

Is this Recovery for Real ??



By Bismarck Rewane
Financial Derivatives Company Ltd.

July 5th, 2017

OUTLINE

- ◇ June Wrap Up - *Hope Rising*
 - ◇ The World Around Us - *Turbulent & Unpredictable*
 - ◇ Market Proxies - *Going with the Flow*
 - ◇ Impact On Sectors - *Activities Positive*
 - ◇ Political Risks - *Gathering Clouds*
 - ◇ Risk Footprints - *Slippery Slope*
 - ◇ July Outlook - *The Heavy Lifting Begins*
-



June Wrap Up

Hope Rising

HIGHLIGHTS – JUNE WRAP UP

- Oil prices retreat to \$44.81pb and creep back up to \$48.20pb
- Production boosts in Libya & Nigeria undercut prices
- Price leadership role of OPEC threatened
- Change of guard in Swing Producer- Saudi Arabia- also a factor
- 31-year old Crown prince takes on powerful role
- Output above 1.8mbpd will make Nigeria loose exempt status

HIGHLIGHTS – JUNE WRAP UP

- Forcados pipeline commissioned, increasing output average production up: 250,000mbpd to 1.8mbpd
- PMI data reveals expansion in manufacturing & inventory levels to 55.9
- Aggregate revenue shared by the government (FAAC) declined by 15.56% to N418bn
- Money supply (M2) in May when annualized contracted by 25.44%
- The average opening position of the interbank market was N33.55bn long

HIGHLIGHTS – JUNE WRAP UP

- Money market interest rates maintained the pendulum movement
- Highest rates were 127% and a low of 4% p.a.
- Total amount traded in the forex market increased by 26.7%
 - IFEX – \$1.81bn
 - BDC – \$479mn
 - SME – \$202mn
 - Forwards & spots – \$1.52bn
 - Invisibles – \$170mn

HIGHLIGHTS – JUNE WRAP UP

- Forward contracts were for 60-75 day tenors
- External reserves declined through June to \$30.21bn
- Increased to \$30.29bn at month end
- Average on-grid power supply was 2.92% lower than May at 3,462MW
- Ironically, hydro power did not benefit from rainfall & Niger river water level
- Price of diesel crashed to N150 before climbing back to N165
- Budget 2017 signed into law

HIGHLIGHTS – JUNE WRAP UP

- N350bn disbursed within 3 days for Capex
- The challenge of spending N7.5trn in 6 months instead of 12 is daunting
- Country's fiscal absorptive capacity could be stretched
- Foreign Portfolio Investment (FPI) into the Nigerian stock market jumped 324% to N95.19bn
- Lifting the stock market into record territory
- Stock market gained 12.27% in June
- YTD, market appreciated by 23.2%

HIGHLIGHTS – JUNE WRAP UP

- After wiping out the previous losses of Q1'17 (-5.05%)
 - Stock prices moved sharply higher with no earnings announcements
 - MSCI increased Nigerian weight in the index to 7.9% from 6.5%
 - Delayed the effective date of rebalancing till November 2017
- The average surge of the stocks included in the index is 13.73%
- Moody's Investment Service has assigned a first time Ba3 corporate family rating (CFR)
- International load factors of airlines out of Lagos was 95%

Retail store traffic in Lagos increased to a 12-month high

A pair of hands is shown from the front, gently cupping a small, realistic globe of the Earth. The globe is centered in the frame, showing the Americas and parts of Europe and Africa. The hands are light-skinned and appear to be belonging to a woman, as a ring is visible on the left hand. The background is a soft, out-of-focus light color.

The World Around Us

Turbulent & Unpredictable

TURBULENT & UNPREDICTABLE

- The U.S economy is expected to grow by 3.0% in Q2
- Index of US manufacturing rose to 57.8 in June
 - Highest level since August 2014
 - New orders index rose to 63.5 in June and the production index jumped to 62.4
- The U.S is Nigeria's 2nd largest trading partner
- A surge in growth in the market will boost demand for Nigerian oil

US – ECONOMIC SOUNDNESS

1.8%*

Inflation

Down from 1.9% the previous month

53

US Market PMI

up from 52.1 due to slow down in output and new orders

2.1%

GDP Growth

Forecast down from 2.3% in April according to IMF

4.3%

Unemployment

Down from 4.4% the previous month

1.25%pa

Interest Rate

Raised from 1%pa on the backdrop of impressive job numbers

95.1

Consumer Confidence

Down from 97

US – FINANCIAL SOUNDNESS

- FED under pressure to ease up on further hikes
 - On shrinking inflation numbers and dovish market sentiment
- Further hikes could go on as usual
- As FED has based its past hikes on labour market fundamentals
- Further hikes and stronger dollar makes naira-based assets less attractive



US BANK STRESS TEST

First time in 7 years

All 34 of the US's biggest banks given permission to buy back stocks or pay dividend to shareholders.

Winners : Citigroup and Wells Fargo



Capital capacity in stress

Tests measure the ability of these banks to retain a certain level of capacity in times economic pressure

Economic stress

Characterized by the test as 10% unemployment, sharp decline in housing prices and severe recession in the euro zone

Capital One

Only bank asked by FED to address financial weakness of business plan

Trump

The good news is putting more heat on the Trump's administration to revise Dodd-Frank era rules and regulations

EU – GOOGLE FINE



EU slaps Google with
record fine of \$2.7bn

Calls to questions how far
regulatory bodies should
dictate business strategy

Accused of using search
dominance over its rivals,
limiting consumer choice

NESTLE



Nestle launches \$21bn share buy back scheme



To sell its interests in **L'ORÉAL®** -makers of Maybelline



Will now shift focus to:

Water



Coffee



Pet Foods



Infant Foods



UK – DEAD WOMAN WALKING

- **BoE** prepares for unsavory aftermath
- Raised the countercyclical capital buffers for banks
- From 0.5% to 1% this year
- To protect banks against the rapid rise in consumer lending
- Voted to keep interest rates at 0.25%pa because of weak economy



- Tensions still persist as negotiations for a soft Brexit continue

- Many warn that negotiations could spiral out of control.
- Talks likely to become toxic for the EU and UK economies

UK growth
forecast
1.5%

EU growth
forecast
1.75%

THE GAMBLE THAT WENT WRONG



Theresa May Gambles

- May ratings down
- Currently seeking support from the DUP of Northern Ireland
- Focus of policy will be to restore confidence in Tory government
- Not necessarily include friendly policies to markets such as Nigeria



Macron – The Emperor of Versailles

- Recent speech has criticized him of running a presidential monarchy
- French president has made two visits to Mali
 - Shows president's interest in the West African nation
- Likely signal stronger support from France for French speaking African countries

MOHAMMED BIN SALMAN (PROFILE)

■ 31-year old instated crown prince of Saudi Arabia, expected move by father king Abdul-Aziz

■ Served as defense minister in 2015

■ Average age of previous crown prince is 80

■ Upside risk: youth and drive is likely to help champion cause to rebalance oil market



■ Millennial prince is a champion for social and economic modernization in Saudi Arabia

■ Policies include:

- Call for listing Saudi Aramco
- Building of a large sovereign wealth fund

■ Downside risk: temperament could turn left

- We could see increased oil production
- Reinforced by his role in Saudi's decision to cut ties with Qatar
- Could intensify conflict with Iran and Shiites

THE MOST EXPENSIVE CITIES IN THE WORLD

Rank as of March		CITY	COUNTRY
2016	2017		
2	1	Luanda	Angola
1	2	Hong Kong	Hong Kong
5	3	Tokyo	Japan
3	4	Zurich	Switzerland
4	5	Singapore	Singapore
15	6	Seoul	South Korea
8	7	Geneva	Switzerland
7	8	Shanghai	China
11	9	New York City	United States
13	10	Bern	Switzerland
13	28	Lagos	Nigeria

Source: Mercer Global Mobility Solutions

MOST EXPENSIVE CITIES IN THE WORLD



- Luanda earns the top spot on the index
- The most expensive city for expatriates across Africa and globally
- Despite a currency that lost 18.9% against the US dollar in 2016
- Luanda is followed in Africa by Victoria (14), Ndjamená (16), and Kinshasa (18).
- Tunis falls six spots to rank 209 the least expensive in the region

SA- POLITICAL TENSIONS PERSIST

- South African Reserve Bank goes to court
- To stop change of mandate from price stability to socio-economic transformation
- Country still wallows in political and economic strife
- Has been downgraded by 3 major ratings agencies to Junk Status
- State flag carrier SAA in 9 billion rand (\$683mn) debt due in June
- Zuma to step down as ANC leader in December electoral summit
- Likely successor is his ex-wife Diamini Zuma



PATH TOWARDS AN IMF PROGRAM

SCF

Standard Credit Facility applies to financial assistance to low income countries with short-term balance of payment needs

ECF

Extended Credit Facility applies to financial assistance to low income countries with protracted balance of payments problems

RCF

Rapid Credit Facility provides rapid concessional financial assistance with limited conditionality to low income countries facing an urgent balance of payments need.

PATH TOWARDS AN IMF PROGRAM



Ghana
ECF program.
\$918m three-year
credit due April
2018



Chad
ECF program.
\$312m approved in
June



Gambia
RCF program. \$16.1m
recently approved on weak
balance of payments



Gabon
ECF program. \$642m three-
year credit approved in June
2017

Cameroon
ECF program. \$666m three-
year credit approved in June
2017



Sierra Leone
ECF program. \$224.2m
three-year credit approved in
June 2017

PATH TOWARDS AN IMF PROGRAM

- Ghana, Chad, Cameroon and Gabon are oil producing countries
- Other African oil producers not yet on credit program are
 - Angola: 1.593mbpd
 - Equatorial Guinea: 0.201mbpd
 - Nigeria: 1.68mbpd

Africa... United by One Bank



We know our way around finance in Africa







United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels. With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.



Export Commodities

Forex Accretive

COMMODITY OUTLOOK & NIGERIA

Export Commodities	(May – June 2017)		Import Commodities	(May – June 2017)	
Oil (\$/b)	47.92	-4.75% 	Wheat (\$/bushel)	5.26	22.54% 
Liquefied Natural Gas (\$/mmbtu)	3.03	-1.30% 	Sugar (\$/pounds)	13.81	-7.13% 
Cocoa (\$/mt)	1,959	-5.27% 	Rice (\$/cwt)	11.93	7.19% 

OIL PRICES – OUTPUT UP & PRICES DIP

- Prices dipped 4.75% despite OPEC's efforts to keep prices elevated
- Libya and Nigeria have been exempted from the output curb
- Libya's production increased by 5.65% to 935,000 bpd within a month
- Improving production levels in Nigeria seen as a double-edged sword
 - Nigeria's production currently estimated at 2mbpd
 - Shell has lifted force majeure on Bonny terminal
 - Output is expected to increase by 226,000 barrels per day

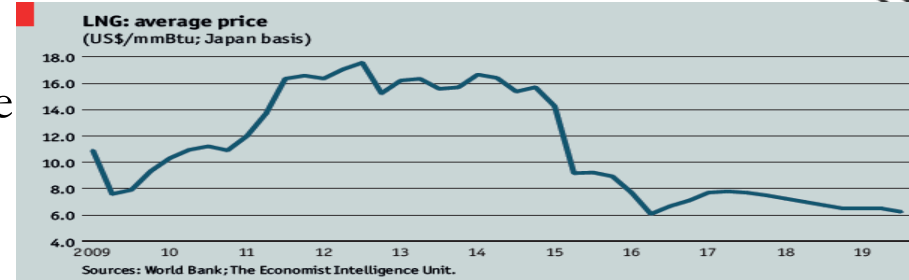
Nigeria loses exemption status if production exceeds 1.8mbpd

WORLD OUTLOOK – OIL DEMAND / SUPPLY

- Oil consumption to expand by 1.4% y-o-y in 2017
- Driven by increased demand in emerging markets
- Other emerging markets will pick up some of the Chinese slack
- Production will increase by 0.8% in 2017
- OPEC's high level of compliance expected through 2017
- Russia is already opposing further output cuts
- US production is rebounding quickly in 2017

COMMODITY OUTLOOK - LNG

- Prices down as demand declines during the summer season
- The end of the price subsidy will depress growth in India's LNG imports
- The shipping industry could be a new source of LNG demand



Liquefied natural gas (LNG): production^a

(m tonnes unless otherwise indicated)

	2014	2015	2016	2017	2018
World total	239.2	245.2	263.6	283.1	304.3
<u>% change</u>	1.0	2.5	7.5	7.4	7.5

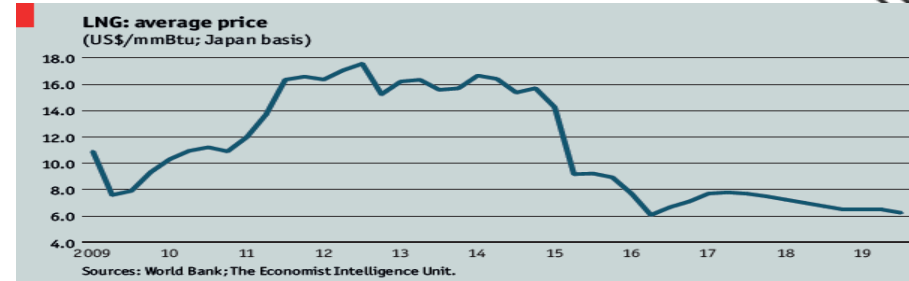
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COMMODITY OUTLOOK - LNG

- After delays, Australia's LNG projects will be brought online in 2017-18
- Nigeria supplies 7% of the world's total production



