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OPEC: BETWEEN A ROCK AND A HARD PLACE

BACKGROUND

Six months ago, a marriage of convenience was brokered between the Organization of the Petroleum Exporting Countries (OPEC) – led by the Saudis – and a group of 11 Non-OPEC oil producers led by the Russians. The 24-country coalition united to achieve a sustained oil price recovery. It delivered oil production cuts that exceeded all expectations- approximately 1.8mbpd and price increase of 5.6% to the YTD peak of $57pb. OPEC said it would "do whatever it took" – and had seemingly done so. Markets reacted positively on news of the landmark deal. So did US shale production. It surged in response to higher oil prices.

MARKETS HARDLY ENTHUSED

Fast forward six months later: OPEC and its allies extend existing cuts for another nine months to March 2018. Even with this strategy, inventory levels remain well above the OPEC target range. The market surplus built up over the past three years will take a lot longer to clear than anticipated.

The market remains unimpressed with this outcome. Consensus among analysts and traders is that only deeper cuts to production will prop up prices at this point. The lack of a long-term plan is what the market finds most disappointing. Without any specific strategy on what happens beyond March 2018, fears are rife that OPEC will return to the internal scuffling and infighting that triggered the slump in prices to below $30pb between 2014 and 2016. Brent crude fell 5% to $51.24pb on the news while futures fell to as low as $48.45pb before settling at $48.90pb.

Another key factor is the global demand for oil is lower than expected so far in 2017. Advancements in technology and a gradual shift to renewable forms of energy means a steady push away

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from oil and gas in the medium to long-term. It may be that the appetite of industrialized nations for oil has peaked.

NIGERIA EXEMPT AGAIN: TIMELY AND OPPORTUNE

Nigeria and Libya retain exemption status while Iran – which ramped up output under the initial agreement – has an unchanged output target. This exemption comes at an auspicious time for Nigeria as it passed the first part of its Petroleum Industry Governance Bill – 16 years after it was first considered. It raises hopes that the other parts of the bill, covering the rights of the host communities and a package for fiscal incentives, will be passed quickly enough.

Nigeria is more sensitive to changes in oil production than to changes in oil prices – even more so now in an era of lower oil prices. The government's fiscal plans hinge on ramping up production. It pegged its oil benchmark production at 2.2 million barrels per day (mbpd) - a milestone it failed to reach since mid-2011. Oil production averaged just over 1.4mbpd in the past year. Disruptions to oil output, as a result of militancy in the host communities, were responsible for much of this. As a result, the Nigerian oil industry failed to attract the necessary capital investment to fund exploration and development to achieve its oil production targets – estimated at $7bn annually according to the Nigerian Investment Promotion Commission (NIPC).

With the right fiscal incentives and an end to militancy in the Niger-Delta region, Nigeria can surpass its own production target and even ramp up production to service growing demand for domestic oil refining.

UNRELENTING SHALE

The one clear winner is US shale. Production cuts created a space in the market for it to fill and if higher prices are achieved, then shale producers become more profitable. This is a problem that is not about to go away. Shale oil continues to be cheap and abundant and its producers are back in full swing, riding on a new wave of optimism. Fracking – the process by which shale oil is extracted – is increasingly seen as more reliable than conventional drilling operations. It is less vulnerable to shifts in production and price, and has attracted a lot of investment.

WHAT NEXT FOR OPEC?

The lack of a clear plan of action after March 2018 begs the question, what is the exit strategy? AL-Fihah – the Saudi oil minister – said he expects OPEC to achieve its goal of returning global oil inventories to the five-year average by the end of 2017. If that does not materialize, another extension cut may be in the cards as the Saudi minister has been quoted as saying “We will develop it based on the conditions that present themselves at that time”. On the other hand, if targets are achieved, a new strategy may not be needed.

GLOBAL PERSPECTIVE: KNOW THY ENEMY-CULLED FROM THE ECONOMIST

THE MARKETS FRUSTRATE OPEC'S EFFORTS TO PUSH UP OIL PRICES

THE CARTEL IS FIGHTING NOT JUST SHALE PRODUCERS BUT THE FUTURES MARKET

Borrowing three words from Mario Draghi, the central banker who helped save the euro zone, Khalid al-Falih, Saudi Arabia's energy minister, and his Russian counterpart, Alexander Novak, on May 15th promised to do "whatever it takes" to curb the glut in the global oil markets. Ahead of a May 25th meeting of OPEC, the oil producers' cartel, they promised to extend cuts agreed last year by nine months, to March 2018, pushing oil prices up sharply, to around $50 a barrel. But to make the rally last, a more apt three-word phrase might be: "know thy enemy".

In two and a half years of flip-flopping over how to deal with tumbling oil prices, OPEC has been consistent in one respect. It has underestimated the ability of shale-oil producers in America—its nemesis in the sheikhs-versus-shale battle—to use more efficient financial techniques to weather the storm of lower prices. A lifeline for American producers has been their ability to use capital markets to raise money, and to use futures and options markets to hedge against perilously low prices by selling future production at prices set by these markets. Only recently has the cartel woken up to the effectiveness of this strategy. It is not clear that it has found the solution.

The most obvious challenge shale producers have posed to OPEC this decade is the use of hydraulic fracturing, or fracking, to drill oil quickly and cheaply in places previously thought uneconomic. Once OPEC woke up to this in 2014, it started to flood the world with oil to drive high-cost competitors out of business (damaging its members' own fortunes to boot).

But it overlooked a more subtle change. Fracking is a more predictable business than the old wildcatter model of pouring money into holes in the ground, hoping a gusher will generate a huge pay-off. As John Saucer of Mobius Risk Group, an advisory firm, says, shale has made oil production more like a manufacturing business than a high-rolling commodity one.

