

Unity Bank Digest

May 11th, 2017



THE HIGHLIGHTS

May Day, Workers protest in the Eagle Square, Abuja.

Workers' Unions have expressed discontent with the Federal Government as it regards initiating a new minimum wage. The current minimum wage of N18,000 was introduced by Jonathan's administration. At that time, the exchange rate was N150.4/\$, bringing the minimum wage to \$120. Today, N18,000 equals a measly \$58.68. The Nigerian Labour Congress is proposing a minimum wage of N56,000, (approx \$182.58). Although there is a great need to review wages, the opportunity costs include increased state debt, which could translate into redundancy and increased unemployment.

Oil prices fall to five month low and recovers

Brent oil price fell sharply to \$48.38pb on May 5th. This is the lowest since November 30th, when OPEC made the decision to reduce production. This price movement is reflective of negative investor sentiments. The oil market is wary about the increase in supply glut as the US continues to pump at record levels. Also, there have been signals from OPEC delegates that producing countries are not likely to increase output cut levels, though an extension in current agreements was probable. This caused a further worsening in price levels. Prices have since recovered, closing at \$50.41 on May 11th.

FAAC falls to N467.8bn in March

In April, the Federation Account Allocation Committee (FAAC) shared N467.8bn between the three tiers of government. This is 9% lower than the N514.15bn shared in March. This is the first drop in the monthly allocation so far in 2017. FAAC allocation is expected to stay flat in April, before recovering as oil production picks up by Q2-end.

Update: New Investor and Exporter Fx Window

The CBN launched a new forex window on April 24th. In this market, the FMDQ gives a price quote based on its bi-daily survey of market rates. While investors welcome this new window, most are concerned about the rate, and the degree to which it will be allowed to truly float. In its first week, the rate traded between N374-380/\$. The window closed at N382 on May 4th. Meanwhile, the CBN has sanctioned 14 banks who are yet to sell through the window for Small and Medium Enterprises (SMEs). These banks will be banned from participating in the weekly SME wholesale interventions, until they utilize the funds already allocated to them. This could potentially lead a naira depreciation. The SME window was created on April 10th.

MTN to buy 49% stake Iranian Net

MTN Group has signed a R540 million (\$40m approx) agreement with broadband provider, Iranian net, to buy an initial 49% stake. Africa's largest network provider will also invest another R3.4billion (\$250m) in equity and loans, over the next five years. Following the lifting of international sanctions and the opening of its borders, Iran has become a potential market for international investors. It is no surprise that MTN is showing keen interest in this untapped market.

Buhari seeks approval for \$7bn

President Buhari has submitted a \$7bn borrowing plan to the Senate for approval. The Export-Import Bank of China has approved \$5.6bn in loans for railway projects and infrastructure. This includes \$3.5bn for the planned rail line connecting Lagos to Calabar. The FG also plans to borrow \$1.075bn from the World Bank. Of this, \$575m will be used to boost economic activity in the insurgency-hit areas of Northern Nigeria, and \$500m for social-safety net projects. If successfully passed, the borrowing plan will work to plug Nigeria's infrastructure gap and significantly reduce the cost of doing business.

Power output drops before recovering (review period: April 19th - May 09th)

Power output from the national grid fell to a low of 2,802Wh/h on April 26th, before recovering to close at 3,425Wh/h on May 9th. This fall was due to a drop in system frequency resulting in system collapse. Average power sent out during the review period was 3,522Wh/h. Total constraint was 2,325MW on May 9th, compared to 2,240MW on April 19th. The sector lost approximately N25.52 billion during the review period.

Pre-MPC: considerations & likely outcomes

The Monetary Policy Committee (MPC) is scheduled to hold its second meeting of the year on May 22nd-23rd. The committee will meet against the backdrop of a a slow and gradual economic recovery. Considerations include the naira appreciation, increased dollar liquidity, external reserves accretion, decline in inflation and uptick in economic & business activity. There is a high probability that the committee will adopt a more accommodative stance.