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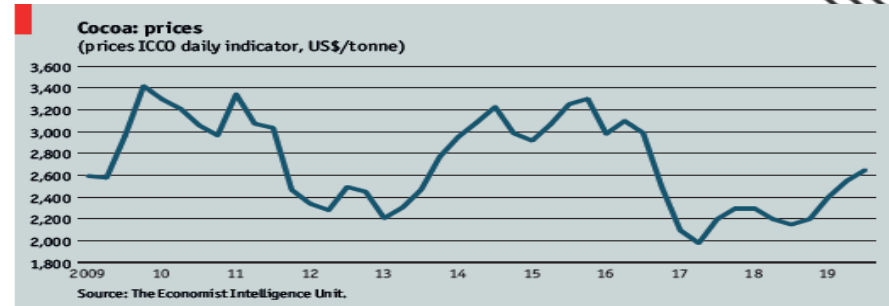
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COMMODITY OUTLOOK - COCOA

- Average cocoa price remains low at \$1,959/mt
- Nigeria currently the 6th largest producer and accounts for 5% of total global production



Cocoa: supply and demand^a

('000 tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production ^b	4,328	4,206	3,925	4,161	4,212
Consumption	4,029	3,999	4,032	4,052	4,085
Balance	299	207	-107	109	128

Cocoa: prices

	2015	2016	2017	2018	2019
Prices ^a					
Year	3,135	2,891	2,144	2,213	-
% change	2.4	-7.8	-25.8	3.2	-

COMMODITY OUTLOOK - COCOA

- Total production expected to grow by 6% this year compared to marginal consumption growth of 0.5%
- Deepening economic recession in Brazil (4th largest consumer and Russia (5th largest consumer) will hit consumption



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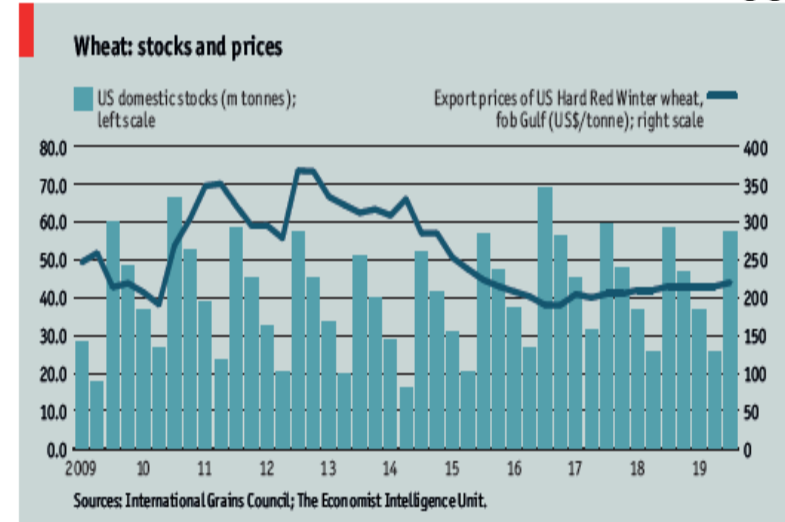


Import Commodities

Inflation Sensitive

COMMODITY OUTLOOK - WHEAT

- Wheat consumption in 2016/17 is forecast to grow by 2.4% to 736m tons
- Food use of wheat continues to expand at a steady pace with increases averaging 1.3% a year



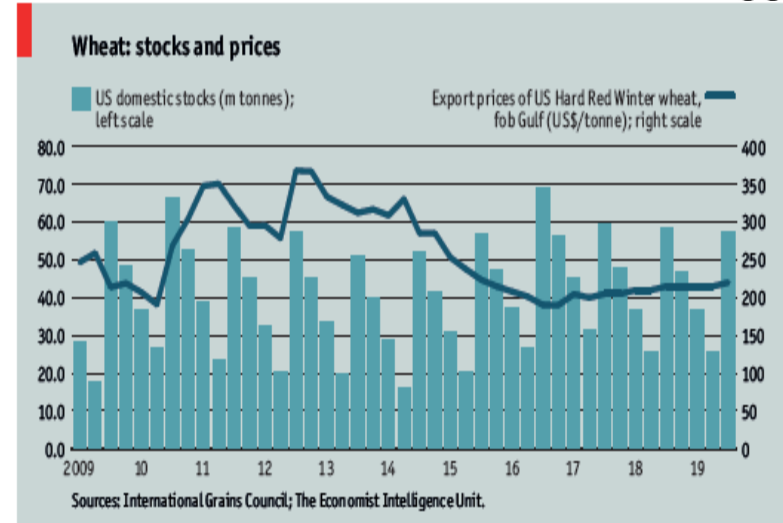
Wheat: supply and demand

(m tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production ^a	712.3	727.8	733.6	754.9	736.2
Consumption	693.9	709.8	718.8	735.9	735.0
Balance	18	18	15	19	1
Trade ^b	156.1	153.5	166.0	172.3	169.0
% change	10.3	-1.7	8.1	3.8	-1.9

COMMODITY OUTLOOK - WHEAT

- Russia will retain its position as the world's top exporter
- US wheat production is likely to fall sharply due to adverse conditions



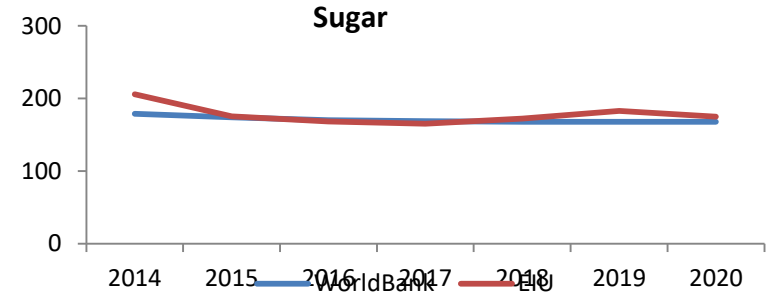
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% change	10.3	-1.7	8.1	3.8	-1.9

COMMODITY OUTLOOK - SUGAR

- China – world's largest consumer - imposes levy on sugar imports
- Possibly denting exports from major producers: Thailand & Brazil
- Sugar prices continue to feel the impact of gasoline



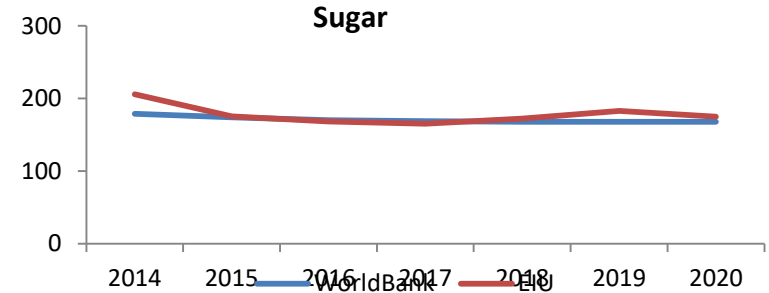
Sugar: supply and demand^a

(m tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production	174.4	169.6	168.2	168.5	177.2
Consumption	166.7	168.0	171.1	173.2	176.0
Balance	7.7	1.6	-2.9	-4.7	1.2

COMMODITY OUTLOOK - SUGAR

- Price cut in Brazil expected to increase
- Favorable weather in Brazil raised expectation of increased global output
- Early monsoon rains raised hopes for improved crop outlook in India



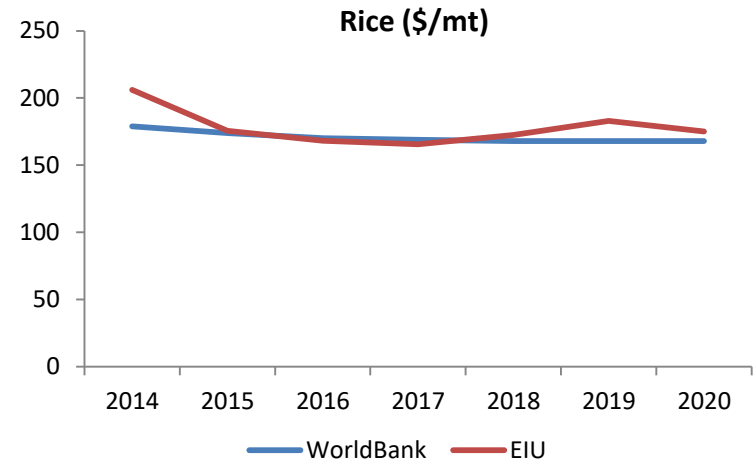
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Consumption	166.7	168.0	171.1	173.2	176.0
Balance	7.7	1.6	-2.9	-4.7	1.2

COMMODITY OUTLOOK – RICE

- Rice demand will reach a record of 486mt in 2017 at \$402/mt
- Supported by rising demand in world's largest consumer markets – China and India
- Population growth in Africa will drive demand in the region



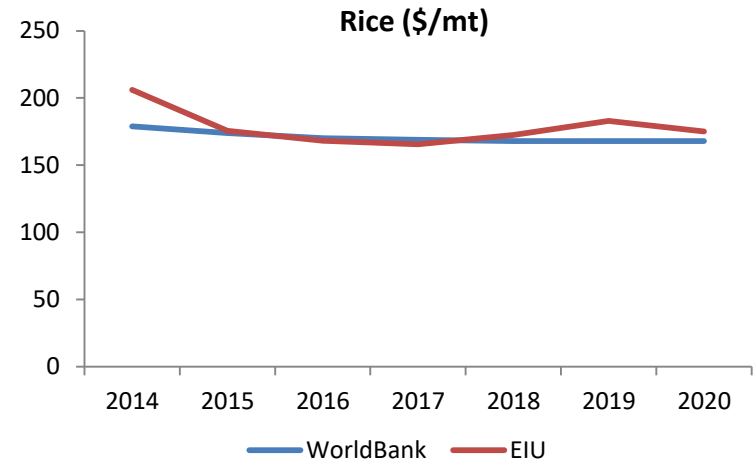
Rice: supply, demand and trade

(m tonnes unless otherwise indicated; milled rice)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production ^a	477	479	474	484	494
Consumption	474	479	478	486	494
Balance	3.3	-0.3	-3.2	-1.9	0.8

COMMODITY OUTLOOK – RICE

- Rice production will rise to 484m tons, up 2% from previous season
- Africa and Asia account for 90% of rice imports
- Nigeria is reporting self sufficiency
- Still importing from Thailand



Rice: supply, demand and trade

(m tonnes unless otherwise indicated; milled rice)

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Domestic Economic Performance

Q2 GDP Likely to be Positive

LEADING ECONOMIC INDICATORS- OUTPUT

LEI	May'17	Jun'17	% Change	Jul' 2017
GDP Growth (%)	-0.5(Q1'17)	0.2-0.5(Q2'17)*	0.6	0.1(Q2'2017)
Oil Price (\$pb; avg)	51.34	47.55	-7.38	45
Oil Production (mbpd)	1.506(Apr)	1.680 (May)	11.55	1.7
Natural Gas (\$/MMBtu)	3.23	3.03	-6.19	3.22
Power (MW; avg)	3587	3462	-3.48	3600
PMI	FBN: 54 CBN: 52.5	FBN: 55.9 CBN: 52.9	FBN: 3.52 CBN: 0.76	FBN:58 CBN: 54
Inflation (%)	16.25	16*	25bps	15.7
Consumer Confidence	-29.8 (Q4'16)	-27.5 (Q1' 17)*	-12.75	-26 (Q2'17)*
Business Confidence	-29.Q4'16)	-25 (Q1'17)*	-13.80	-25 (Q2'17)*

Source: CBN,NBS, EIU, FDC Think Tank, FBN Capital

LEADING ECONOMIC INDICATORS- MARKETS

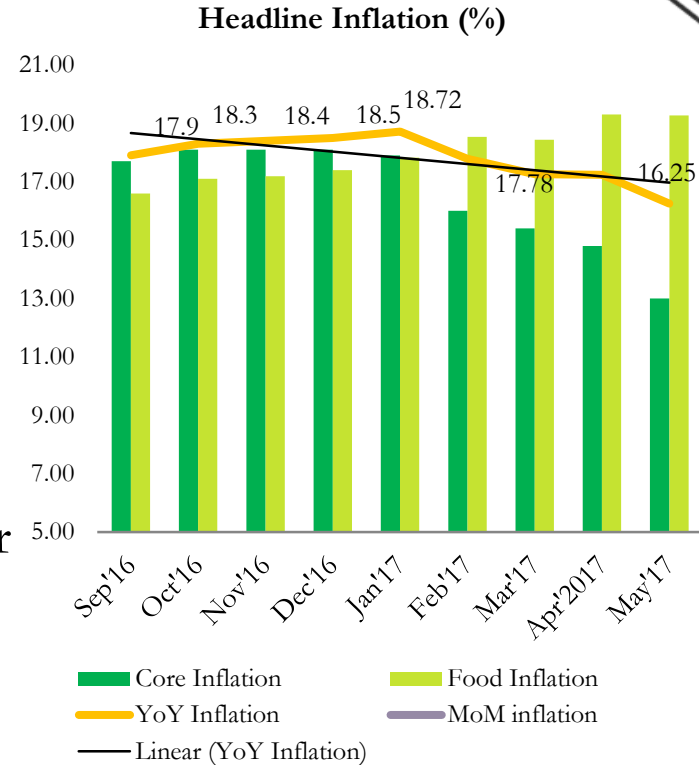
LEI	May'17	Jun'17	% Change	Jul'17
T Bills (91 days) – Primary	13.9	14.00	10bps	14.2
T Bills (91 days) - Secondary	18	18.21	21bps	22.4
Average NIBOR (%)	30.19	22.91	-728bps	20
Average Lending Rate	24.5	24.5	-	25
Average Opening Position(N'bn)	44.37	33.55	-24.39	25.5
External Reserves (\$bn)	30.33	30.27	-0.2	30.2
Exchange rate (N/\$; month-end)	IFEM: 306.5 Parallel: 380 IEFX: 380.5	IFEM: 306.4 Parallel: 368 IEFX: 366.41	IFEM: 0.03 Parallel: 3.26 IEFX: 3.85	IFEM: 306 Parallel: 362 IEFX: 360
Stock Market (N'trn)	10.2	11.45	12.25	12.85
Vacancy Factor Index	73.4 (Q1'17)	69.3 (Q2'17)	-4.1	65.2 (Q3'17)