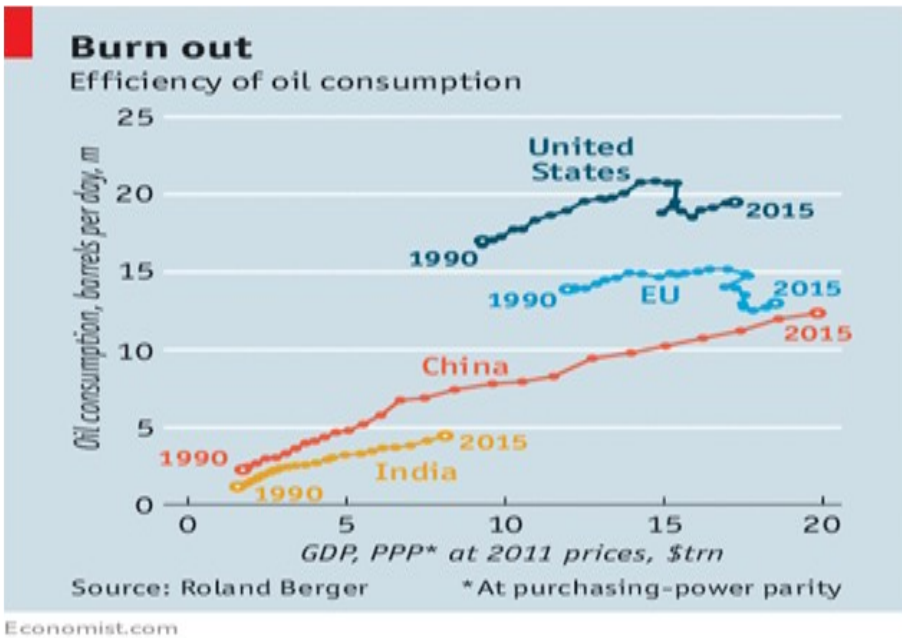
That has made it easier to secure financing to raise production, enabling producers to spend well in excess of their cashflows. Mr Saucer says the backers of the most efficient shale firms include private-equity and pension-fund investors who demand juicy but reliable returns. They are more likely to hedge production to protect those returns than to gamble on the "home run" of the oil price doubling to $100 a barrel. "Their hedging is very systematic and transparent," he says. "They don't mess around with commodity speculation."

Data from America's Commodity Futures Trading Commission, a regulatory body, bear out the shift. They show that energy and other non-financial firms trade the equivalent of more than 1bn barrels-worth of futures contracts in West Texas Intermediate (WTI), more than double the level of five years ago and representing almost a quarter of the market compared with 16% in 2012. Many of these are hedges, though Mr Saucer says the data only reflect part of the total, excluding bilateral deals with big banks and energy merchants.

OPEC and non-OPEC producers unwittingly exacerbated the hedging activity by inflating output late last year even as they decided to cut production from January 1st. The conflicting policies helped depress the spot price relative to the price of WTI futures, preserving an upwardly sloping futures curve known as "contango". This made it more attractive for shale producers to sell forward their future production, enabling them to raise output.

That higher shale output will persist is borne out by a surge in the number of drilling rigs, which shows no signs of ebbing. The Energy Information Administration, an American government agency, reckons that by next year the United States will be producing 10m barrels of oil a day, above its recent high in April 2015. That would put it on a par with Russia and Saudi Arabia. Shale producers will have gained market share at their expense.

In response, the frustrated interventionists appear now to have set out to put the futures curve into "backwardation", in which short-term prices are higher than long-term ones. The aim is to discourage the stockpiling of crude, as well as the habit of hedging. But success is not guaranteed. The International Energy Agency, a forecasting body, said this week that, even if the OPEC/ non-OPEC cuts are formally extended on May 25th, more work would need to be done in the second half of this year to cut inventories of crude to their five-year average, which is the stated goal of Messrs al-Falih and Novak. It also noted that Libya and Nigeria, two OPEC members not subject to the cuts because of difficult domestic circumstances, have sharply raised production recently, perhaps undercutting the efforts of their peers.



Moreover, global demand this year has been weaker than expected. In a report this week, Roland Berger, a consultancy, argued that rich-country oil demand has peaked, and that, as developing countries such as China and India industrialize, they will use oil more efficiently than did their developed-world counterparts (see chart). All this raises doubts about how far the oil price can climb.

Eventually, shale producers will have their comeuppance. Labour and equipment shortages will push up drilling costs. Higher interest rates will dampen investor enthusiasm. "Irrational exuberance" may lead them to produce so much that prices collapse. But for now, Saudi Arabia seems to be leading OPEC into a war it cannot win. As Pierre Lacaze, of LCMCommodities, a research firm, memorably puts it, it has taken "a knife to a gunfight". Worse, it has wounded mostly itself.

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MINIMUM WAGE REVIEW: TEMPORARY RELIEF WITH A FUNDING GAP

A common thread to the introduction and increase of a minimum wage across the globe is the desire to compensate for a loss of purchasing power due to inflation. Nigeria shares this objective, fuelled by frequent requests from labor unions for an upward review. The outcry, during the past two years, is a potential trigger of social unrest. It appears the lobbying is beginning to work as the Federal Executive Council (FEC) recently approved a 29-member committee to deliberate on the merits of an upward review in minimum wage.

BENEFITS OF INCREASING THE MINIMUM WAGE

The minimum wage presently is N18, 000 a month. At the time of its implementation in 2011 this was equivalent to $140/month. Today, the equivalent in dollars is around $45-$60. At the current rate, civil servants are living on $1.5 - $2 per day. This is barely above the international poverty line mark of $1.90 a day.[1] Increasing the minimum wage could see an uptick in the daily rate to as high as $5; while still very low, it nevertheless is 150% higher than current levels.

Inflation and the weak value of the naira have eroded the purchasing power of the average Nigerian. In the last two years, a number of adjustments have been made to general price levels which have contributed to this erosion. The prices of basic necessities, such as rice, bread or a bottle of CWAY water, have increased significantly. It is obvious to see that N18, 000 is barely enough to cover basic necessities. The removal of the fuel subsidy in 2016 saw the price of petrol increase by 67%. Similarly, diesel and kerosene prices also increased significantly. The rise in the cost of power was a result of the decision to adopt a cost reflective tariff. Food prices have increased by 19.3% in the past year. These developments support a minimum wage review.

In addition to providing a higher standard of living, proponents for an increase in the minimum wage believe it will dampen recessionary pressures with a subsequent increase in consumption lev-

[1] World Bank (2015) Global poverty line update. Retrieved from: http://www.worldbank.org/en/topic/poverty/brief/global-poverty-line-faq

els. It could stimulate economic activity as low-wage workers spend their additional earnings, raising consumer demand and creating job growth. This was the case in the US when the government decided to introduce a federal minimum wage during the Great Depression.

