

2019

A year of



Anxiety, Fear & Uncertainty

By Bismarck Rewane

Financial Derivatives Company Ltd.

January 1st, 2019

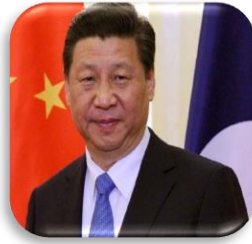
The 2019 Game Changers



Seni Sulyman (Andela)



Vladimir Putin



Xi Jinping



Aliko Dangote



Jeff Bezos



Peter Obi



Theresa May



Oby Ezekwesili



Yemi Osinbajo



Viola Davis



Abubakar Suleiman



Kemi Adetiba



Yaw Nsarkoh



Pat Oniha (DMO)



Wizkid

Brands to watch in 2019



2018: The Economy – GDP Growth , Unemployment

GDP (\$'bn)	447.3
GDP growth (%)	1.81
Type	Anaemic & uneven
Population > GDP (%)	-0.79
2.6 > 1.8	

Constrained by

- ✓ Negative labour productivity = -0.7% up from -2%
- ✓ Power per capita (KW) = 0.02KW/person
- ✓ On grid power: 5% of optimal level
- ✓ Structural rigidities & dysfunctional policies

2018: The Economy- Turbulent & Positive



M2 up 6.52%
Target is 10.48%



Increasing again (now
at 11.28%)

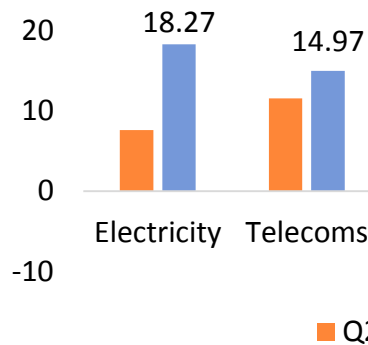


Oil production capped at
1.67mbpd

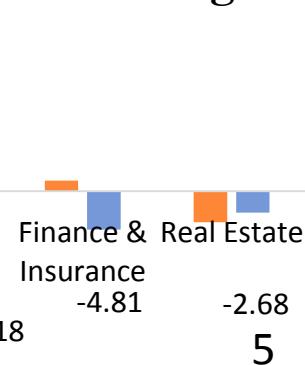


23.1% jobless

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Contracting Sectors



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2018: Policy- One Step Forward, 2 Steps Back

Trade

- ✓ African Continental Free Trade Agreement not signed
- ✓ Bilateral agreements- China, Britain
- ✓ Open skies agreement signed

Fiscal

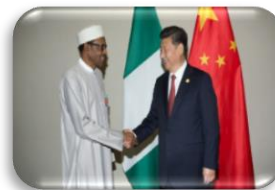
- ✓ VAIDS launched but ineffective
- ✓ Excise duty on alcoholic beverages- controversial
- ✓ 41 items increased to include fertilizer

Investment

- ✓ Resolved the MTN saga
- ✓ PEBEC- ease of doing business progress

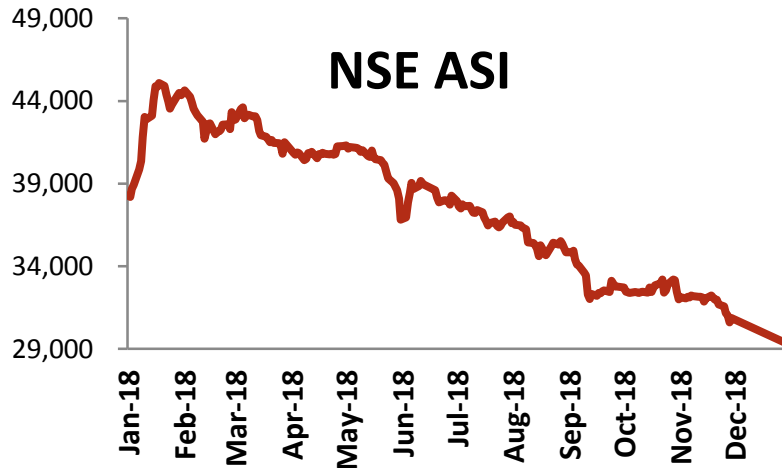
Monetary: *Contractionary*

- ✓ Credit growth slow
- ✓ Interest rate high



2018: Stock Market- Bottom of the Pack

- ✓ From 2nd best in 2017 to bottom scratching
- ✓ Correction in August
- ✓ Bear market in December