LEADING ECONOMIC INDICATORS

- Q2'17 growth figures expected to climb 0.5% into positive territory
- The GDP by expenditure approach reveals that net exports now higher than govt. spending
- Household consumption remains the largest single component of GDP at 61%
- Oil prices trending lower while production increases sharply
 - Oil production: 1.68mbpd; Oil price: \$44pb
- Exchange rate mostly stable- buoyed by CBN intervention
- Y-o-Y inflation slowing while M-o-M inflation continues to move in the opposite direction

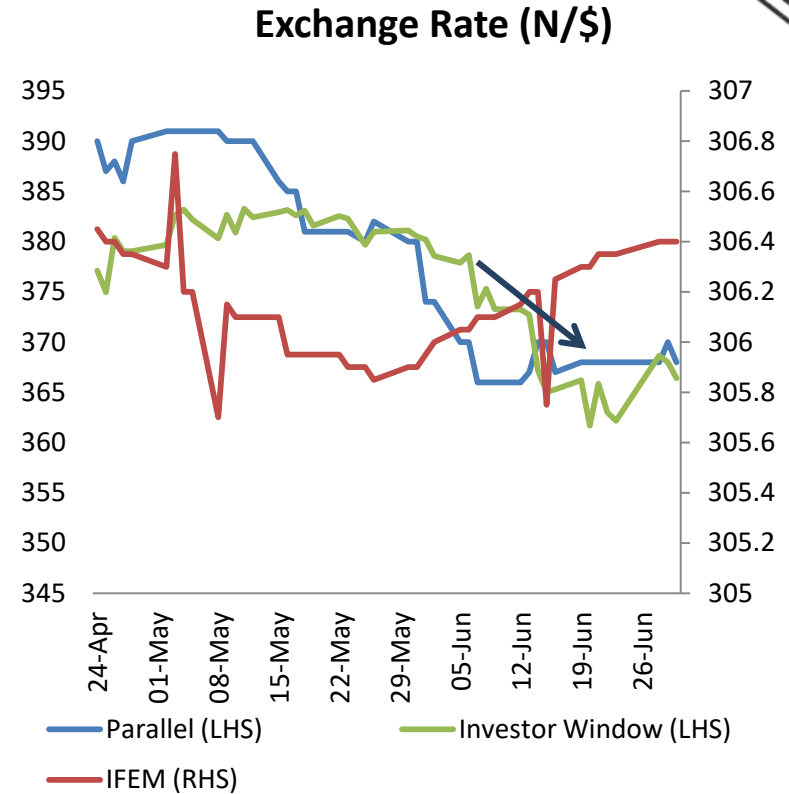
INFLATION YET TO BOTTOM OUT

- Y-o-Y inflation decelerated for the 4th consecutive month to 16.25% in May
- Core inflation numbers plunged to 13%, the 7th consecutive month of decline
- Food inflation decline marginally to 19.27% from 19.30%
- M-o-M inflation however increased by 28bps to 1.88%
- CBN governor expects inflation to slow to 11% by year end
- Contractionary monetary policies are being adopted to combat inflationary pressures such as mopping up excess liquidity through OMO auctions



EXCHANGE RATE CONVERGENCE HALF-WORKING

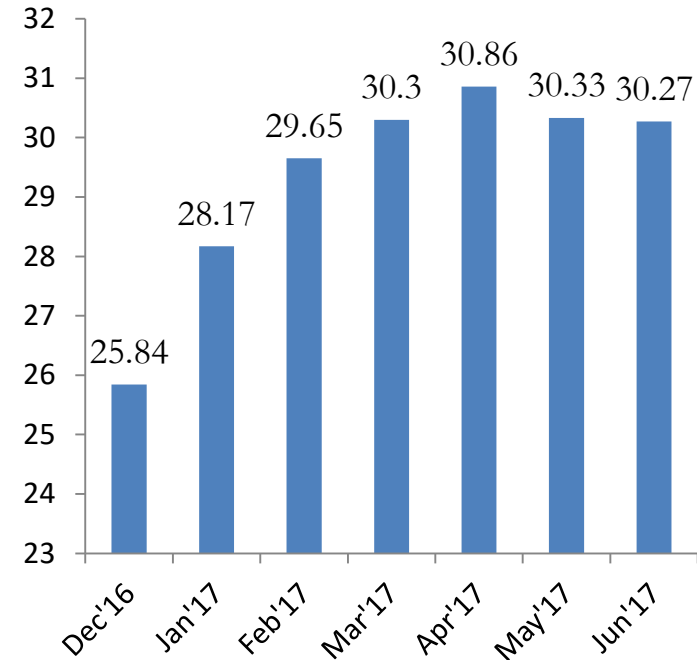
- Parallel market rate appreciated to N368/\$ from N380/\$ in May
- Investor window (now at N366.41/\$) traded weaker than the parallel market rate till mid-June
- Volume traded by the CBN in June was \$1.02bn relative to \$1.14bn in May
- Volume traded at NAFEX in June was \$1.11bn relative to \$1.93bn in May
- Complex currency regime remains daunting for international investors



RESERVES DOWN ON FORWARD SETTLEMENTS

- External reserves declined to \$30.27bn in June
 - Declined by 2.45% midway through the month as forward contracts matured
 - Before recovering marginally to \$30.27bn by month end
 - Import cover estimated at 6.76 months
- Stable production levels expected to offset negative impact of lower oil prices

External Reserves (\$'bn)

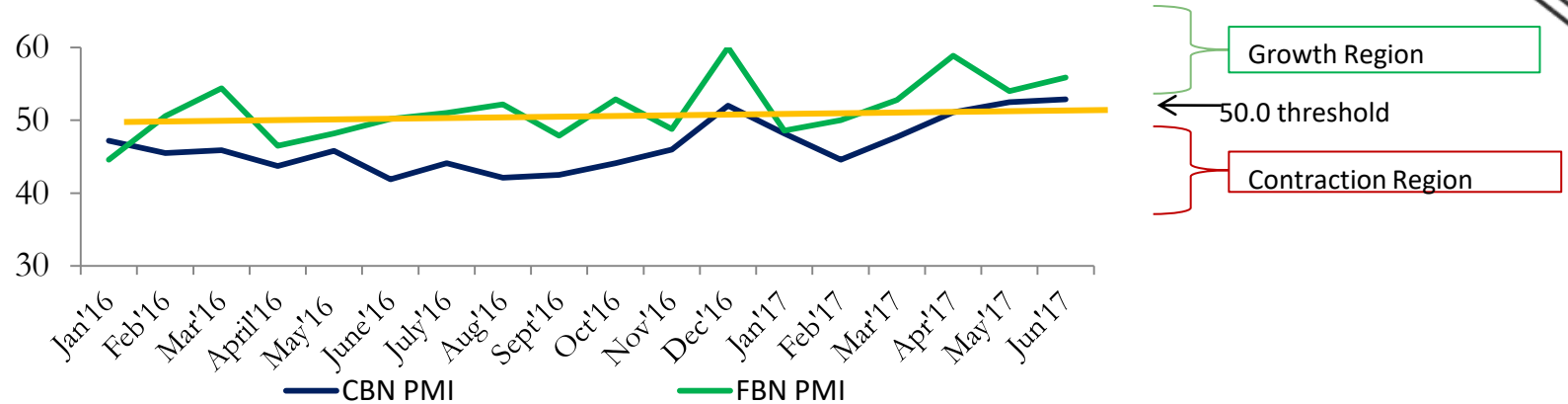




Market Proxies

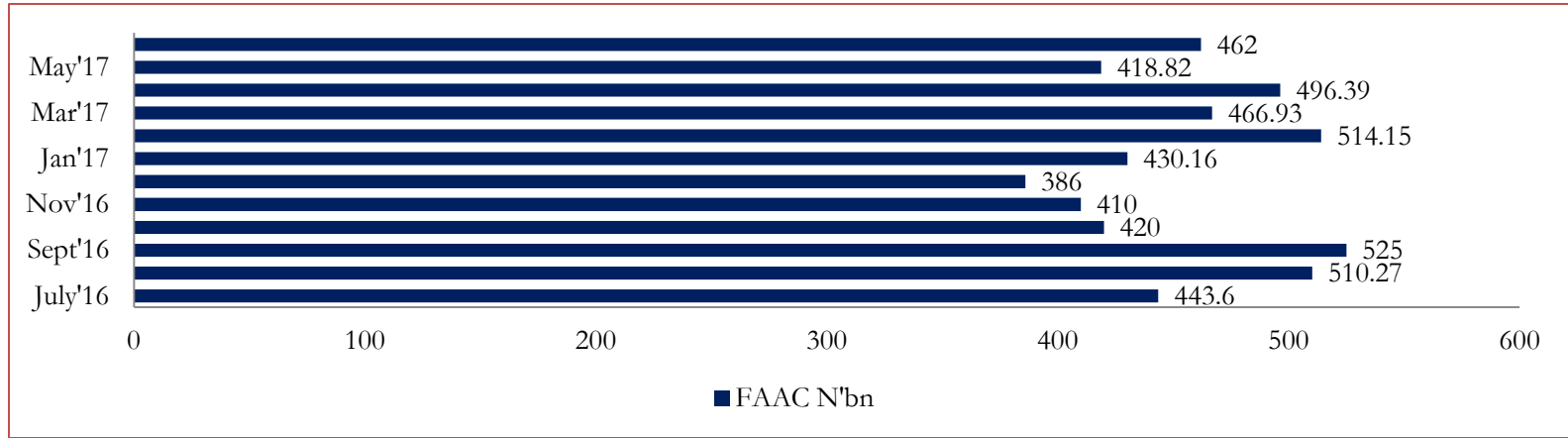
Going with the Flow

MANUFACTURING ON THE RECOVERY PATH



- FBN PMI moved from 54 to 55.9 in June
- CBN PMI also maintained the upward trajectory, recording an expansion of 52.9 in June
- Apapa gridlock expected to weigh on supplier delivery sub index
- Incessant naira shortages to offset forex liquidity

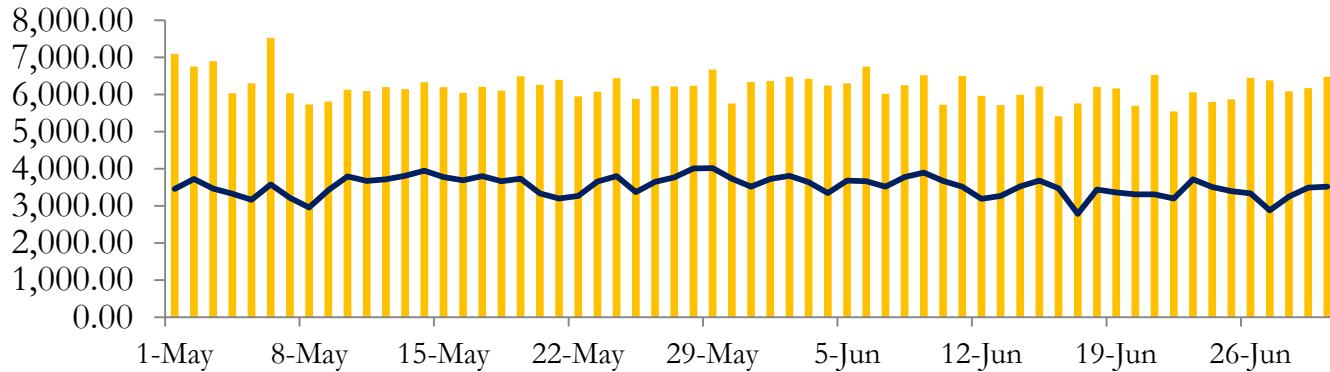
FAAC



- The sum of **N462bn** was disbursed in Jun'17
- VAT revenue: N76.79bn
- Exchange rate gain : N64.81bn
- FAAC to remain within: N450- N490bn

POWER UPDATE

- Power output reached a peak of 3,899MW/h and a low of 2,786 in June
- Average sent out: 3,462 MW/h. Total power generated: 6,135 MW/h
- Gas constraints responsible for up to 70% of total loss