It's almost impossible to see why anyone would not support an increase in Nigeria's minimum wage. Although on route to a recovery, the Nigerian economy is still in a recession. Increasing the minimum wage might just be the last dose of policy prescriptions needed to experience a full recovery. But before we accept this thesis, it is important to evaluate some of its shortcomings and challenges that may arise in the long term.

NEGATIVE IMPACTS OF A MINIMUM WAGE REVIEW

One of the most common unintended consequences of an increase in the minimum wage is an increase in unemployment. The majority of states in Nigeria can barely afford to pay pensions let alone bear the additional costs associated with increasing the minimum wage. An increase in labor costs without a proportional increase in internally generated revenue may result in staff layoffs to cover the costs. This consequence offsets the expectation of an increase in consumption levels because, while those working will receive more, those not working will continue to reduce their level of consumption.

If the minimum wage is reviewed upward, public servants at the state level will probably go through another period of salary arrears because states will not have the resources to pay for the increase in salary levels. According to a budgiT report, about half of the states were able to meet their monthly obligations between January and July 2015.[2] In the table below, it can be observed that only 3 states were able to meet their average monthly commitments between January and July 2016. In recent times, a few states, such as Edo and Gombe, have supported the review of the minimum wage. The governor of Edo state increased the minimum wage by 39% to N25, 000.[3] The governor of Gombe state is

[2] BudgiT (2016) State of States: Fate of States.

[3] Edo State Governor (2016) Labour commends Oshiomhole on N25,000 minimum wage. Retrieved from: http://www.edostate.gov.ng/labour-commends-oshiomhole-on-n25000-minimum-wage/

pushing for a 211% upward review in the minimum wage to N56, 000 although it is conditional on approval from the Federal Government.[4] Based on the data below, these states do not have the capacity to fund such an expensive venture. As at 2016, Edo state had a revenue shortfall of N19mn while Gombe's was N577mn.

Nearly two-thirds of states are still having difficulties with salary payments despite the bailout funds provided to them by the Federal Government. Over the last 24 months, the Federal Government has injected more than N1.75trn into the states to help these entities mitigate the extensive financial upheaval. The most recent is the N522bn Paris Club Deduction Refund which was subject to an agreement by state governments that 50% of any amount received would be earmarked for the payment of salaries and pensions.[5] It can be argued that increasing the minimum wage will stretch the pockets of the Federal Government as additional bailout programs may be required. Based on economic fundamentals and the need to support infrastructural developments, it will be a stretch on government purse to implement an upward review in the minimum wage.

Although borrowing is an option, it is not recommended for operational expenses which yield no returns to cover finance costs, and will contribute to a growth in government debt. According to the NBS, total foreign debt of the Federal Government and 36 states rose by 6.5% to $11.41bn in 2016 from $10.71bn in 2015, while the total domestic debt rose by 36.5% to N14.02trn from N10.49trn in 2015.[6] Furthermore, the ratio of debt service-to-revenue for the federation breached the country specific threshold of 28% in 2016 with 61.3%. This shows that the debt portfolio is vulnerable to shocks in revenue, which is indicative of a potential challenge in maintaining debt sustainability.[7]

Another area of concern is the demand pull inflation associated with an increase in the minimum wage. In economic theory, an increase in income levels is usually associated with an increase in the demand of certain goods and services which could result in demand-pull inflation. Although inflation is slowing, currently at

[4] Vanguard (2017 Gombe to pay N56, 000 minimum wage. Retrieved from: http://www.vanguardngr.com/2017/05/workers-day-gombe-govt-assures-immediate-implementation-n56-000-minimum-wage-fg-approves/
[5] National Bureau of Statistics (2017) Nigerian Domestic and Foreign Debt Report 2016. Retrieved from: http://www.nigerianstat.gov.ng/report/547
[6] BudgiT (2017) State of States: Policy Brief. Retrieved from: file:///C:/Users/Opeyemi%20Oguntade/Downloads/STATE-OF-STATES-POLICY-BRIEF.pdf
[7] Debt Management Office (2016) Report of the annual national debt sustainability analysis. Retrieved from: https://www.dmo.gov.ng/publications/reports/debt-sustainability-analysis/1814-2016-debt-sustainability-analysis-dsa-report/file

17.24% (April), it is still far above the 6%-9% inflation target set by the Central Bank of Nigeria. While the inflationary impact of an upward review in the minimum wage might not materialize immediately, it is a potent risk. If prices were to increase astronomically in the long run, the case for another wage increase will present itself.

In conclusion, an increase in the minimum wage is no doubt a policy that is required given the rising cost of living across the country. However, the affordability of such a policy comes into question. Based on the discussion above, it appears an upward review is needed but may be delayed due to issues pertaining to funding and the unintended consequences (such as unemployment & salary arrears) that may ensue. The implementation of this policy should be strategic with a funding plan in place to support the increase in costs which Nigeria currently may not be able to afford. It may be more crucial for the government to consider other cost effective options (e.g. subsidized transport networks, rail and road) to improve the overall standard of living of its populace. The issue of a review in minimum wage should, however, not be abandoned and should be reviewed once the fiscal cycle of both the state and federal governments can absorb the additional costs that will incurred.


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WHY DO CONSUMER PRICES CONTINUE TO RISE SO DRAMATICALLY IN NIGERIA?

In the current economic climate, it would be perfectly reasonable for a Nigerian to expect prices to come down. With less disposable income available, demand is low. Basic economic theory says prices should follow. Where demand declines, so should prices. Yet in Nigeria this has not been the experience. Nigeria has seen astronomical rises in prices over the last three decades.

In the 1970s, the price of a bottle of coke was 15 kobo, today it is N150. That's a 99.9% price increase. This has been the trend for many products. In the days when NYSC 'alawee' was N200, we could eat a decent meal for about N2. Today, N200 is barely enough to buy a meal from the side of the road and the N19, 800 'alawee' is considered meagre by many.

The primary reason for the dramatic increase in prices over the years: the decline in the value of the naira.