Oil production falls in March- OPEC

According to OPEC's monthly report, Nigeria's oil output fell by 1.9% to 1.545mbpd from 1.575mbpd. The fall was driven by a temporary shutdown of Shell's Bonga Oil field, which has a capacity of 225,000bpd. Output is projected to reach 1.8mbpd by the end of Q2, provided regional calm is maintained. Meanwhile, the Federal government has reported an output of 2mbpd for March- this includes exports and supply to local refineries. The Forcados Pipeline (capacity of 400,000bpd) is also expected to be fully operational by the end of July.

PMI rises for the third consecutive month

FBN's Purchasing Managers Index rose by 6.1 points to a reading of 58.9 in April, from 52.8 in March. This boost in the headline index was primarily due to the increase in forex liquidity. All sub-indexes recorded significant increases, the largest being in the output index, which rose to 63 in April, from 54.5 in March. Available and accessible dollars means more demand for manufactured products, and consequently, an increase in

manufacturing activity and output. PMI is a coincidental indicator, thus this trend alludes to the fact that the economy is in a slow but steady recovery.

Laptop ban on US bound flights from Europe

The US Department of Homeland Security is reportedly set to introduce a ban on laptops in cabins on flights from Europe. The ban is being considered due to increased fear that terrorists are smuggling explosives in electronic devices, reducing the chances of them being stopped by airport security. There is a possibility that this ban could extend to other large electronic devices such as tablets. The ban was introduced earlier in the year for all flights from eight Middle Eastern and African countries.

Rising US college drop-out rates due to higher tuition and debilitating school debt

Inflation, and budget crisis have led to an increase in cost of US college education over the years, leading to an increase in drop-out rates. Students who have financial backing (from parents or scholarships) have a 63% graduation rate, compared to 42% rate for students who fund themselves. Crowdfunding for tuition fees is also gaining popularity. Students are increasingly looking to platforms such as GoFundMe, to raise college financing from the contributions from the public.



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Note that all transactions are subject to Central Bank of Nigeria (CBN) guidelines.



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SOCI AL CORNER

LVMH buys Christian Dior in \$13.1 billion deal

- Bernard Arnault, the French mogul behind Louis Vuitton Moët Hennessey (LVMH) group, has concluded a \$13.1bn deal, to incorporate the 70-year old Parisian fashion house - Christian Dior into his luxury goods empire.
- The Arnault family owns a 47% stake in the LVMH Empire with well known luxury brands like Louis Vuitton, Hermes, Celine, Fendi, Bulgari, Dom Perignon, Tag Heuer watches, Givenchy amongst others.
- This transaction will generate savings and simplify the complex ownership structure between the world's largest luxury company and Christian Dior.
- LVMH will take control of the Christian Dior men's and women's ready-to-wear, haute couture, leather and shoe businesses for \$7.1bn, in addition to their existing control of Christian Dior perfumes.
- According to the statement announcing the contract, the deal is expected to close in H2'17 and will push LVMH's earning per share higher within the first year of conclusion



In the aftermath of the acquisition deal, Christian Dior shares in Paris spiked 13% to a record high of 253.45 Euros while LVMH shares rose by 4.5% to 223.65 Euros. The Fashion Industry seems to be going through a wave of consolidation. In 2016, Mayhoola, the parent company of Valentino acquired Balmain, Steve Madden acquired Schwartz & Benjamin, and Revlon completed its acquisition of Elizabeth Arden.

Pizza Hut to enter the Ethiopian market

- Yum Brands Inc, a fast food giant in the US, signed a deal with Ethiopia's Belayab Foods and Franchise Plc to open three restaurants in the next six months and ten restaurants within the next three years. Belayab will invest \$5.5m in operation by 2018.
- Pizza Hut will be the first international restaurant to open a franchise outlet in Ethiopia, one of the fastest growing and most populous countries in Africa.
- Yum Brands Inc is also the parent of KFC and Taco Bell chains with more than 1,000 restaurants spread across Africa.
- According to Michael Ghebru, a shareholder in the project –cheap labor, electricity and lack of competition makes Ethiopia a very attractive market
- As part of the massive expansion into the African continent, the fast food chain plans to increase the number of restaurants in the sub-Saharan Africa region to 100 from 70 by the end of 2017.