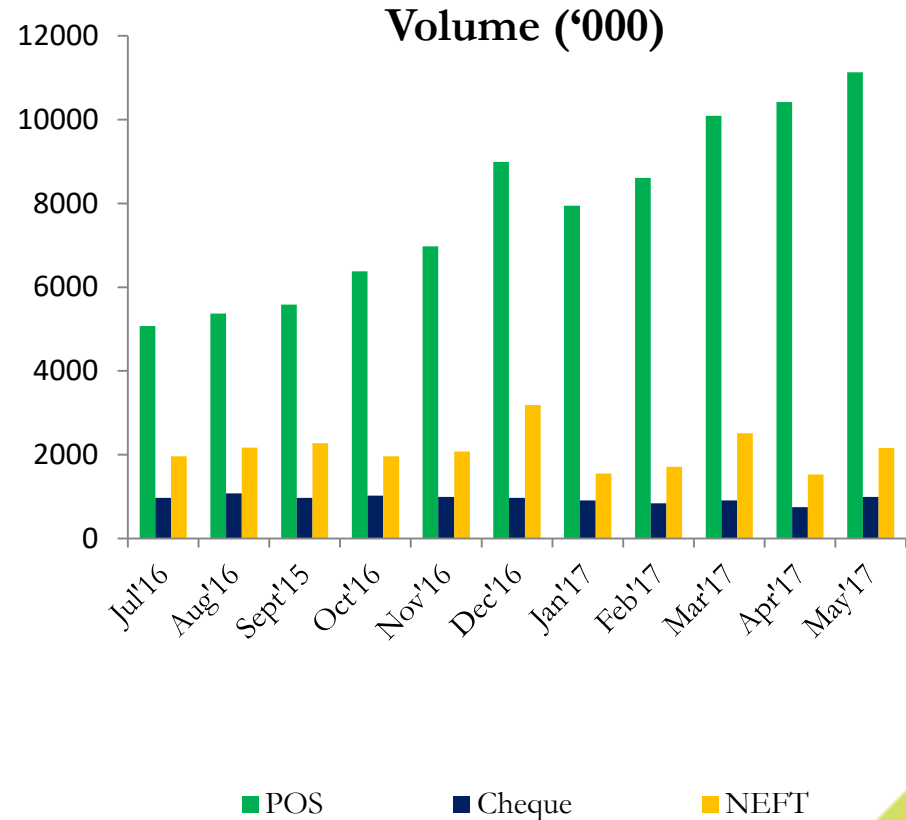
The area above the line graph represents power lost due to constraints. Daily power constraints averaged at 2,673 MW

■ Total power generated (MW/h)

— Average Power Sent Out (MWh/hour)

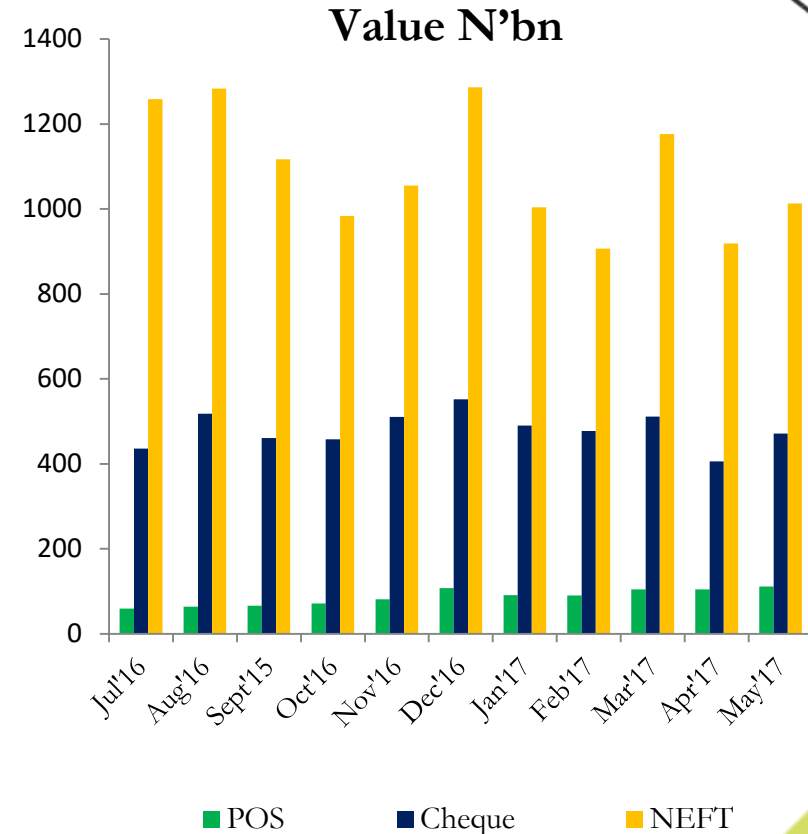
PAYMENTS AND SETTLEMENTS

- Volume of transactions in May'17 relative to Apr'17 in all categories
 - POS up 6.84% to 11.13m
 - Cheques up 32.75% to 992, 118
 - NEFT down 41.58% to 2.16m



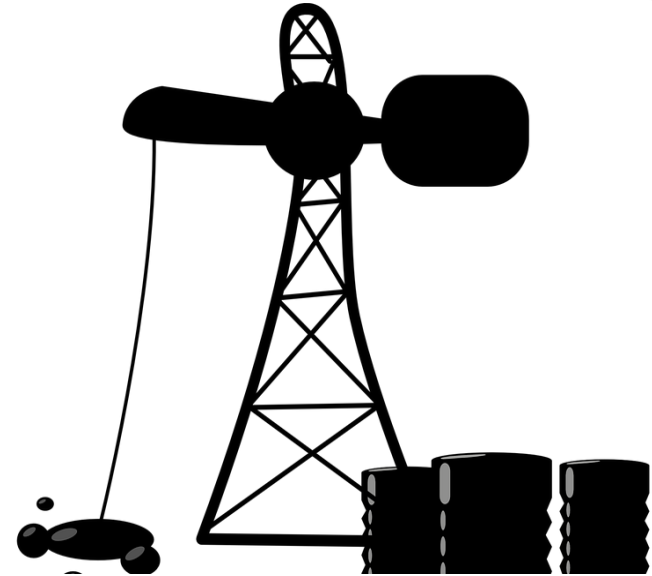
PAYMENTS AND SETTLEMENTS

- Value of transactions in May'17 relative to Apr'17 in all categories
 - POS ↑ 6.49% to N111.6bn
 - Cheques ↑ 15.95% to N471.1bn
 - NEFT ↑ 10.23% to N1.012trn



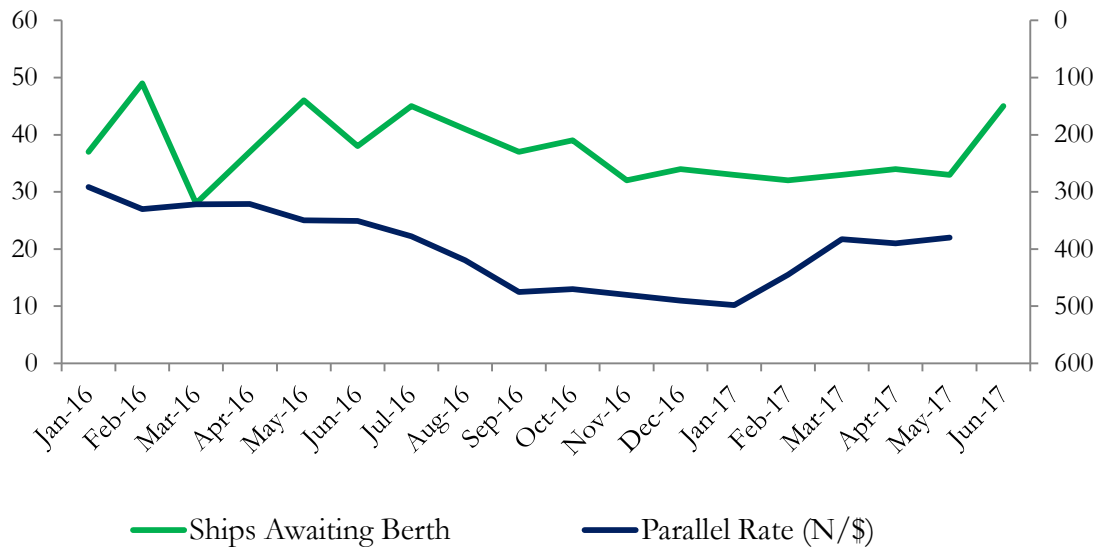
OIL RIGS

Nigerian Rig Count



- The number of operational rigs declined by 20% to 8 in May
- Daily rig count now N55,000-N60,000 per day

SHIPS AWAITING BERTH



- Ships awaiting berth increased from 33 in May to 45 in June
- Driven by forex availability and delays in offloading ships due to decrepit



Every meal starts with us



• Salt (Refined and Iodized) • Seasoning (Cubes and Tablets) • Tomato Paste • Vegetable Oil

www.nasconplc.com



Available nationwide.

Policy Response

VP- Head of EMT (Economic Management Team)

Ag President- Head of Government

ASSUMPTION OF POLITICAL SCENARIO

- Extended absence of President
- More delegation of powers and authority to Acting President
- Increased consultation with president and core northern establishment
- Mutual trust and respect

THE KEY POLICY CHALLENGES

- Investment friendly and competitiveness
- Fiscal responsibility and debt burden
- The growth challenge :
 - Real GDP growth > Population growth
 - > Absorb unemployed
- Debt service as a percentage of revenue is sustainable
- Ensure that increased aggregate consumption grows to justify new investment

THE KEY POLICY CHALLENGES

- Achieve moderate inflation rate
- Positive real interest rate
- Flexible exchange rate policy that ensures rate is within the Real Effective Exchange Rate (REER) path
- Market determined exchange rate with constant rather than delayed adjustments

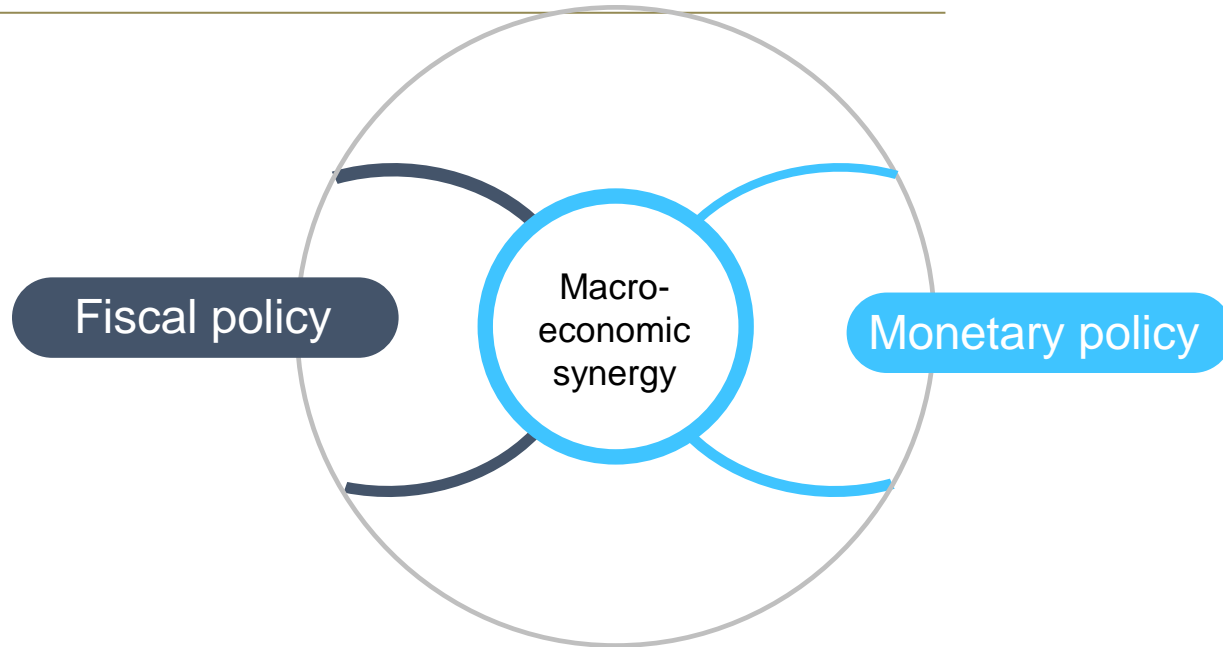
BASE CASE SCENARIO

- GDP growth will fall below ERGP target to an average of 2% (2017/18)
- New investment and gross capital formation will stay below 20% (\$53bn)
- Gross financing needs to be much higher at 6.4% of GDP – IMF
- Unfavorable interest rate environment means debt service burden will be unbearable
- Financing requirements – fiscal deficit as a percentage of GDP could reach 4.5%
- Exchange rate adjustment using the IFEX window as a proxy- N370/\$- N400/\$
- PPP analysis shows an effective rate of N320.2

BELOW \$40PB SCENARIO

- In a scenario of oil prices below \$40pb and political scenario of compromise
 - Deficit will balloon past 5% of GDP
 - Inflation will rise again towards 18%
 - Exchange rate adjustment
 - Minimum wage adjustment leading to an increase in recurrent expenditure above 75%

POLICY RESPONSE – ALIGNMENT OF GOALS



- Alignment of goals imperative
- Fiscal and monetary coordination more likely



Fiscal Consolidation with Weaker Revenues

FISCAL POSITION

- Budget 2017 aggressively implemented
- Step up in execution with supplementary budget – increase of 25% to N9trn
- Additional international borrowing
 - Concessionary – \$2bn
 - Market – \$1.8bn (Eurobond (\$1.5bn), Diaspora (\$300m))
 - ECA - \$6bn
- International debt of \$3bn used to substitute domestic debt
- Retiring at least N1.5trn of domestic debt
- Reducing debt service ratio marginally to 65-70% of independent revenues