AS THE NAIRA DEPRECIATES, COSTS INCREASE

Milton Friedman once said that inflation occurs when the growth in the supply of money outpaces real economic output (i.e. GDP growth). This offers one explanation to why the domestic value of the naira has decreased over time: the growth in money supply has been greater than the growth of Nigeria's real GDP. Because prices are valued in currency, when the value of a currency falls over time, the price of the goods increase. So while the price of a good depends on its own perceived value, it also depends on the market value of money.[8]

The exchange rate provides the best explanation for the declining value of money. Relative to the dollar, the naira has lost 99.7% since its introduction in the 1970s. From N0.65 to $1 in 1973, to N7.4/$ in 1990, to N85/$ in 2000, to N148.21/$ in 2010, and now N305/$ in 2017.[9] The result of this chronic depreciation on consumer prices can be summed up in a simple example. If a pair of slippers is priced at N2, 000, and the value of the naira falls by

[8] http://www.themoneyenigma.com/why-do-prices-rise-over-time/
[9] https://en.wikipedia.org/wiki/Nigerian_naira#Exchange_rates

10%, while the market value of the slippers stays constant, the price of the slippers would increase proportionately to N2200. This is because traders/producers transfer the burden of increased import costs to consumers in order to maintain their profit margins. Most times, they do this overtime. Therefore, as long as the exchange rate continues to decline, local prices will move in the opposite direction.

LOCAL PRODUCTION THE ONLY WAY TO AMELIORATE THE DEPRECIATING NAIRA

The exchange rate has such a significant impact on local prices because Nigeria is an import-dependent country. Most goods sold in Nigeria are either imported as finished products, or produced locally with imported raw materials. Without a stronger domestic economy, prices of our favorite products are likely to increase even more in the future. To reverse this trend, the economy needs to increase local production (of raw/finished products) and reduce its dependence on imports.

QUANTS AND THE QUIRKS- CULLED FROM THE ECONOMIST

IS EFFICIENT-MARKET THEORY BECOMING MORE EFFICIENT?

Theory is changing traders' behaviour. And vice versa

Build a better mousetrap, the saying goes, and the world will beat a path to your door. Find a way to beat the stock market and they will construct a high-speed railway. As investors try to achieve this goal, they draw on the work of academics. But in doing so, they are both changing the markets and the way academics understand them.

The idea that financial markets are "efficient" became widespread among academics in the 1960s and 1970s. The hypothesis stated that all information relevant to an asset's value would instantly be reflected in the price; little point, therefore, in trading on the basis of such data. What would move the price would be future information (news) which, by definition, could not be known in advance. Share prices would follow a "random walk". Indeed, a book called "A Random Walk Down Wall Street" became a bestseller.

The idea helped inspire the creation of index-trackers—funds that simply buy all the shares in a benchmark like the S&P 500. From small beginnings in the 1970s, trackers have been steadily gaining market share. They command around 20% of all assets under management today.

But the efficient-market hypothesis has repeatedly been challenged. When the American stock market fell by 23% in a single day in October 1987, it was hard to find a reason why investors should have changed their assumptions so rapidly and substantially about the fair value of equities. Robert Shiller of Yale won a Nobel prize in economics for work showing that the overall stock market was far more volatile than it should be if traders were adequately forecasting the fundamental data: the cash flows received by investors.

Another example of theory and practice parting company is in the foreign-exchange market. When Sushil Wadhwani left a hedge fund to join the Bank of England's monetary policy committee (MPC) in 1999, he was taken aback by the way the bank forecast currency movements. The bank relied on a theory called "uncovered-interest parity", which states that the interest-rate differential between two countries reflects the expected change in exchange rates. In effect, this meant that the forward rate in the currency market was the best predictor of exchange-rate movements.

Mr. Wadhwani was surprised by this approach, since he knew many people who used the "carry trade", i.e., borrowing money in a low-yielding currency and investing in a higher-yielding one. If the bank was right, such a trade should be unprofitable. After some debate, the bank agreed on a classic British compromise: it forecast the currency would move half the distance implied by forward rates.

Many who work in finance still believe they can beat the market. After all, there was a potential flaw at the heart of the efficient-market theory. For information to be reflected in prices, there had to be trading. But why would people trade if their efforts were doomed to be unprofitable?

One notion, says Antti Ilmanen, a former academic who now works for AQR, a fund-management company, is that markets are "efficiently inefficient". In other words, the average Joe has no hope of beating the market. But if you devote enough capital and computer power to the effort, you can succeed.

That helps explain the rise of the quantitative investors, or “quants”, who attempt to exploit anomalies—quirks that cannot be explained by the efficient-market hypothesis. One example is the momentum effect: shares that have outperformed the market in the recent past continue to do so. Another is the “low-volatility” effect: shares that move less violently than the market produce better risk-adjusted returns than theory predicts.

A new breed of funds, known in the jargon as “smart beta”, has emerged to exploit these anomalies. In a sense these funds are simply trying to mimic, in a systematic way, the methods used by traditional fund managers who interview executives and pore over balance-sheets in an attempt to pick outperforming stocks.

Whether these funds will prosper depends on why the anomalies have been profitable in the past. There are three possibilities. The first is that the anomalies are statistical quirks; interrogate the data for long enough and you may find that stocks outperform on wet Mondays in April. That does not mean they will continue to do so.

The second possibility is that the excess returns are compensations for risk. Smaller companies can deliver outsize returns but their shares are less liquid, and thus more difficult to sell when you need to; the firms are also more likely to go bust. Two academics, Eugene Fama and Kenneth French, have argued that most anomalies can be explained by three factors: a company’s size; its price relative to its assets (the value effect); and its volatility.

The third possibility is that the returns reflect some quirk of behaviour. The outsize returns of momentum stocks may have been because investors were slow to realize that a company’s fortunes had improved. But behaviour can change; Mr Wadhwani says share prices are moving more on the day of earnings announcements, relative to subsequent days, than they were 20 years ago. In other words, investors are reacting faster. The carry trade is also less profitable than it used to be. Mr. Ilmanen says it is likely that returns from smart-beta factors will be lower, now that the strategies are more popular.