Pizza Hut has over 13,000 subsidiaries worldwide, 70 of which are in Africa. It is present in South Africa, Zambia, Kenya and Egypt. The Nigerian fast food industry is first focused on traditional meals such as rice, ahead of foreign food such as chips, burgers and pizza. KFC, which entered the Nigerian market in 2009, has shut down its street outlets in Lagos due to poor sales, leaving only its stores located in shopping malls. Pizza is, however, gaining momentum in urban metropolitans like Lagos with Dominos and Debonairs dominating the market.

McDonalds to introduce home delivery in the UK this June

- McDonald's the largest fast food giant in the UK plans to launch a new delivery service.
- The company hinted that its biggest market –US, France, Germany and Canada will soon have the opportunity to enjoy the delivery service.

- The fast food franchise already delivers overseas in countries like China, Singapore and South Korea.
- In order to take advantage of the flourishing food delivery service space, delivery will likely be outsourced to companies like Deliveroo, Just Eat or Uber Eats.
- McDonald's is aggressively exploring ways to increase traffic, and at the same time reduce congestion and customer waiting time at stores. The food chain recently launched its app which allows customers to pre-order and pay for their meals and simply check-in when at a restaurant to receive their order. The app also provides nutritional information on each meal item.



The burger market remains largely untouched in Nigeria, with only a few restaurants operating on a small scale. This could be because investors are wary of the appeal of a burger meal to the average Nigerian. Meanwhile, food delivery services are quickly catching on in the Nigerian context, thanks to faster/cheaper internet and the 'pay on delivery' option. Most local food chains offer internally run delivery services, while others make use of channels such as Jumia food.

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TOP STORIES

May Day, Workers protest in the Eagle Square, Abuja.

- Workers' Unions have expressed discontent with the Federal Government as it regards initiating a new minimum wage.
- The FG had earlier established a minimum wage committee whose responsibility was to come up with a reasonable remuneration package for Nigerian workers. Considerations include naira depreciation, imported inflation, removal of petroleum subsidy and increase in transport fare. However, national unions claim that the FG isn't doing enough to develop a new minimum wage in the country.
- President Jonathan's administration had reviewed minimum wage in 2011 from N7,500 to N18,000 per month. At that time, the exchange rate was N150.4/\$, while inflation was 11.1%. Thus, this equals \$120. Six years later, exchange rate is N306.7/\$ and inflation has soared to 17.26%. In dollar terms, this is a measly \$58.68

Analysis & Outlook

The proposed minimum wage of N56,000 equals \$182.58. The purchasing power of the naira has dwindled greatly therefore, there is great need to review wages. Nevertheless, over 26 states struggled to pay staff salaries in 2016. An increase in wages, will only push up the financial burden of these broke states. Thus, the opportunity cost for higher wages could include increased state debt, translating into redundancy and increased unemployment.

FAAC falls to N467.8bn in April

- In April, the Federation Account Allocation Committee (FAAC) shared N467.8bn between the three tiers of government. This is 9% lower than the N514.15bn shared in the March.
- The fall was largely due to the decline in crude oil exports in March. Federation Export sales fell by \$6.4million, while Excess Petroleum and Product Tax (PPT) fell marginally to N60.89bn.
- Value Added Tax revenue in March was N69.21bn, 5.86% lower than the February's amount of N73.52bn. Exchange rate gains, also declined by 16.62%, to N40.33bn from N48.37, as the naira appreciated.

Analysis & Outlook

This is the first drop in FAAC so far in 2017. While, this brings about a challenge to the Federal government's spending plans, it should encourage state governments to ramp up internally generated revenue. FAAC allocation is expected to stay flat in April, before recovering as oil production picks up by Q2-end.

Pre MPC: Considerations & Likely Outcomes

- The Monetary Policy Committee (MPC) is scheduled to hold its second meeting of the year on May 22nd-23rd.
- The committee will meet against the backdrop of a a slow and gradual economic recovery. Considerations include the naira appreciation and increased dollar liquidity. Since its last meeting the naira has appreciated by 3.32% to N391/\$ at the parallel market. Inflation is expected to decline to 16.8% in April, inching closer to the CBN upper limit of 12%. Economists are projecting Q1'2017 growth numbers to come out positive, in the range of 0.5-0.8%. th and forex reserves above \$30bn. Other considerations include oil production uptick as Forcados reopens in Q2 end, external reserves accretion, and increase in PMI.
- The CBN will be wary of making any hasty changes to policy, as it looks to build investor confidence. Yet, in the light of brighter economic picture, we expect the committee to adopt an accommodative stance, albeit marginal. If inflation declines to 16.8%, the committee might reduce the Cash Reserve Ratio (CRR).