Source: NSE, FDC Think Tank

	2017	2018	Change
Avg. Corporate Earnings - N'Bn*	657.2	749.7	14.07%
Free Cash Flow - N'Bn*	257.22	354.85	37.96%
Banks' NPLs**	15%	12.40%	-2.60%
Banks' CAR**	10.20%	12.18%	1.98%

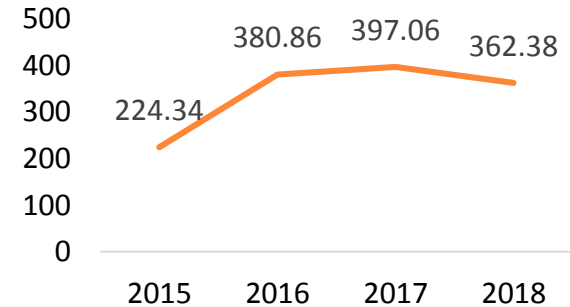
*Top 10 Companies of the NSE **Half Year Performance

2018: Forex Market

- ✓ Segmented with multiple exchange rates- N305-365/\$
- ✓ Naira undervalued by 7.94% at the IE window
- ✓ Fair value= N336.01/\$
- ✓ Mild volatility, relative stability
 - ✓ Traded between N359-375/\$ at the parallel market
- ✓ CBN supply in 2018 in excess of \$12bn, 2017= \$5.6bn (interbank sales)
- ✓ Reserves now at \$43.23bn

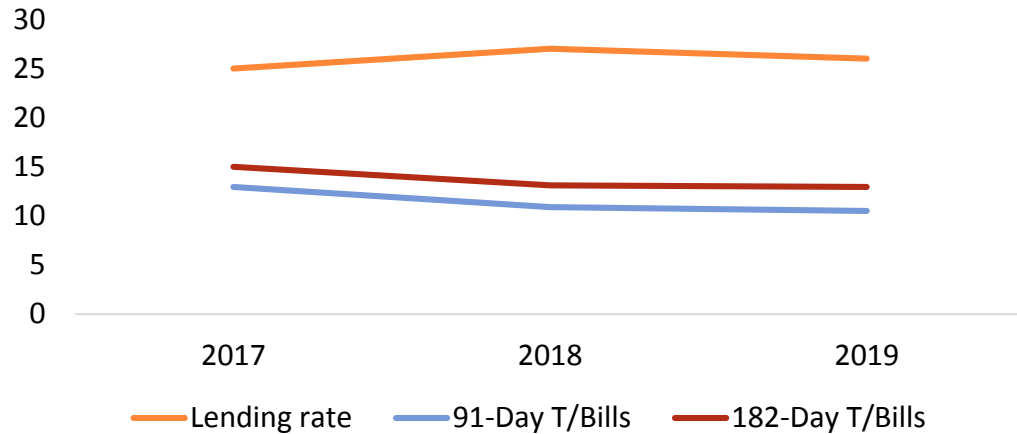


**Exchange Rate
(N/\$)(Avg)**



Source: FMDQ, FDC Think Tank

2018: Money Market- Interest Rates Up, Loans Down



Source: CBN, FDC Think Tank



- ✓ Credit to the private sector up 3.54% to N23.08trn
- ✓ Average lending rates to corporates spiked to 25% pa
- ✓ Total OMO sale was N17.39trn compared to maturities of N14.82trn (mopping up liquidity)

2018: Consumers Under Pressure

- ✓ Consumer confidence down 9% to 60.8 points
- ✓ Income per capita climbs to \$2,284
- ✓ Agg. consumption up 13% to \$353.4bn, 79% of GDP
- ✓ Minimum wage: N30k effective date???
- ✓ South Africa raised minimum wage to N126,480
- ✓ Life expectancy at 54.1 years is the world's 4th lowest
 - ✓ Sierra Leone has the lowest life expectancy at 52.3 years
- ✓ Government spend on health care at \$80 per head, 4% of GDP
- ✓ National retail diesel- N219.54 per litre (Lagos- N260/litre)



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2019: PREGNANT
WITH
EXPECTATIONS