FISCAL POSITION

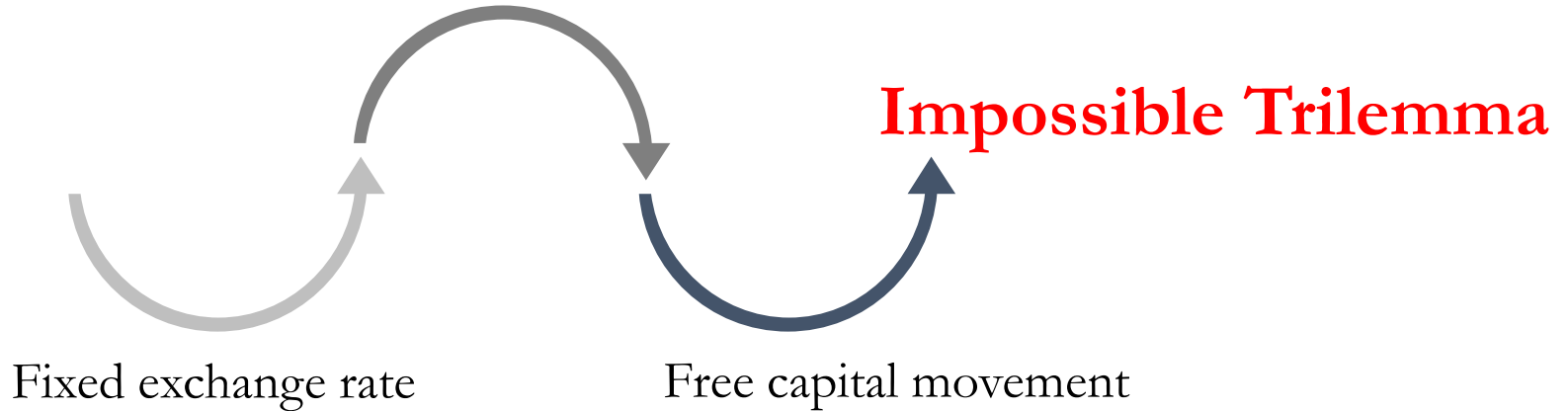
- Petroleum subsidy needs to be sustained above \$2bn
- Based on petroleum exchange rate of N315 and price of \$50pb
- VAIDS program expected to improve tax-to-GDP ratio
- Reduce tariffs and increase competitiveness
- Comply with WTO and CET
- Ensure oil production stays above 2mbpd
- Improve fiscal and export revenues to \$41bn



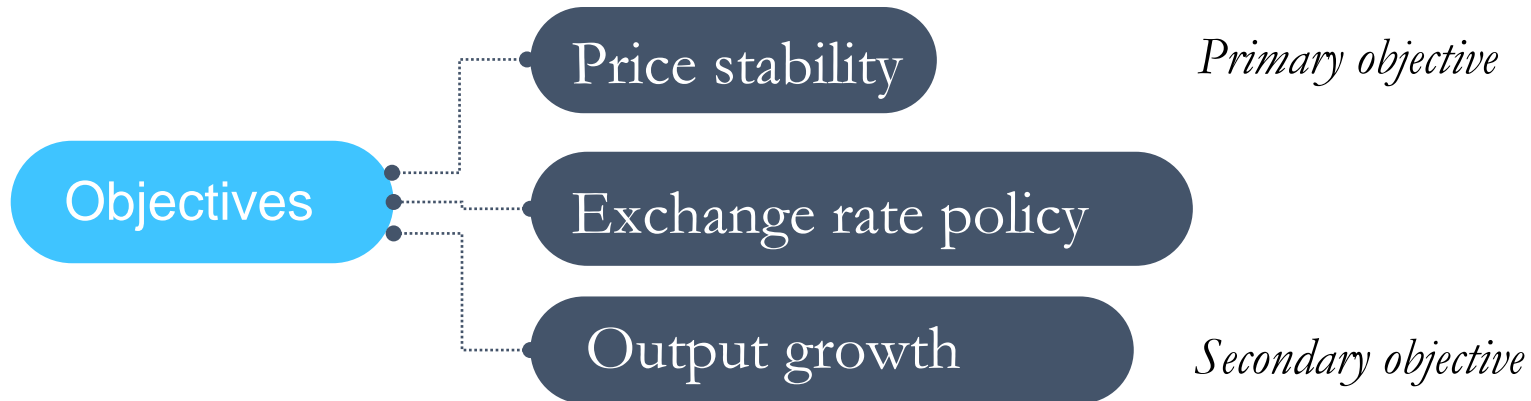
Monetary Policy

MONETARY POLICY IMPERATIVES

Independent monetary policy



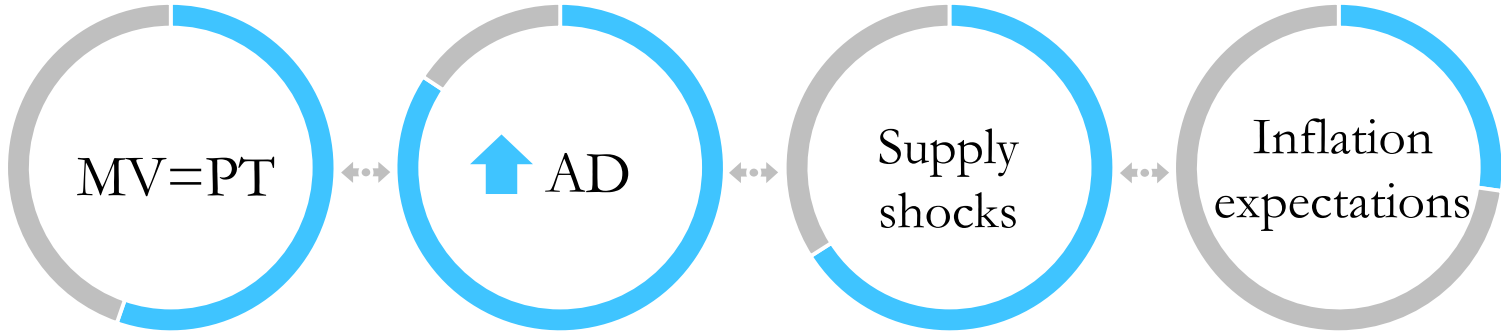
MONETARY POLICY IMPERATIVES



UNIVERSAL PRINCIPLES VS. NIGERIAN ORTHODOXY

Inflation is defined as a sustained increase in the general level of prices

Causative factors



Monetarist

Increase in price level is as a result of increase in money supply (**money supply saturation - M2 at 24trn**)

Demand-Pull

Increase in aggregate demand due to increase in private and public investment (agg consumption is \$290bn)

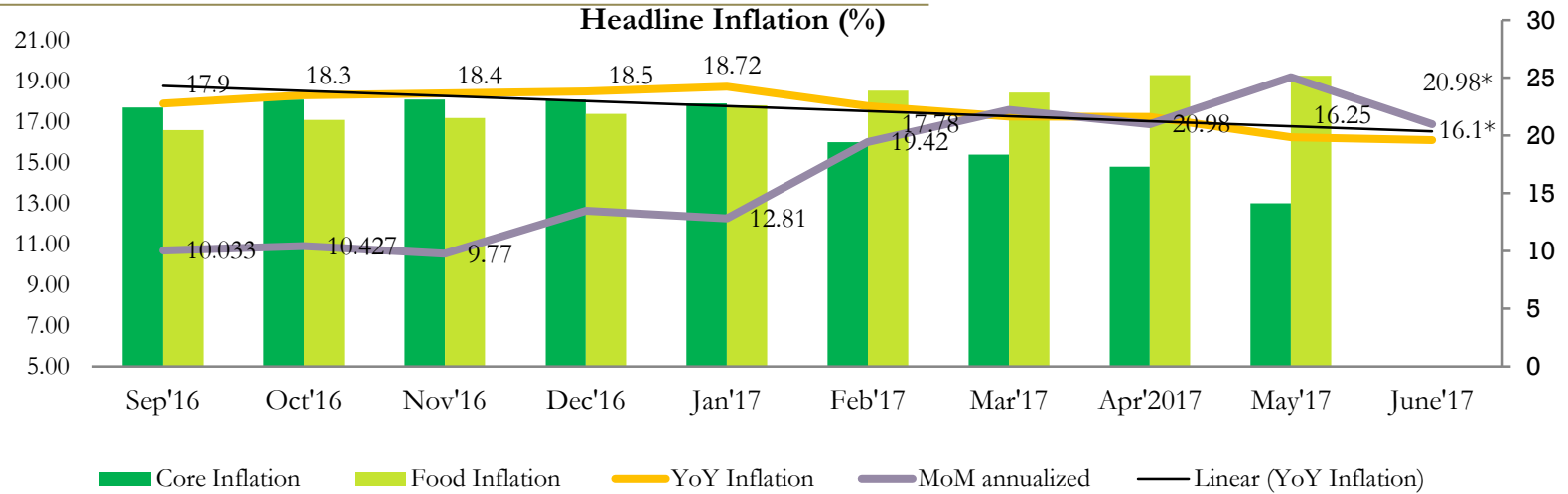
Cost-Push

Pass on supply constraints to consumers via prices (distribution costs now 11%).
Imported inflation
(Pass-through effect)

Rational Expectations

Grounded in monetarism. Inflation expectations drive price level.
In Nigeria; use of historical inflation

CHARACTERISTICS OF INFLATION IN NIGERIA



- Y-o-Y inflation decelerated for the 4th consecutive month to 16.25% in May
- Core inflation plunged to 13%, the 7th consecutive month of decline
- Food inflation declined marginally to 19.27% from 19.30%
- M-o-M inflation however increased by 28bps to 1.88% (20.98% annualized)

INFLATION VS. EXCHANGE RATE

If both are equal, inflation would be much higher

Domestic output is filling up the external gap

Consumers are switching to domestic substitutes

Imports are more exchange rate sensitive than envisaged

When the CBN accepts and the EMT insist that inflation is not driven by demand pull pressures, emphasis on interest rate tightening will give way to output stimulus

Pass-through effect is 35%

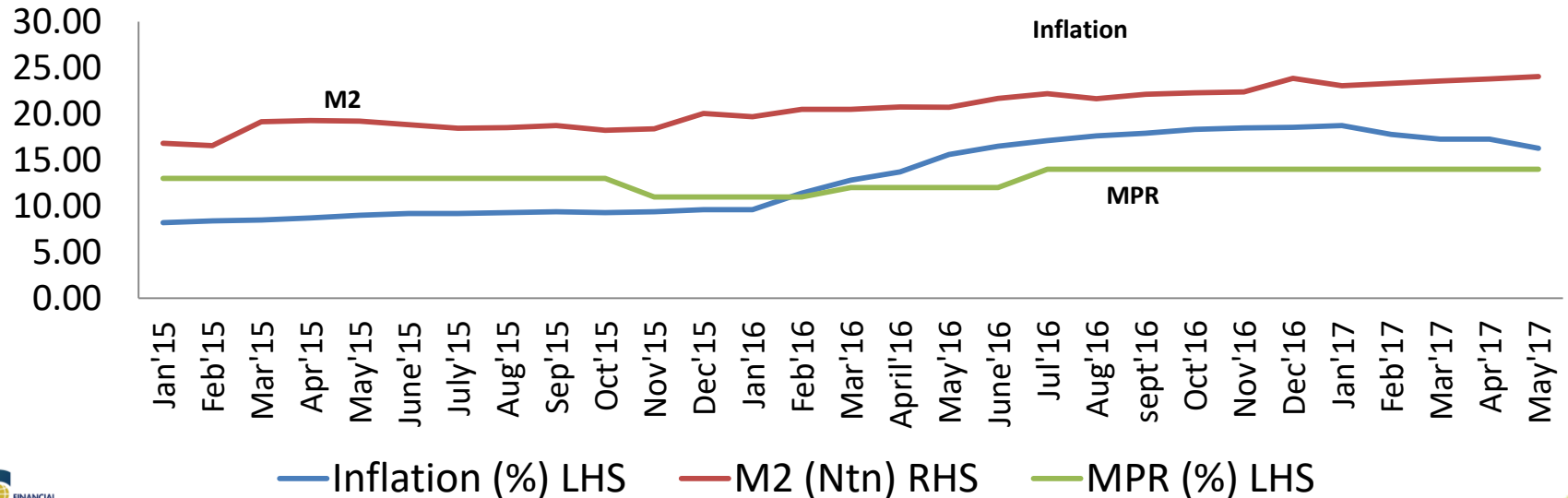
Marginal propensity to import 63%

INFLATION YET TO BOTTOM OUT

- New target of 11%
- Reality check is 15%
- Contractionary monetary policies, such as mopping up excess liquidity through OMO auctions, are being adopted to combat inflationary pressures

INFLATION VS. MONEY SUPPLY

- Inflation in Nigeria is not demand pull driven
- Growth in most monetary aggregates was largely below their benchmark targets
- Spike in inflation driven by supply shocks, structural factors



WHAT WILL THE MPC DO?