Analysis & Outlook

A reduction in the CRR or Liquidity ratio will work to boost liquidity in the market, which is currently experiencing naira shortages. Money market indicators and the forex market are expected to remain relatively flat, provided that the CBN maintains its dollar supply and interventions

MTN to buy 49% stake Iranian Net

- MTN Group has signed a R540 million (\$40m approx) agreement with broadband provider, Iranian net, to buy an initial 49% stake. Africa's largest network provider will also invest another R3.4billion (\$250m) in equity and loans, over the next five years.
- Iranian Net specializes in constructing and developing optic fibre networks across Iran. MTN has 237 million subscribers in over 20 countries. Earlier in the year, the group also invested in Iran Internet Group which owns a taxi hailing app.

Analysis & Outlook

Following the lifting of international sanctions and the opening of its borders, Iran has become a potential market for international investors. It is no surprise that MTN is showing keen interest in this untapped market. MTN also has stake in Irancell, an Iranian telecoms operator.

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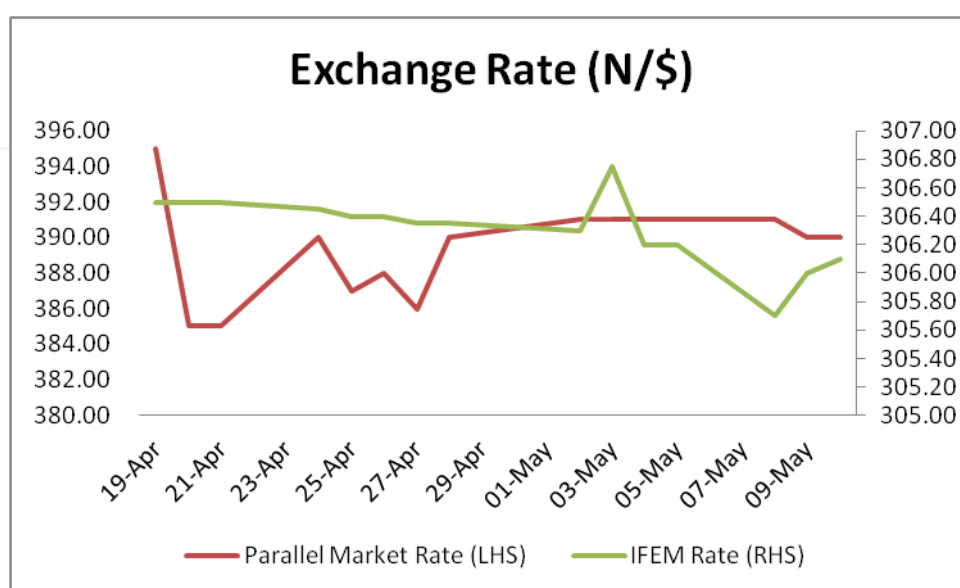


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BUSINESS UPDATE (Review Period: April 19TH - May 10th, 2017)