If markets are changing, so too are the academics who study them. Many modern research papers focus on anomalies or on behavioural quirks that might cause investors to make apparently irrational decisions. The adaptive-markets hypothesis, devised by Andrew Lo of the Massachusetts Institute of Technology, suggests that the market develops in a manner akin to evolution. Traders and fund managers pursue strategies they believe will be profitable; those that are successful keep going; those that lose money drop out.

The results can be dramatic. In August 2007 there was a “quant quake” as computerized strategies briefly stopped working; the suspicion was that one manager was offloading his positions after taking losses in the mortgage market. The episode hinted at a danger of the quant approach: if computers are all churning over the same data, they may be buying the same shares. At the moment American growth stocks, such as technology companies, are as expensive, relative to global value stocks, as they were during the dotcom bubble (see chart). What if the trend changes? No mathematical formula, however clever, can find a buyer for a trader’s positions when everyone is panicking.

Who We Are

Avant-garde Academia Limited

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.
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- 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.

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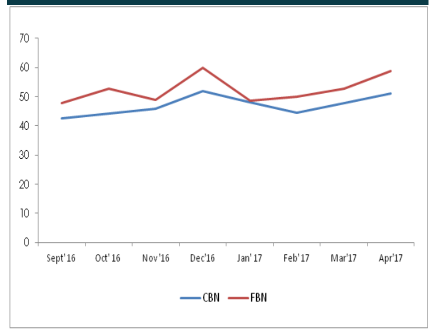
MACROECONOMICS INDICATORS

PURCHASING MANAGERS INDEX (PMI)

Chart 1: PMI



10

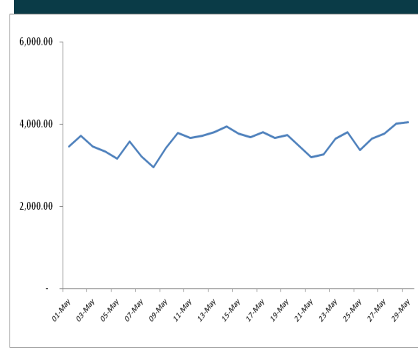
The purchasing managers' index increased further to 58.9 in April, compared to 52.8 recorded in March, as reported by FBN Quest. This marks the third consecutive increase this year as well as the highest level since December 2016. In April, there was an uptick in business confidence partly due to the increased forex interventions by the CBN. The CBN PMI also followed the trend, however at a more conservative level. It stood at 51.1 index points in April 2017, indicating an expansion in the manufacturing sector after three months of contraction.

Outlook

Following the recent CBN's forex intervention and improved supply of forex, we expect to see a gradual expansion in the manufacturing sector and uptick in the PMI

POWER SECTOR

Chart 2: Power Sent Out (MW/h)



11

In May, the average power output from the national grid was 3,594MWh/h, 2.09% higher compared to April's figure of 3,521MWh/h. This was driven by an improvement in gas supply to plants which led to an increase in power generation. Despite the improvement in electricity generated, most residents still have no access to electricity. The sector lost a total of N37.73bn in May.

Outlook

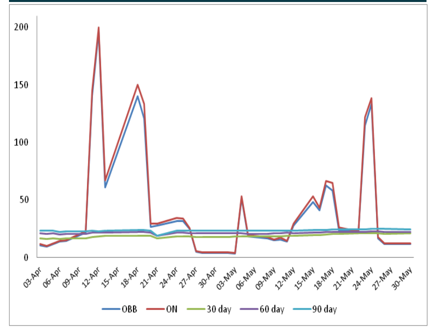
We anticipate an improvement in power supply in the coming month due to the commencement of the rainy season which is expected to increase hydro power. As part of the hydroelectric expansion projects, General Electric (GE) plans to ramp up hydroelectric power, which will add additional 2000MW to the national grid.

[10] FBN, CBN, FDC Think Tank
[11] Nigerian Electricity Supply Industry

MONEY MARKET

The average opening position in May was N44.37bn long (May 30th) compared to April's average of (N113.18bn) short. Towards the end of May, there were several days when the market's position was in negative as banks continued to fund for their dollar positions. This was in spite of inflows from OMO maturities and FAAC disbursements. Average NIBOR (OBB, O/N and 30-day) was 30.96% pa in May (as at May 30th), compared to 39.90% in April. In the review period, there were also bouts of aberrational spikes to 196.67%- OBB, 200%- O/N (April 12th) and 133.33%- OBB, 138.38%- O/N (May 24th). In the secondary market, average yields on Treasury Bills range between 18%-21% for the 91 to 365- day bills. Lending rates have remained flat at an average of 23-25%.

Chart 3: Inter-bank Rates (%pa)



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Outlook

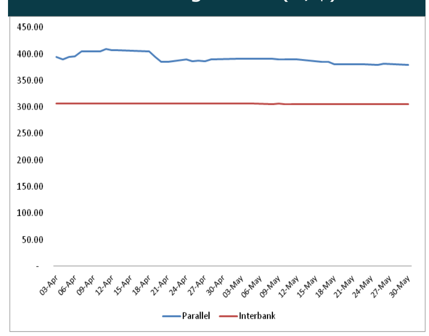
We expect short term interbank interest rates to remain volatile in the coming month. As long as the CBN sustains its sale of forex in the markets, the mopping up effect through funding for dollars will keep interest rates elevated. However, a counteracting factor will be the release of funds once the budget has been assented to.

FOREX MARKET

EXCHANGE RATE

The naira at the parallel market appreciated by 2.63% to close at N380/$ as at May 30th, compared to N390/$ in April. At the interbank market, the naira gained marginally by 0.16% to close at N305.90/$ from N306.85/$ in April. This was mainly driven by the new forex policies and regular intervention in the market by the CBN. On April 24th, the CBN introduced a new foreign exchange window for investors and exporters targeted at increasing forex supply in the market and allowing the timely settlement of transactions. So far, approximately $1bn has been traded at this window. The spread between the parallel and interbank markets nar-

Chart 4: Exchange Rate (N/$)



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[12] FMDQOTC, CBN, FDC Think Tank

[13] FDC Think Tank

rowed to N76.15 (May 30th) compared to N83.65 as at April 28th.