70%

Hold on rates

Rationale: allow existing policies to take effect
Impact: market remains relatively unperturbed

5%

Tighten

Rationale: not optimal
Impact: likely to put pressure on recovery prospects

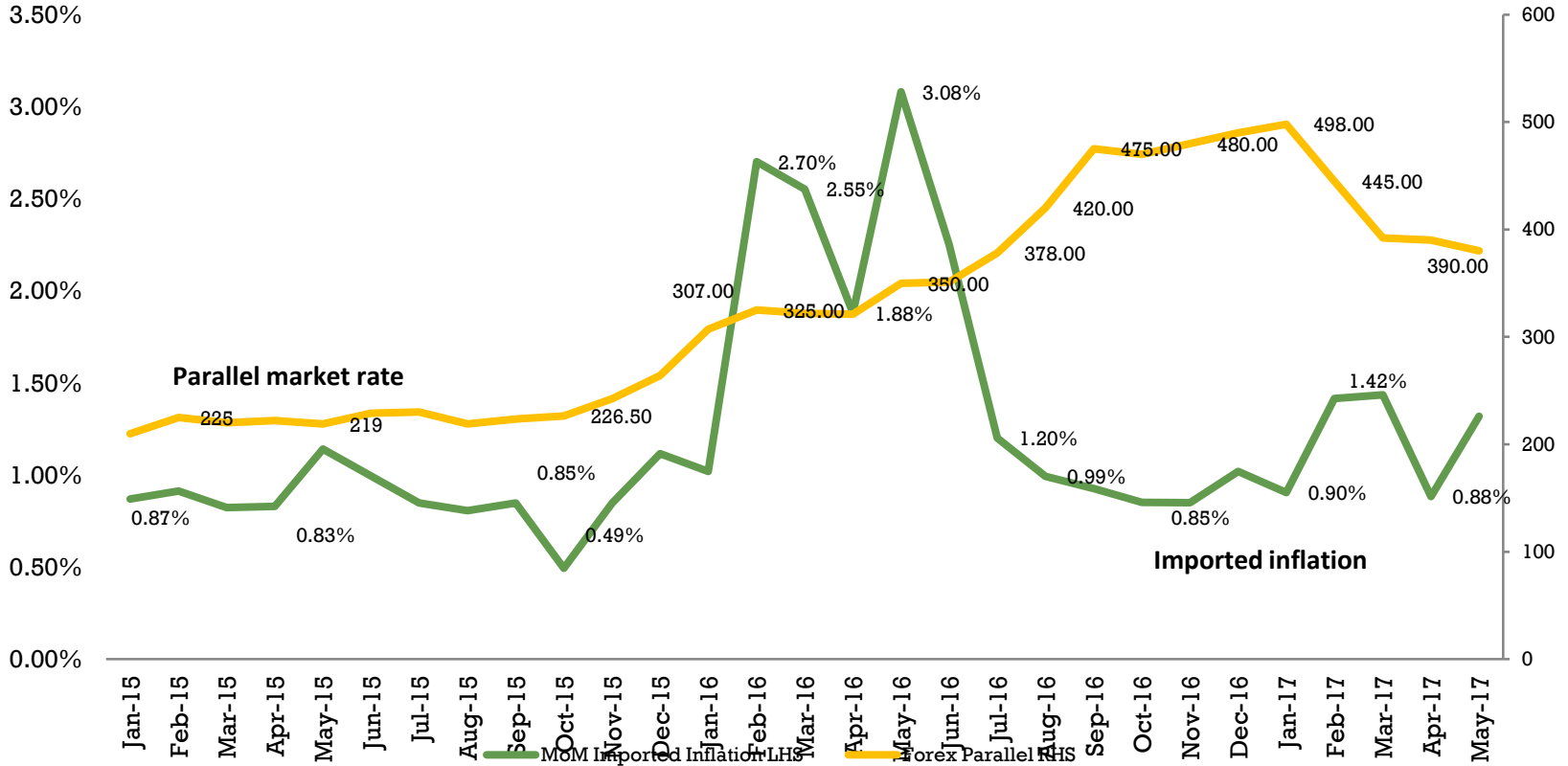
25%

Loosen

Rationale: not optimal
Impact: likely to stoke inflationary pressure and reverse some exchange rate gains

INFLATION VS EXCHANGE RATE

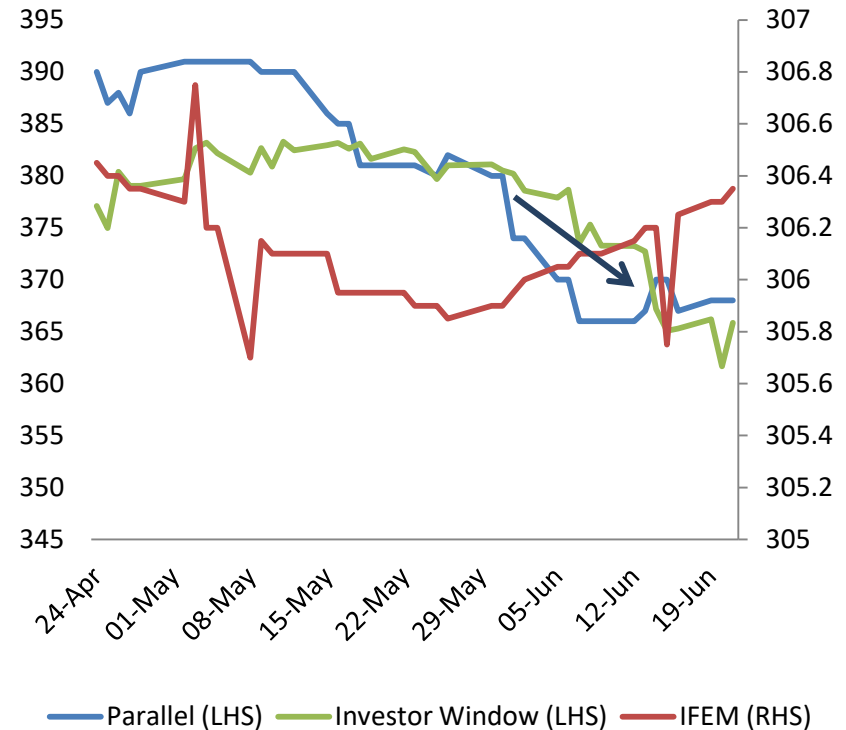
2017 benchmark for inflation: 11%



EXCHANGE RATE CONVERGENCE HALF-WORKING

- Parallel market rate appreciated to N368/\$ from N380/\$ in May
- Investor window (now at N365.86/\$) traded weaker than the parallel market rate till mid-June
- Volume traded in by the CBN in June was \$1.02bn relative to \$1.14bn in May
- Volume traded at NAFEX in June was \$1.11bn relative to \$1.93bn in May
- Complex currency regime remains daunting for international investors
- Market structure & policy shift responsible for REER path

Exchange Rate (N/\$)



EXCHANGE RATE

- In the end....
- Market structure has to transition
- Into an imperfect market competition structure
- From price discriminating monopoly
- Ensuring increased supply
- Conditioned on oil prices

PPP EXCHANGE RATE

Purchasing Power Parity			
	Jul-17		
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Coke (50cl)	150	2.65	56.60
Heineken	500	2.82	177.30
Hamburger (Johnny Rockets)	2,900	4.59	631.81
Uncle Ben's rice (S. Pkt)	1,600	3.65	438.36
Toyota Corolla	19,000,000	21,980	864.42
Bottled Water (1.5ltr)	150	1.31	114.50
Big Loaf Bread	350	2.39	146.44
Irish Spring Soap (1 cake)	250	0.86	290.70
Chicken Drumsticks (1 kilo)	1,350	4.15	325.30
Eggs (One dozen)	700	4.47	156.60
Average PPP			320.20
Naira Price at IFEM			305.90
PPP (%)			
Decision: Naira is		Over valued	4.68%
Spot Rate (Parallel)			367

Outcome: Compared to IFEM rate of N305.9/\$1, the Naira is overvalued by 5.82%

NIGERIA PORTS AUTHORITY

- Executive order implementation has commenced
- Reduction in agencies to operate at ports to 8
- Prioritizing the export of agricultural produce and mineral resources
- Joint patrol team for effective patrol on hourly basis
- Establishment of a security operations room to monitor activities
- Issuing of port passes and access cards among other



LAGOS-KANO RAILWAY

- Both Lagos-Kano railway and Lagos-Port Harcourt standard gauge will be operating by year end- *Minister of Transportation*
- 20 locomotive trains for cargo services are being procured (Lagos-Kano)
- Land, materials and warehouse ready
- Waiting on the completion of the roads and activities in the Kaduna Inland dry port to kick off
- Need to fix the roads and create more exits to avoid congestion



Real Estate Market

A hand holding a tablet displaying a 3D wireframe house on a green lawn, set against a blue sky with clouds. The house is a two-story structure with a gabled roof, multiple windows, and a chimney. The tablet is held in a hand, and the background is a bright blue sky with soft white clouds.

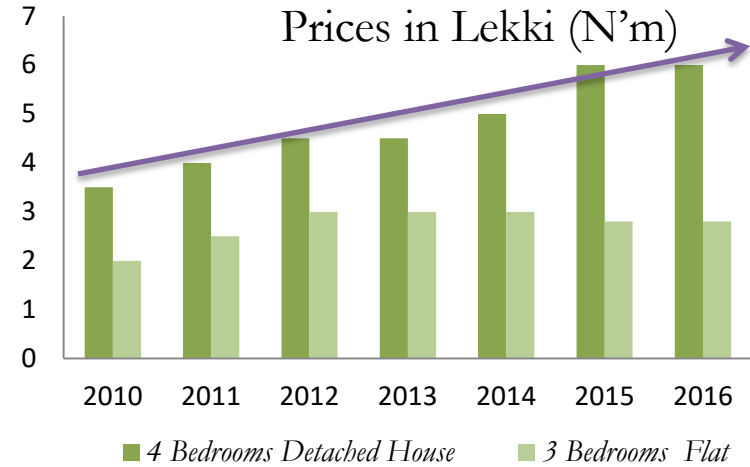
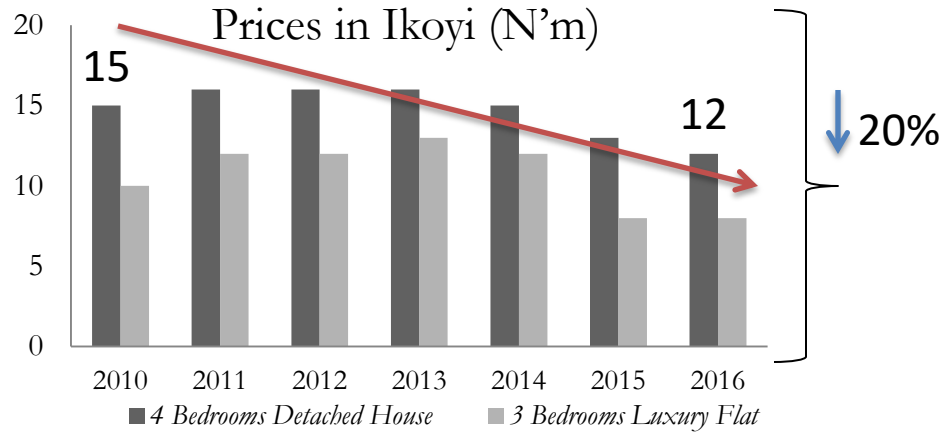
RECENT DEVELOPMENTS

- Lagos vacancy factor index declines to 69.3% in Q2'17
- 4% improvement in the index as demand for properties picks up gradually
- Market adjusts slowly as economy enters a recovery trajectory
- High cost of borrowing limits inflow of external funds in the real estate market
- More abandoned properties particularly in Ikoyi- evidence of recession
- Supply of affordable commercial space arrangements increasing

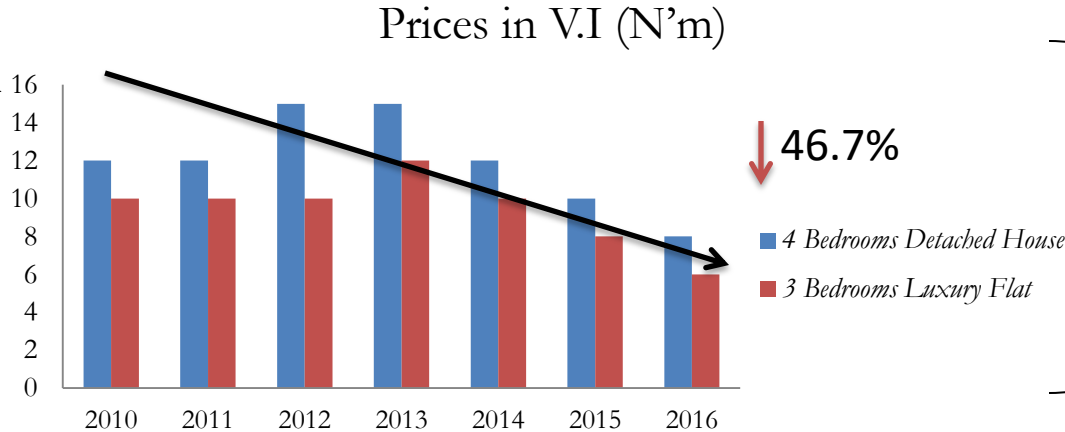
RECENT DEVELOPMENTS

- Decreasing vacancy rates on Admiralty Way in Lekki
- Residential properties now converted to mixed use (commercial)
- Slowdown in the sector has spurred innovative solutions
- As developers offer refurbished shipping containers mainly for commercial use
- Expected to be 25% cheaper than current rental prices
- Rental prices on Lagos mainland have increased due to location switching
 - A 3-4 bedroom flat in Adeniran Ogunsanya has gone up 71.4% from N700,000 in 2010 to N1.2m in 2016

REAL ESTATE SHOWING EVIDENCE OF ECONOMIC RECOVERY



Rental prices have declined in both Ikoyi and V.I while prices have gone up significantly in Lekki



Lekki rental prices had gone up by about **71%** due to increased demand for housing with the Lekki-Ikoyi link bridge as a major catalyst

RECENT DEVELOPMENTS

- Early signs of recovery in Q4 2017
- Dollar rents now reflecting new exchange rate
- Residential properties are being downsized from 250sqm to 150sqm
- Smaller families and shrinking homes



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 as 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.



Aviation Update

AVIATION POLICY- IMPROVING NIGERIAN AIRPORT PROCESS

Executive order
implemented on June 13th
2017

Eradication of physical checks by security agents. Customs and immigration operations left unchanged.