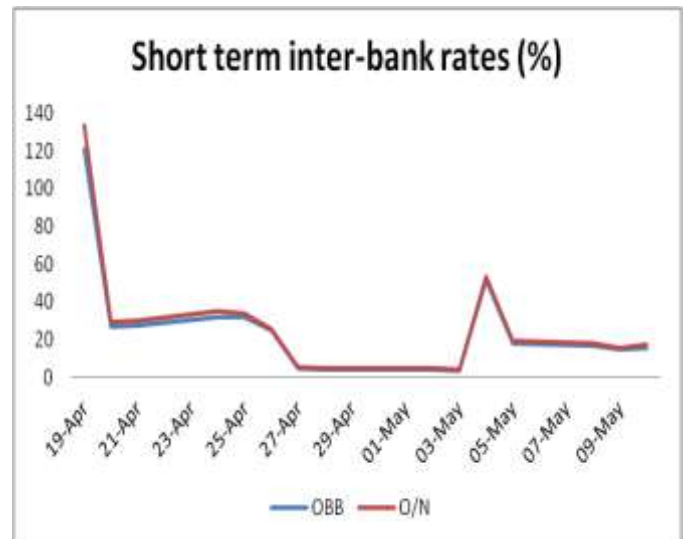
The Forex Market

- At the parallel market, the naira:
 - Appreciated by 1.28% during the review period to close at ₦390.00/\$ on May 10th from ₦395/\$
 - Reached a month high of ₦385/\$ on April 20th.
 - Appreciation driven by increased CBN supply
 - Approx \$1.2bn auctioned in April alone.
 - Spot (approx 25%); Forward (approx 75%).
 - Appreciated by 0.4% against the pound to close at ₦495/£.
- At the interbank market, the naira stayed relatively flat closing at ₦306.1/\$ from ₦306.5/\$
- External reserves increased by \$370 million (1.21%) to \$30.93bn on May 8th.
 - Reached \$30.99bn on May 4th
 - Import cover is now 6.94 months from 6.84 months on April 19.
 - We expect a slowdown in the pace of accretion in external reserves in the short run, as forward contracts mature. Also the recent dip in oil prices will have a negative impact on reserves buildup.



The Money Market

- Short-term interbank interest rates (OBB, O/N) fell sharply by 10,516bps and 11,608bps respectively in the review period.
 - OBB closed at 15.67% pa, while O/N closed at 17.25% pa on May 10th.
 - Fell to a four-month low of 3.33% pa, 3.83% pa on May 3rd.
 - Rates have been volatile moving in tandem with liquidity.
 - As forex intervention mops up naira liquidity.
- Yields on T-bills investments remain relatively unchanged.
- 91-day: 14.08%; 182-day: 18.88%
- Increased demand for dollar denominated bonds will dampen need for domestic debt.
 - Pushing rates down by over 25% by year-end.



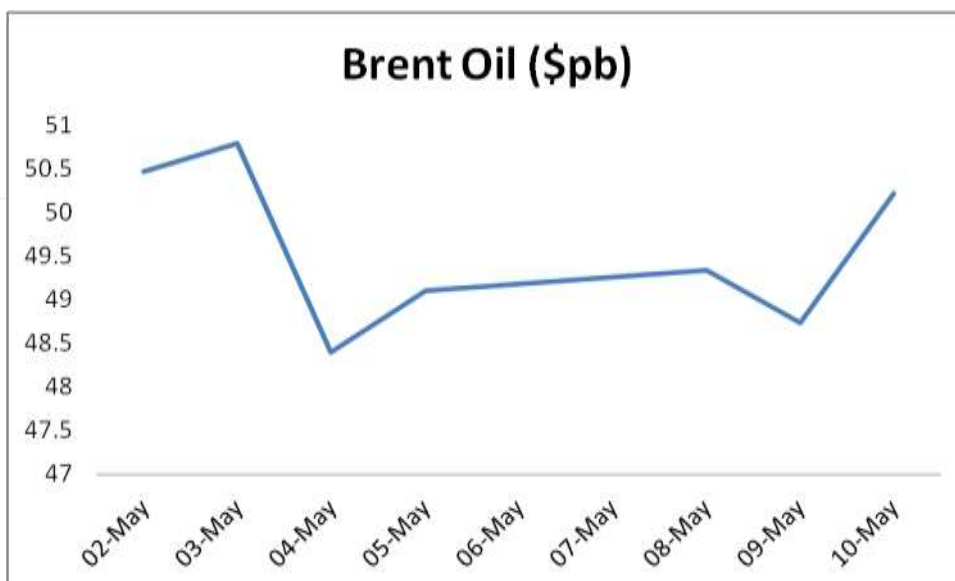
The Stock Market

- The Nigerian Stock Exchange All Share Index (NSE ASI) gained 8.74% during the review period to close at 27,546.68 on May 10th.
- Total market capitalization closed at N9.52trn on May 3rd- a 8.55% gain from N8.77trn on April 19th.