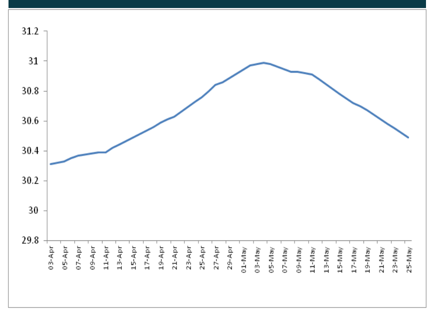
Outlook

We expect the naira to appreciate further in the coming month due to the CBN's increased dollar sale to BDCs, the intervention for SMEs and favorable forex policy for investors, exporters and end-users. The threat to this is the uncertainty surrounding oil prices. Oil prices fell below $50pb in May before recovering to $52pb. Nonetheless, any further decline in oil prices could deplete the external reserves level, and hence hinder the CBN's ability to intervene as frequently as possible.

EXTERNAL RESERVES

Nigeria's gross external reserves decreased by 1.19% ($37mn) to $30.49bn as at May 25th from $30.86bn recorded at the end of April. The decline in the external reserves level was due to funding for mature contracts and obligations. The gross external reserves import and payment cover is down to 6.83 months lower compared to April's level of 6.90 months.

Chart 5: External Reserves ($bn)

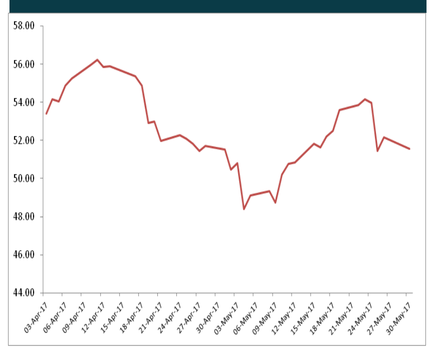


[14]

Outlook

We expect the depletion in gross external reserves to continue as forward contracts mature and the CBN maintains its interventions in the markets.

Chart 6: Brent Crude ($/pb)



[15]

COMMODITIES MARKET - EXPORTS

OIL PRICES

The average price of Brent crude in May was $51.38pb, 4.58% lower than the average of $53.85pb in April. Oil price posted its largest daily decline (5%) since April after OPEC and other major non OPEC oil producers led by Russia, decided to extend produc-

[14] CBN, FDC Think Tank
[15] Bloomberg, FDC Think Tank

tion cuts until March 2018. The movement in oil prices conveyed some disappointment, as market participants expected the cuts to be deepened or even extended for longer.

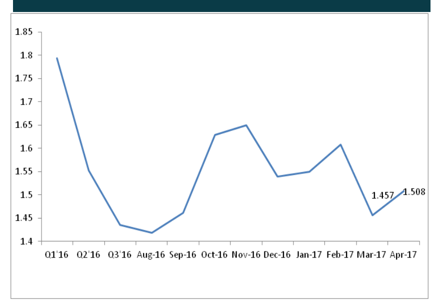
Outlook

We expect the decline to be short-lived as rising demand in the coming summer months will be supportive of prices. Wood Mackenzie said the extension could ultimately raise prices to $60pb by the end of 2017

OIL PRODUCTION

The latest OPEC report showed an increase in Nigeria's oil production by 4.13% from 1.45mbpd in March to 1.51mbpd in April. This is at variance with the FGN's figure of 2mbpd. There have been little or no disruptions to pipelines and production. Also, the Bonga oil fields have resumed operations and produces 225,000bpd of oil. Oil production figures for May are yet to be released. Following the successful OPEC meeting in May, Nigeria and Libya will remain exempt from the cuts, a positive for the economies' fiscal positions.

Chart 7: Oil Production (mbpd))

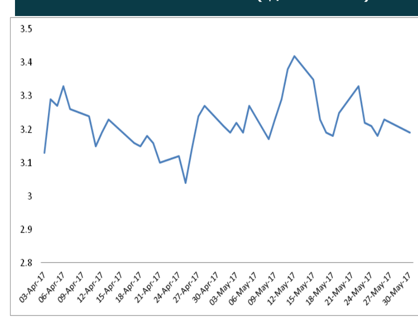


[16]

NATURAL GAS

In May, gas prices reached an average of $3.24/MMBtu, 1.56% higher compared to $3.19/MMbtu in April. The increase in prices can be linked to the rising global demand for liquefied natural gas. Another factor supporting natural gas prices is the recent announcement by the Trump administration on the trade partnership with China. The United States reached an agreement with Chinese officials to allow the export of liquefied natural gas to the 2nd largest economy – China. The deal gives US natural gas exporters easy access to the massive Chinese market.

Chart 8: Natural Gas ($/mmbtu)



[17]

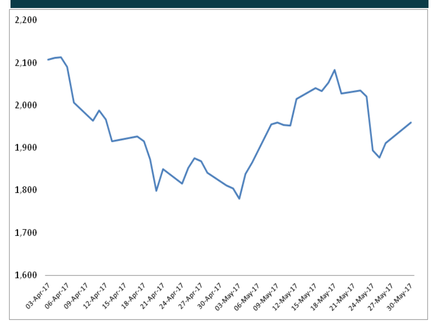
[16] OPEC, FDC Think Tank
[17] Bloomberg, FDC Think Tank

Outlook

In the short-term, we expect the demand for natural gas to be relatively moderate owing to favourable weather in the US. This is expected to exert downward pressure on prices.

COCOA

Chart 9: Cocoa



[18]

In May, cocoa prices remained low, trading at $1,960/mt in May, 6.46 higher from $1,841/mt in April. Social unrest in the world's largest grower – Ivory Coast bumped prices above $2,000/mt for a short period before resuming its downward trend. Cocoa prices are still pressured by burgeoning supplies from major West African and South American countries amid slow global demand. The International cocoa organisation (ICCO) forecasts that Ivory Coast's production in 2016/17 season will range between 1.9 – 2m tons, up compared to estimates of 1.6m tons in the previous season. The world is expected to have its first significant surplus in 6 years as global production is up 15% and demand is up 2.9%.

Outlook

Cocoa prices are expected to remain weak as oversupplies from West African producers persist - A surplus between the range of 350,000 to 400,000 tonnes is expected this season.