Harmonization of
multiple security checks

Only specified security agents
authorized to interact with
passengers

AVIATION POLICY- IMPACT

Average time between
entering airport and
checking in reduced by
70%- 25 minutes



From checking-in to
departure gate now 20
minutes

From airport entrance to departure
gate, total of 45-60 minutes

DOMESTIC AVIATION UPDATE

- Airlines continue to fight a losing battle for survival
- Met with the vice president to talk about removal of 5% tax imposed
- Aviation fuel remains expensive ~ 40% of total cost
- Domestic fares are up as few airlines dominate the market with each facing high cost
- One-way ticket from Lagos to Abuja is up by 43% to ~ N23,000
- AMCON slowly brings Arik Air back to life
- Med-View still struggling after the E.U ban on safety concerns

DOMESTIC AVIATION UPDATE

- African World Airlines becomes the first Ghanaian airline to fly into Abuja
- Qatar Airways has not stopped flights in and out of Nigeria despite Middle East alienation
- All flights to Dubai on Qatar airways have been discontinued
- Qatar has made a bid to buy 10% of American Airlines (\$808m)
- In addition to its current 20% ownership of British Airways (IAG)
- Consolidating its position in the One-World Alliance

DOMESTIC AVIATION UPDATE

- Virgin Atlantic complains about some existing backlog
- Laptop ban may be introduced into Nigeria unless TSA's requirements for new bomb detection equipment are met
- SAA still dominates the Lagos-Johannesburg route
- SAA are deploying more resources into Abidjan & Accra
- Emirates Airlines wants to re-enter Abuja
- Load factor currently at 80%, expected to increase to between 85-92%

REGIONAL AVIATION UPDATE

- Ethiopian Airlines places order for 10 Airbus planes
- Following steps to increase revenue to \$10bn by 2025 and expand fleet to 140 aircraft from 90 currently
- Kenya Airways undergoes capital restructuring with help from Kenyan government
 - Converts \$243m loan from debt to equity
- SAA is likely to default on its debt obligations ~ \$690m

GLOBAL AVIATION UPDATE

- Global airline share price in May rose by 7.8%, up 20% over the past year
- Jet fuel down 5.6%, positive for airlines, but oil price is currently picking up
- Passenger load factor at all time high of 81.7%
- With lowest load factor into Africa:72.3%
- Etihad CEO expected to resign due to unprofitable investments in Alitalia



Stock Market

Rally or Bubble Dejavu

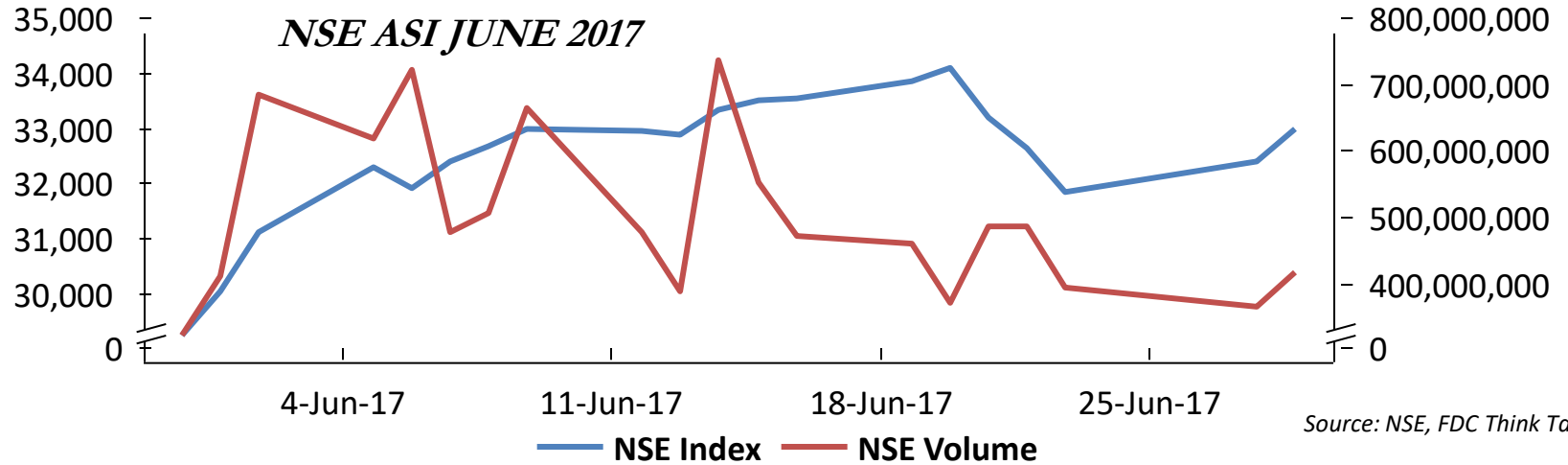
STOCK MARKET- IRRATIONAL EXUBERANCE ONCE AGAIN

- Stock market rally turns into asset bubble
- 12.3% rise in one month with no earnings results announced
- Bringing market P/E ratio to a high of 15.09
- **Nestle** ↑ 2.97% **GTB** ↑ 2.38% **FBN** ↑ 20.38% **UBA** ↑ 16.8% **Dangote** ↑ 17.14%
- Propelled by the MSCI increasing the weight of Nigerian stocks from 6.5% to 7.9%
- The average surge of stocks in the index was 13.73%

STOCK MARKET- IRRATIONAL EXUBERANCE ONCE AGAIN

- Corporate profits continues to lay free cash flow
- Moody's Investment Service assigned a first time Ba3 corporate family rating (CFR) to Dangote Cement
 - Rating reflects the company's standalone credit profile
- MSCI delayed the effective date of the rebalancing till November 2017
- A deluge of new issues shows that investor appetite is growing
- ARM pension is issuing N1bn
- Coronation Merchant Bank set to float IPO offering to raise N400m for a new mutual fund

NSE-ASI- JUNE HIGHLIGHTS



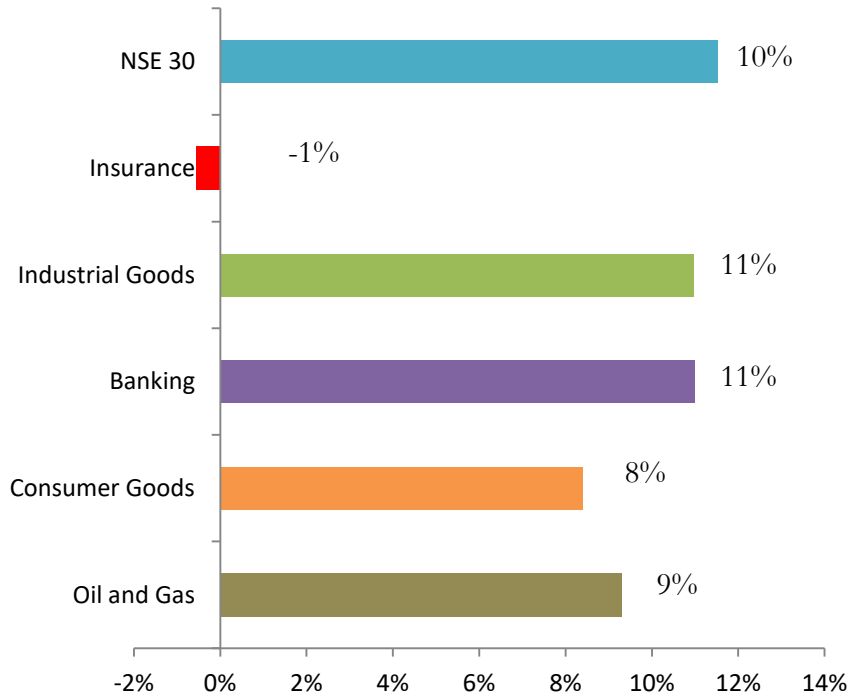
- The NSE ASI up 4.3% as YTD gain stands at 23.2%

- Attributed to continued positive market sentiments

Average Daily Turnover up 12.48% from N4.89bn in the month of June

SECTOR PERFORMANCE

June 2017



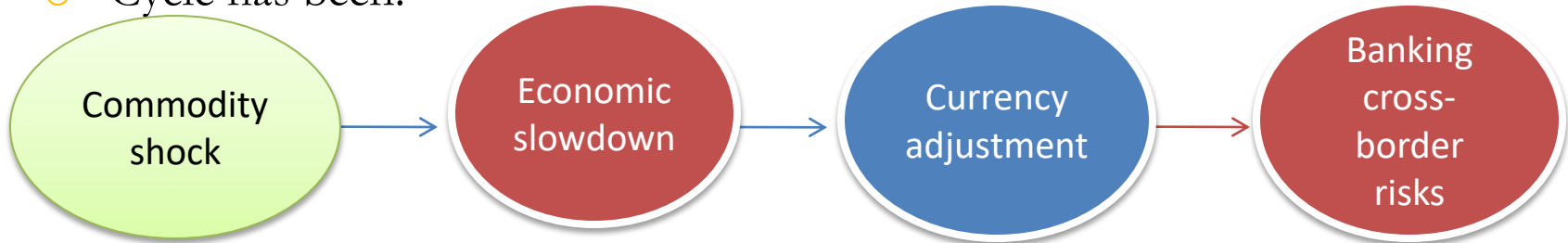
Source: NSE, FDC Think Tank

- Performance across the NSE sub-indices was largely positive
- All sectors closed positive, except the insurance index
- The banking sector sub-index performed the best, advancing by 11%
- Gains in the sector attributable to the stocks of ECOBANK 31.8%, Stanbic IBTC 26.9%, FBNH 20.4%, UBA 16.8%, Access 16.8%, and Zenith 10.2%

Banking

BANKING INDUSTRY HIGHLIGHTS

- Banking industry stability has been a lagging economic variable
- Cycle has been:



- Consolidation currently taking place
 - Rapid industry growth since 2012
 - Recovery from crisis since 2015/2016
 - Strong revenue growth and strive for greater efficiency
 - Resource optimization
 - Alternative distribution channels

BANKING INDUSTRY HIGHLIGHTS

- Cosmetic compliance and management of financial condition
- FCY/LCY maturity and exposure gaps
- 12% CAGR with 58% of industry revenues in tier 1
 - Despite tier 2 consolidations
- CIR declining still suboptimal
- Productivity low compared to international peers
- PBT up 7% only due to published impairments
- Real PBT will be much lower

BANKING INDUSTRY HIGHLIGHTS

- Strong recovery after 2015 slump
- Leveraging on BOI and other interventions by CBN and AMCON
- Historically a tough banking industry with zero economic profit
- Cost of regulation of capital to cover risk weighted assets
- Sectors with higher risk asset concentration and GDP growth performance

SECTOR VULNERABILITY OF BANKS

Industry NPLs on the rise necessitating additional capital raising



Total exposure N1.62trn



Total exposure N306bn



Total exposure over N673bn

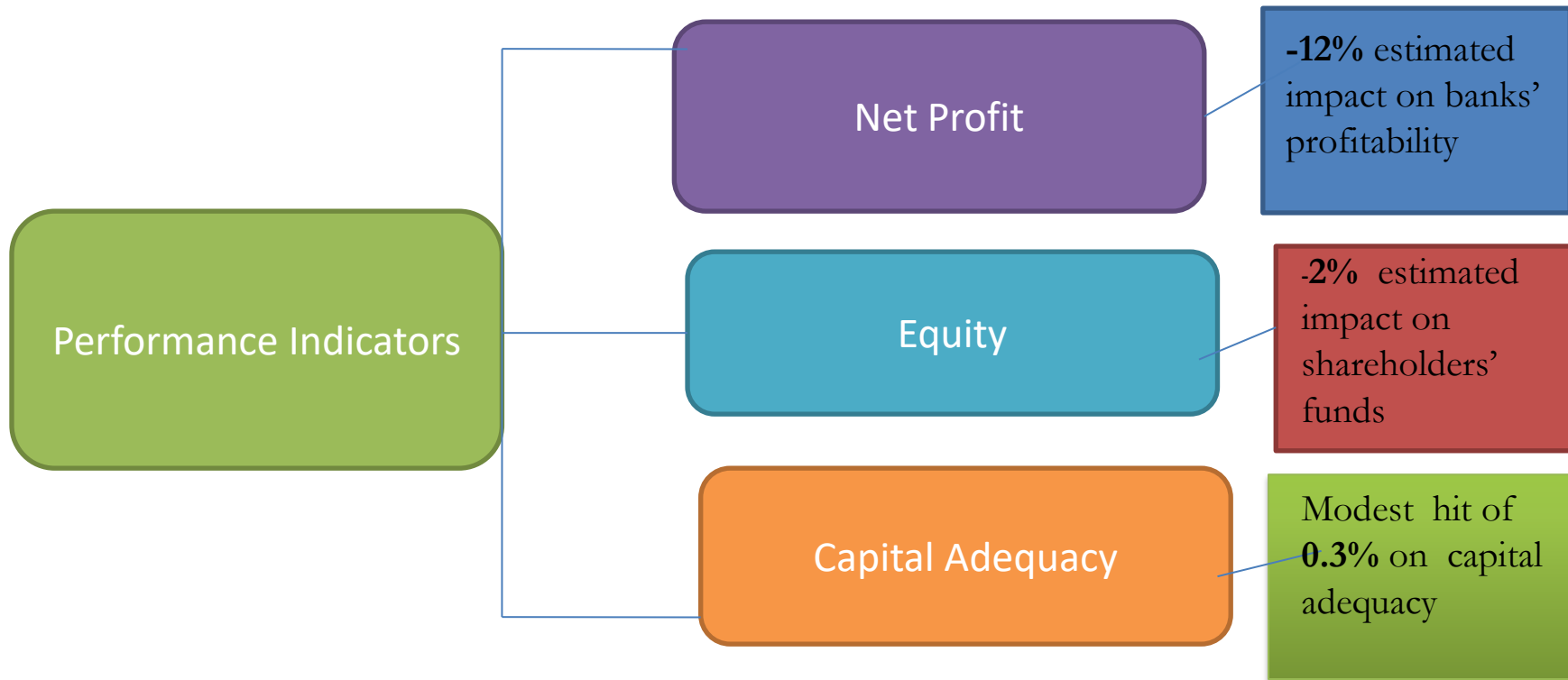
BANKS' EXPOSURE TO ETISALAT LOAN

	Access	GTB	UBA	FBNH	FCMB	Zenith	Fidelity
Etisalat Exposure (N'Bn)	40	42	38	24	4.5	80	17
Total Customer Loan Exposure (N'Bn)	1809	1589	1505	1933	659.9	2289	717.30
%Etisalat/Total	2.21%	2.64%	2.52%	1.24%	0.68%	3.49%	2.37%
NPL ratio	3.50%	4%	5%	20%	4.30%	3.50%	6%
NPL ratio including Etisalat	5.70%	6.60%	7.50%	21.20%	5.00%	7.00%	7.90%
Cost of risk	2.00%	2%	1.60%	6.40%	5.05%	1.20%	1.70%
Cost of risk including Etisalat	4.21%	4.64%	4.12%	7.64%	5.73%	4.69%	4.07%

