector during the review period as it advanced marginally by 0.04%. Guaranty Trust Bank Plc and Zenith Bank Plc led the activity chart, accounting for 13.67% and 11.44% respectively of total market turnover. Overall, the sector dominated market activity, accounting for 48.97% of market activity.

Shedding 11.93% in the first two weeks of February, the consumer goods sub-sector of the NSE led the losers chart. Earnings results released, show that external headwinds and sluggish domestic fundamentals slowed momentum. The Consumer Goods sector trailed behind the financial sector, accounting for 24.19% of turnover.

Chart 8 : Sectoral Performance



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The most active stocks by value traded include GTBank 13.67%, ZENITH 11.44%, NIGERIAN BREWERIES 10.76%, NESTLE 8.1% and PRESCO 8.01%. The best performing stocks were BETA GLASS (15.73%), CAVERTON OFFSHORE (15.38%), AIRLINE SERVICES AND LOGISTICS (9.13%), NEIMETH (6.45%) and OANDO (5.26%).

TOP 5 GAINERS				
Company	Feb1'17 (N)	Feb 14'17 (N)	% Change	Absolute Change (N)
BETA GLASS CO PLC.	30	34.72	15.73%	4.72
CAVERTON OFFSHORE SUPPORT GROUP	0.78	0.9	15.38%	0.12
AIRLINE SERVICES AND LOGISTICS PLC	2.63	2.87	9.13%	0.24
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	0.62	0.66	6.45%	0.04
OANDO PLC	4.56	4.8	5.26%	0.24

Top price losers were UACN (-28.13%), NIGERIAN BREWERIES (-16.34%), FORTE OIL (-16.2%), NESTLE (-14.28%) and VITAFOAM (-12.97%).

TOP 5 LOSERS				
Company	Feb1'17 (N)	Feb 14'17 (N)	% Change	Absolute Change (N)
UACN PROPERTY DEVELOPMENT CO. LIMITED	2.88	2.07	-28.13%	-0.81
NIGERIAN BREW. PLC.	134.85	112.82	-16.34%	-22.03
FORTE OIL PLC.	67.66	56.7	-16.20%	-10.96
NESTLE NIGERIA PLC.	699.99	600	-14.28%	-99.99
VITAFOAM NIG PLC.	2.39	2.08	-12.97%	-0.31

Corporate Disclosures

Flourmills of Nigeria Plc (FMN) recorded a revenue growth of 47.89% from N263.6bn to N389.9bn in its 2016 Q3 results, which

[33] NSE FDC Think Tank

was released earlier in the month. Finance costs also increased by 6.97% from N16.54bn in 2015 to N17.69bn in 2016. Profit after tax declined by 61.05% to N7.4bn due to high base effect arising from one-off gain of N23.73bn from the disposal of investment in associate (UNICEM) from prior year. FMN currently trades at N18 with a PE ratio of 17.1.

7UP Nigerian Bottling Company released its 2016 Q3 results, which reflected an increasingly difficult business environment. Revenue grew by 26.02% from N60.2bn to N75.9bn. Finance cost however also went up by 23.79% from N2.56bn to N3.12bn. Profit after tax declined by N7.07bn (217.14%) from N2.23bn in 2015 to a loss of N4.84bn in 2016. Sector remains under pressure from weak demand (a result of falling disposable income) and rising cost of imported raw materials. 7UP currently trades at N106.5 with a PE ratio of 20.36.

Forte Oil released its FY 2016 result; revenue grew by 19.29% from N124.6bn to N148.6bn. Finance cost increased from N5.14bn to N6.16bn representing a 19.9% increase while profit after tax declined significantly by 50.1% from N5.79bn to N2.89bn. Forte Oil currently trades at N56.7 with a PE ratio of 29.37.

Outlook

In the second half of the month, we expect to see increased bargain hunting activities as investors take advantage of stocks currently trading below their fundamental values. However, market mood may be somber as a result of lackluster expectations of corporate earnings. The focus of investors will remain on themes such as corporate earnings, high interest rate environment, continued weakness of the naira and dividend policy.