IMPORTS

Wheat

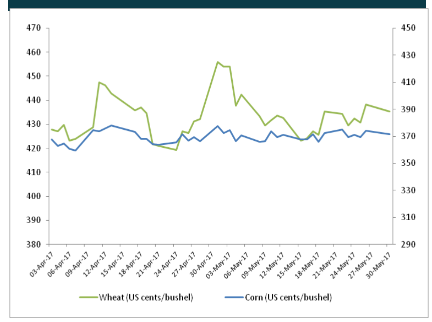
Wheat prices closed higher by 0.69% to $4.35/bushel at the end of May from $4.32/bushel in April. Wheat futures were driven by concerns about snow in Canadian Prairies, which could threaten supply. Prices also came under intense pressure from fears of production losses after recent rains and cold weather across major planting regions threatened to damage crops.

[18] Bloomberg, FDC Think Tank

Corn

Corn prices rose by 1.36% to $3.71/bushel in May from $3.66/ bushel in April. This was driven by unfavourable weather conditions in the US, pushing global supplies down. However, it appears that the corn market is still oversupplied. According to a Reuters poll, Brazilian farmers are expected to produce a record 2016-17 corn crop of 93.2 million tonnes, higher than the 89.6 million tonnes expected in a previous survey. The 2017 USDA forecast reported the corn planted area at 90million acres, down 4 million acres compared to last year.

Chart 10: Grains



[19]

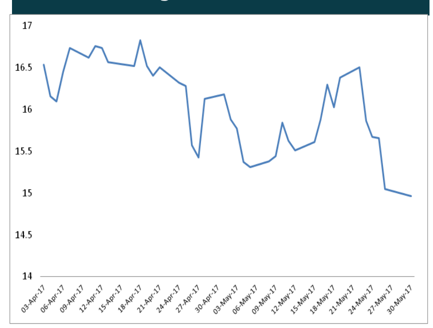
Outlook

Favourable weather conditions are expected to drive this market. This is because good weather conditions support increased crop yield which push down prices given a relatively flat demand. USDA has estimated global wheat stocks at the end of the crop year in 2018 at a record 258.29 million tonnes.

SUGAR

In May, sugar prices fell by 7.25% to $14.96/pound compared to $16.13/pound in April. China, the world's largest sugar importer and consumer, imposed heavy duties on its sugar imports. China added extra 45% tariff on imports above a quota of 1.95mt. Sugar production increased in India following an extension of curbs on holding sugar stocks by six months for traders and dealers. Currently, there is a stock limit of 500 tonnes and turnover limit of 30 days for sugar traders in the country other than those in West Bengal. Favourable weather condition in Brazil also raised expectations of increased global production outstripping global demand.

Chart 11: Sugar


[20]

[19] Bloomberg, FDC Think Tank

[20] Bloomberg, FDC Think Tank

Outlook

A bearish outlook for sugar futures is also anticipated, as the levy on sugar imports could potentially dent exports from top growers like Brazil and Thailand amid concerns on waning global demand. Industry experts' project a reduction in the sugar deficit to 200, 000 tonnes in the 2017/2018 crop year from the 7.85m tonnes recorded this year.

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PROGRAMME VENUE:
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PRIOR REGISTRATION is mandatory to secure a place on the seminar.

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Reservations/Additional Information:
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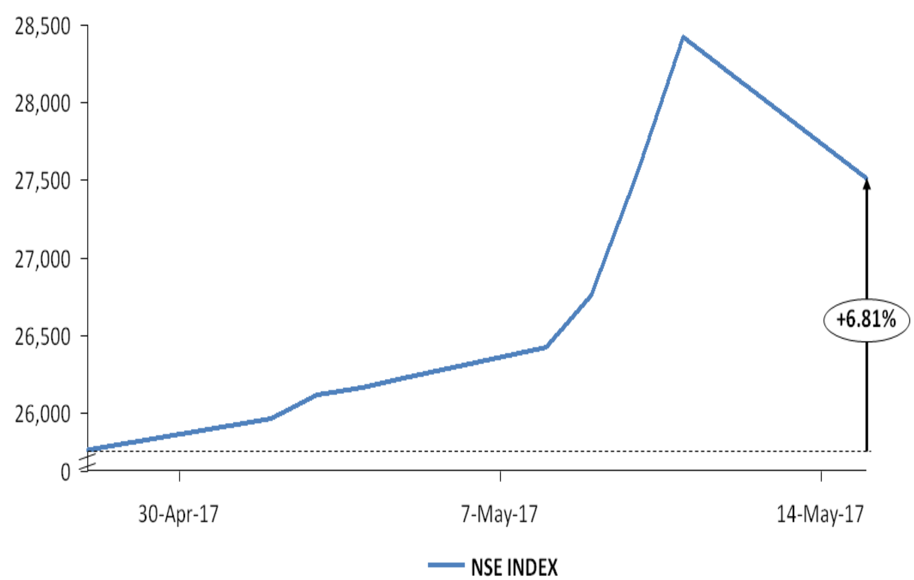
STOCK MARKET UPDATE

The Nigerian equities market gained 6.81%, hitting a seven-month high of 28,423.70 points in the first two weeks of May. The YTD return on the index turned positive, to 2.38%, while market capitalization closed at N9.51trn. Market PE ratio for the week was 14.5x. The liquidity weighted SFNG Blue Chip 30 Index showed that the market gained 10.29% in the week.

Continued investor interest in bellwether stock as well as the perception of an improving economy, saw the Nigerian equities market sustain its upward trend. The NSE ASI moved above the 28,000 points psychological threshold for the first time since October 2016 before retracting to 27,513.69 points as at May 15, 2017. This represents a gain of 6.81%.

The YTD return on the index moved into positive territory, for the first time this year, to 2.38%, while total market capitalization was N9.51trn after it gained N597.9bn in the review week. The market is currently trading at a price to earnings ratio of 14.5x from 13.5x at the end of April 2017. Daily changes, representing volatility on the ASI, ranged between -2.41% and 3.18% during the review period.