- Bad debt threatens banks' profitability
- Banks to take hair cut at the end of the negotiations
- Zenith bank with the most exposure of N80bn

Source: Stanbic IBTC

ETISALAT'S BAD DEBT- IMPACT ON BANKS' PROFITABILITY



PROXIES

- Corporate earnings of top 10 capitalized companies increased by ~1.8x to N1.5trn from N830.2bn
- While Profit Before Tax rose by 174.7% to N117.9bn from a loss of N157.8bn
- Primary market activities (IPOs, private placement) have been dormant over the years
- Approximately N52 billion was listed in 2017
 - Jaiz Bank listing by introduction – N36.8bn
 - Medview Airline – IPOs - N15bn

Political Structure

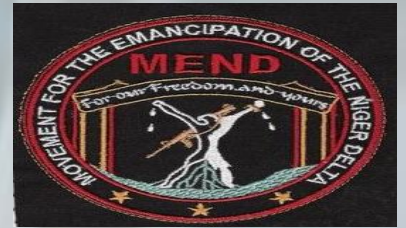
Convenient but Dysfunctional



Biafra



Boko Haram



MEND

POLITICAL UPDATE – APC IN GOV'T, NOT IN POWER

- Political risks are elevated
- As economic prospects become promising
- The likely political scenario will mean a change in the pace and implementation of economic reform
- APC attempts to have convention will be shelved & postponed
- PDP will fragment and be gobbled up by the new parties

CANDIDATES WITHOUT PARTIES

- Political development is backsliding- failing state characteristics
- Identity politics taking over from party politics
- Political parties now meaningless associations
- In 24 months, none of the parties have held conventions
- None have bona fide officials
- Factionalism, internal squabbles, law suits have haunted the PDP
- The APC has become hollow and powerless

LIKELY SCENARIO

Scenario 1- 60%

- A prolonged absence of Buhari while Osibanjo continues to act
- Osibanjo consolidates power and runs down the clock

BASE CASE SCENARIO

Currently in play

- Acting president consolidates power and concentrates on economic policy
- Continues to ride effectively on Buhari's cult-like following in the North
- Maintains safe distance from South West political structures
- Without alienating his base
- Cannot be seen as a tribal puppet
- Ensures that Niger Delta militants are happy and undisruptive

BASE CASE SCENARIO

- Acting President continues to fill in vacant positions
- After consultation with the Principal
- Seriously constrained by the need to avoid South West candidates who are best qualified
 - Reverse discrimination
- Will need to court the understanding of the S.W. leaders

BASE CASE SCENARIO

- Will face stiff resistance and opposition in tax enforcement
- Possibly breathe down the necks of the monetary policy folks
- Forcing them to behave appropriately
- The fiscal guys are aligned and fiercely loyal to him
- Slowdown on the war against corruption

VP'S DELICATE ECONOMIC BALANCING ACT

- To keep the North happy, the South East content, the Niger Delta satisfied
- Need to adopt economic populism for workers: minimum wage review
- Subsidies, rent, patronage for vested interests
- Feed the crony capitalists
- Simultaneously enforcing fiscal consolidation and economic growth
- The trade-offs are putting political stability ahead of economic reform
- At a time of dwindling oil resources

VP'S DELICATE ECONOMIC BALANCING ACT

- Massive funding gap of
 - Fiscal deficit
 - Investment in infrastructure
- Accept a reduced but manageable level of petroleum subsidies
- Adopt and enforce a market determined exchange rate policy
 - With an efficient market structure



2017 OPEN SEMINARS (March to October)



ACCOUNTING, FINANCE & ECONOMICS

Accounting & Finance for Non-Finance Executives	May 15 - 19
Financial Modeling	July 17 - 21



GENERAL MANAGEMENT

Managing Compliance and Legal Risk	May 22 - 24
Stepping up to Management	June 29 - 30
Managing People for Strategic Advantage	July 10 - 12



MARKETING AND SALES MANAGEMENT

Essentials of Sales and Marketing	July 3 - 5
Strategic Account Management	July 11 - 13
Digital Marketing	July 24 - 25
Outstanding Customer Relationship	August 29 - 30



OPERATIONS & MANAGEMENT INFORMATION SYSTEMS

Strategic Procurement/ Contract Management	May 3 - 5
Smart Business Decisions: The power of data analysis	May 22 - 26
Developing Analytical Competencies for Managing Operations	July 3 - 7



PERSONAL LEADERSHIP & HUMAN RESOURCES MANAGEMENT

Building & Leading the 21st Century Team	April 19 - 21
Legal Issues in HRM	April 19 - 27
Negotiation Skills & Tools	April 25 - 27
Advanced HRM	April 7 - May 12
Mastering Human Resource Management	June 5 - 9
Refining Your Interpersonal Skills	October 23 - 25



STRATEGY, INNOVATION & GOVERNANCE

Sustainability Workshop for NGOs	March 20 - 21
Mastering Competitive Strategy and Blue Ocean Strategy	May 15 - 18
Leading a Sustainable Business	June 1 - 2
Driving Strategic Innovation and Business Development	July 3 - 5
Executing Sustainable Strategy	October 9 - 10

GENERAL INFO

PROGRAMME VENUE:	TIME:
Km 22, Lekki-Epe Expressway, Ajah, Lagos	9.00 a.m. - 5.00 p.m.

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

RESERVATIONS / ADDITIONAL INFORMATION	Reservations/Additional Information: Phone: Ajeigbar: 07019407708 Ajeigbe: 07080707052 esecedu@lbs.edu.ng
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Discounts (only one category applicable)	
10% off	For 5 or more nominees from the same company For nominee an Corporate Partner Programme For individuals who pay at least 6 weeks ahead of scheduled seminar
15% off	Financial members of LBS Alumni Association

Download detailed calendar from our website www.lbs.edu.ng

FT Lagos Business School is ranked with the world's top business schools in open enrolment executive education (2007-2016) and custom executive education (2015-2016). *Financial Times*, London.



Risk Footprints

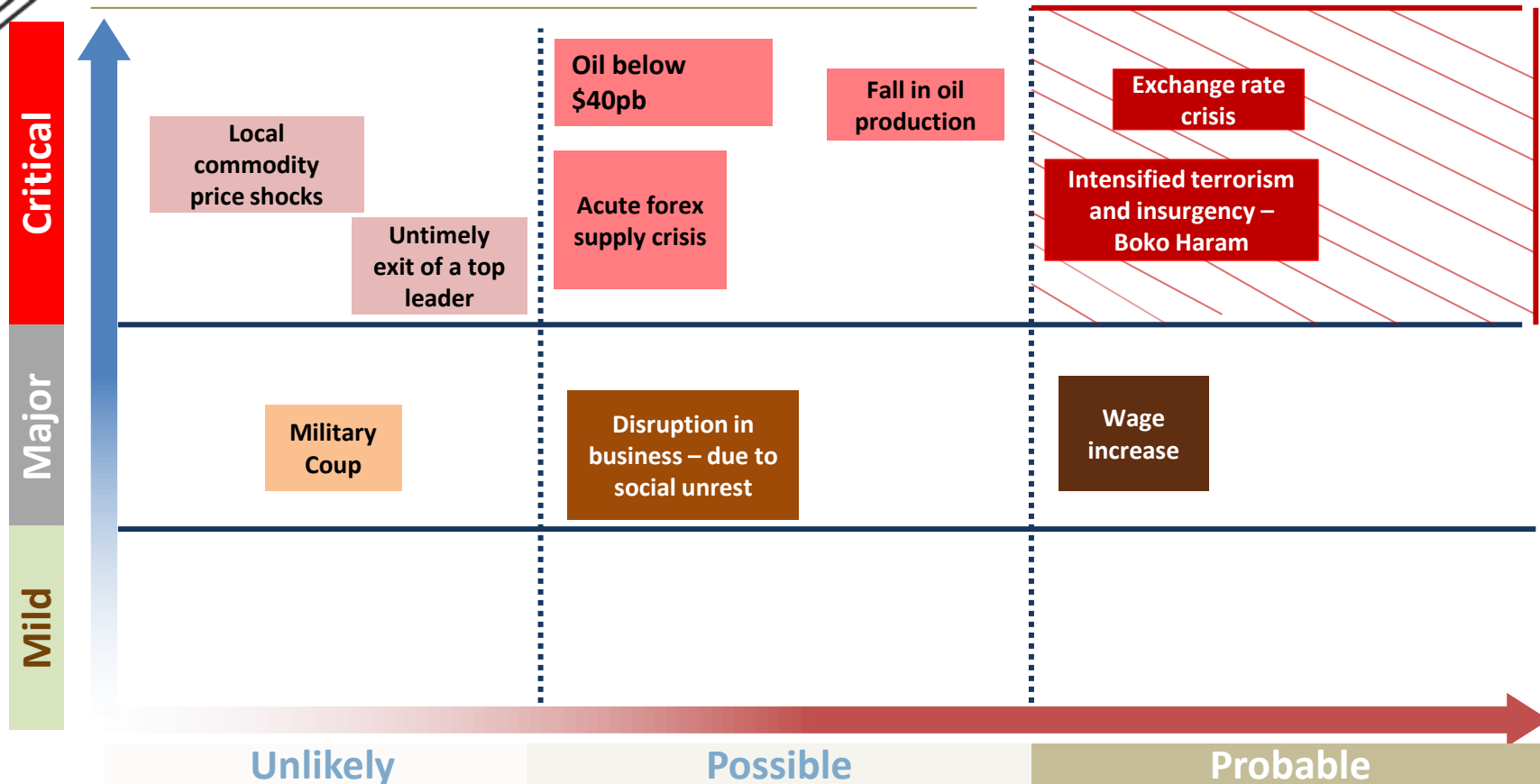
RISKS FOOTPRINTS

- Sharp drop in the price of oil below \$40pb
- Oil production disruption leading to sharp fall in oil revenues
- Constitutional crisis makes chronic reform reverse
- Disruption to business due to social unrest
- Minimum wage review & inflation spike

RISKS FOOTPRINTS

- Local commodity price shocks
- Acute forex supply crisis
- Military intervention in politics
- Intensified terrorism and insurgency- Boko Haram
- Untimely exit of number 2 or 3 citizen

RISK FOOTPRINTS



A conceptual image showing two hands, one on the left and one on the right, holding two interlocking gears. The hands are positioned as if they are about to engage the gears. The background is a light, hazy blue. The text 'July Outlook' is overlaid in a large, bold, red serif font.

July Outlook

Now the Heavy Lifting Begins

OUTLOOK FOR JULY

- Inflation figures will show a slight decline
- MPC will meet and make a token but reluctant accommodative gesture
- Corporate earnings for Q1 will show positive trend
- A flurry of new issues will be announced
- The post Etisalat impact on banking and corporate governance will be profound
- Banks will become extra aggressive in debt collection
- The External Reserves level will deplete marginally towards \$29bn

OUTLOOK FOR JULY

- Mild naira weakness in the parallel and IEFX window towards N380/385
- Treasury bill rates will be allowed to slide marginally to 16% p.a. for 180 days
- Some new appointments to MDAs will be made
- As most PDP appointed officials are dumped
- Skirmishes between the Senate and executive will intensify
- War against corruption will be on the back burner
- Stability before democracy will be the new mantra

CONCLUSION

The near future looks promising

But now the heavy lifting begins

The economy is not yet firing on all cylinders

Too soon to click the champagne glasses

CORPORATE HUMOUR



I require three things in a man. He must be handsome, ruthless and stupid - *Dorothy Parker*

Drunks do not have friends but accomplices – Mason Cooley



CORPORATE HUMOUR



Never accept a drink from a urologist – *Erma Bombeck*

Raising kids is part joy and part guerrilla warfare - Ed Asner



CORPORATE HUMOUR



Laziness is nothing more than the habit of resting before you get tired - *Jules Renard*

Never serve oyster in a month that has no pay check in it
- *P.J O'Rourke*



CORPORATE HUMOUR



Youth is such a wonderful thing,
what a crime to waste it in on
children - George Bernard Shawl

Anything that is too stupid to be
spoken is sung - *Voltaire*



CORPORATE HUMOUR



No statue has ever been put up
to a critic – *Jean Sibelius*

Better to keep my mouth shut
and appear stupid than to open
it and remove all doubt
- *Mark Twain*



CORPORATE HUMOUR



Nothing spoils a good party like
a genius - *Elsa Maxwell*

Running is an unnatural act, except
from enemies and to the bathroom
- *Unknown*



CORPORATE HUMOUR



The length of film should be directly related to the endurance of the human bladder - *Alfred Hitchcock*

The weather is like the government, always in the wrong - *Jerome K. Jerome*



CORPORATE HUMOUR



It is totally impossible to be well
dressed in cheap shoes
- *Hardy Amies*

Politics consists of choosing between
the disastrous and the unpalatable
- *John Kenneth Galbraith*



*Thank
you*



Bismarek J. Rewang, MD/CEO
Financial Derivatives Company Ltd.
Lagos, Nigeria
01-7739889