The Commodities Market

- Brent crude price fell sharply by 8.27% to \$50.22pb from \$54.75pb in the review period
 - Reached a 5 month low of \$48.39pb on May 4th.
 - Market still feeling the pinch of supply glut
 - OPEC and producing countries need to extend agreements and further increase cut commitments to counter the effect of increasing US inventories and boost prices.
 - Lingering pressure from geopolitical risks.
 - Aftermath of U.S. missile strike on Syria.
 - Concerns over Russia, Iran and Iraq, and Saudi Arabia's involvement in the six-year old Syrian war.
 - These areas constitute a combined 60% of global oil production.
 - Potential threat to Nigeria's oil revenue.
- Natural gas up by 2.00% during the period to \$3.21/mmbtu from \$3.147/mmbtu.
- Sugar prices down by 8.25% to \$0.1544/pound from \$0.1683/pound.
 - Higher output as, Brazil's harvest season started in April.
- Cocoa prices increased by 2.29% to \$1,960/mt from \$1,916/mt in the review period.
- Wheat prices fell by 1.04% to \$159.88/tonne from \$161.60/tonne on April.
- Corn price gained 7.52% to close at \$146.50 /tonne from \$136.20/tonne.
 - Wet weather threatens to delay US corn planting.



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TOP DESTINATIONS IN AFRICA- CULLED FROM WWW.AFRICA.COM¹

Morocco has been described as a distinctly African country on the outskirts of Europe. It has a majestic and medieval feel to it, filled with lots of North African culture. No visit to Morocco is complete without visiting Djemma el Fna in Marrakech, which comes to life from 10am with street theatres, henna tattoo artists and snake charmers and peaks in the evening with the arrival of an array of chefs and food masters.



Have an authentic Moroccan experience on the Berber tour, experiencing the life of Morocco's nomadic population through camel treks and desert tours. You can choose from single day trips to a 16 day tour.

Nestled in the warm Indian Ocean, **Reunion Island** is described best kept island paradise. Reunion boasts with the remarkable active Piton de la Fournaise volcano and a multitude of hiking trails that offer some dazzling natural sights. The island's beaches will supply you with much tranquility as you enjoy their crystal blue waters, and you can enjoy all sorts of aquatic activities at the island's rivers and lakes. What's even more enjoyable is discovering and experiencing the island's Creole, African, Indian, Chinese and French cultural and festivities.



East Africa's mountainous paradise, **Rwanda**, is a haven for travellers that are avid wildlife lovers. The country has earned the nickname 'land of a thousand hills' due its mountainous landscape and its renowned Volcanoes National Park, which is



¹ <https://www.africa.com/africas-top-10-travel-destinations/>

home to mountain gorillas and golden monkeys. The park is the most visited park in the country, which is no surprise as it is home to 3 extinct and 6 active volcanoes, and you will experience the best tracking safari to see mountain gorillas. The shores of Lake Kivu can be enjoyed with beach sports, kayaking, fishing or boat tours.

Rwanda is also a haven for coffee and tea as it is the country's biggest export. Tea leaves create a beautiful contrast with blue skies and never-ending sunshine as they adorn mountain tops. Tea plantation tours can be enjoyed in a variety of locations across Rwanda, including at Sorwathe Guesthouse and Tea Tours.

The 115-island country with the smallest population of any African state, the **Republic of Seychelles**, is a hidden gem located in the Indian Ocean and is perfect for a romantic getaway. The Outer Islands of Seychelles are the less visited of the island-country, offering pristine beaches, lonely rock outcrops and untouched habitats for many species



of wildlife. The Outer Island groups, namely Alphonse and Desroches, currently offer luxurious lodges for accommodation, as well as idyllic and untouched spots for fishing, sailing and diving.

The best and most interesting facet of the Seychelles is their multi-ethnic population comprised of peoples from all four corners of the earth. Every nation is represented on the island, including freed slaves, European settlers, political exiles, adventurers, traders of Arab and Persian origin as well as Chinese and Indians. Creole (a lilting, French-based patois), English and French are widely spoken in the Republic, and knowing a few phrases makes your stay more enjoyable as you'll be able to interact with the locals.

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