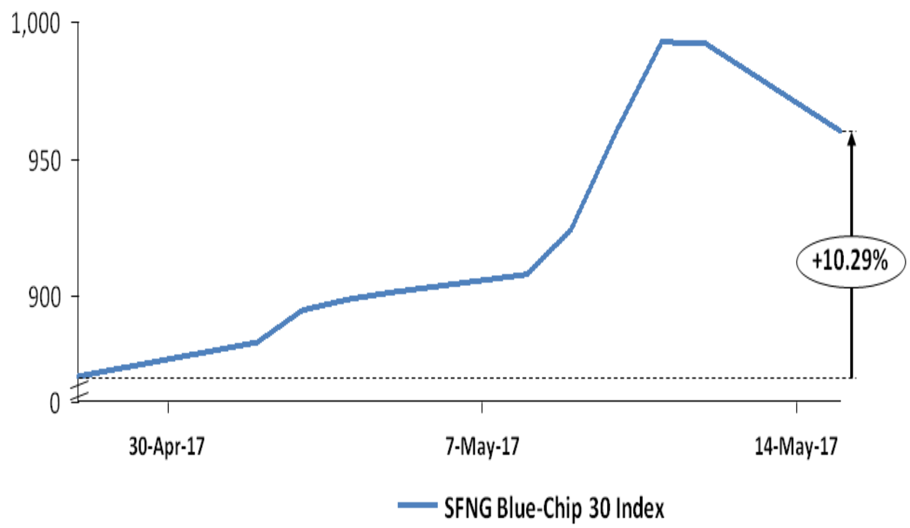


[22]

[21] NSE, FDC Think Tank

The Scott Free Nigeria (SFNG) Blue Chip 30 Index increased by 10.29% in the review period, compared with 10.03% recorded in prior period, to close at 960.01. The SFNG is a market capitalization weighted index adjusted for free-float. It reflects the performance of the largest and most-liquid 30 companies listed on the Nigerian equity market.

Chart 13 : Scott Free Nigeria (SFNG) Blue-Chip 30 (BC30) Index



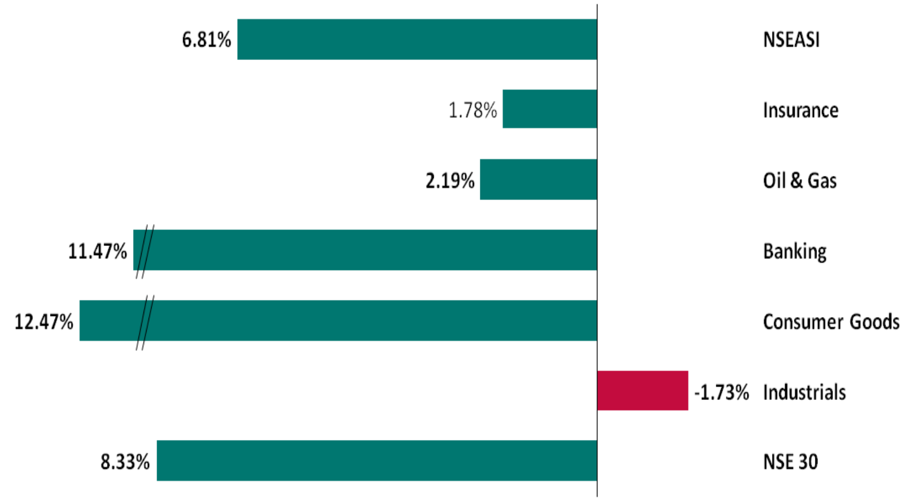
[22]

The performance of the ASI sub-indices mirrored the broader index as all sectors closed in the green, except the industrial goods sector which declined by 1.73% in the review period. The consumer goods sector index posted the largest gain, advancing by 12.47%. The outlook for the sector appears to have slightly perked up due to improved forex liquidity and 'better than expected' Q1'17 earnings reported by key FMCG companies. Gains in the sector can be attributable to the following stocks such as PZ CUSSONS 21.05%, NB 15.17%, GUINNESS 14.98% and CADBURY 14.52% respectively.

The industrial goods sector shed 1.73% to 1,678.14 points. Specifically, Lafarge Africa lost 6.72%. The sector performance was driven by Lafarge's decision to raise N140bn ($445.9 million) in fresh equity and convert some loans into shares as part of a planned rights issue. This may have triggered a selloff in the company's stock in anticipation of a dilution if shareholders approval is obtained next month.

[22] Scott Free Index & FDC Think Tank

Chart 14 : Sectors in April 2017



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The best performing stocks were FIDSON 58.18%, MAY & BAKER 43.53%, OANDO 9.13%, ETI 25.81% and TRANSCORP 23.86%.

TOP 5 GAINERS (N)

Company	May 15'17	Apr 28'17	% Change	Absolute Change
FIDSON HEALTHCARE PLC	1.74	1.1	58.18%	0.64
MAY & BAKER NIGERIA PLC.	1.22	0.85	43.53%	0.37
OANDO PLC	7.79	5.78	34.78%	2.01
ECOBANK TRANSNATIONAL INCORPORATED	9.7	7.71	25.81%	1.99
TRANSNATIONAL CORPORATION OF NIGERIA PLC	1.09	0.88	23.86%	0.21

Top price losers were JAIZ (-17.39%), CHAMPION BREWERY (-11.06%), NEIMETH (-8.93%), SEPLAT (-7.32%) and LAFARGE AFRICA (-6.72%).

TOP 5 LOSERS (N)

Company	May 15'17	Apr 28'17	% Change	Absolute Change
JAIZ BANK PLC	0.95	1.15	-17.39%	-0.20
CHAMPION BREW. PLC.	2.09	2.35	-11.06%	-0.26
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	0.51	0.56	-8.93%	-0.05
SEPLAT PLC	380.00	410.00	-7.32%	-30.00
LAFARGE AFRICA PLC.	47.50	50.92	-6.72%	-3.42

[23] NSE, FDC Think Tank

OUTLOOK

We posit that the recent positive developments in the Nigerian FX market, the expectation of an economic rebound following improved oil revenues, successful external borrowings and a possible implementation of the government's roadmap to economic recovery, have contributed to the extended rally on the Nigerian bourse.

We expect this rally to persist till month-end, without excluding the possibility of profit taking.

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