2019: Flash Points- Q1 of Turbulence



January

- ✓ Debates
- ✓ Campaigns
- ✓ MPC meeting
- ✓ Minimum wage

February

- ✓ Elections
- ✓ Q4'18 GDP
- ✓ Inflation

March

- ✓ Petition
- ✓ Protests
- ✓ Demonstrations

2019: The Economy

- ✓ Growth= 1.9% (Global: 3.7%)
- ✓ Revenue sharply lower (-5%)
- ✓ Deficit up to N3trn
- ✓ Subsidy gap: N1.3trn
- ✓ Subsidy to be reduced
- ✓ Petrol price up 25% to N176-N200/litre
- ✓ Currency will slide to N385-395/\$



2019: Policy- Election Over, The Work Begins

- ✓ Supplementary budget spending up 20%
- ✓ Subsidy will be cut
- ✓ Minimum wage kicks in
- ✓ More contractor debt securitization (over N700bn)
- ✓ Currency adjustment inevitable in Q4
- ✓ As oil price drifts downwards



2019: Markets (Stock Market)

Q1 2019

- ❖ Bearish market trend will persist
- ❖ As political fracas intensifies
- ❖ FPI outflow will push NSE ASI south

Q2 2019

- ❖ Market index will reach a trough in Q2' 19
- ❖ But pick up on the back of a violence free handover

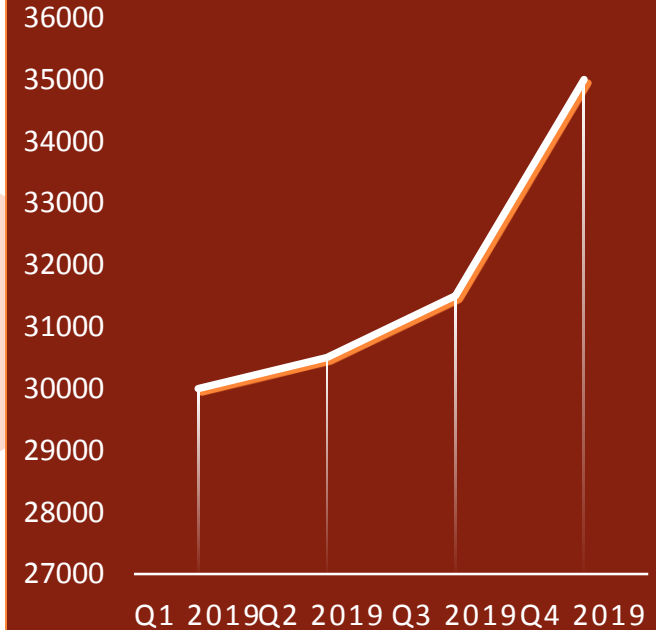
Q3 2019

- ❖ Gradual restoration of investor confidence
- ❖ Increasing market activities
- ❖ Increasing FPI inflows
- ❖ Earnings season to drive valuation

Q4 2019

- ❖ Increased investors confidence
- ❖ Positive market performance
- ❖ Driven by increasing demand
- ❖ MTN likely to have completed listing process

NSE PERFORMANCE



2019: Markets

- ✓ Stock market would reverse negative trend after the elections
- ✓ Increased capital raising by corporates
- ✓ Naira liquidity to increase on the back of minimum wage review, election spending



2019: Consumer-Wage Relief but More Pain

Food	2019*	% Change	Direction
Rice (50kg) 	N16,500	10.00	↑
Beans (50kg) 	N22,000	10.00	↑
Garri (50kg) 	N7,500	10.00	↑
Yam 	N400	-	↔
Tomatoes (50kg) 	N7,150	10.00	↑

Food prices to increase by average of 10% in 2019



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2019: Consumer- Wage Relief but More Pain

White products	2019*	% Change	Direction
Refrigerator (280litre) 	N250,000	+15	↑
Television (32") 	N92,000	+15	↑
Cooker 	N59,800	+15	↑

2019: Consumer- Wage Relief but More Pain

Services	2019*	% Change	Direction
Transport (LOS-ABJ-LOS)	82,000	+5.00	↑
Rent (Lagos mainland)	N1,000,000	+10.00	↑
Medical Bills (Basic lab test)	N10,000	+17.00	↑
School Fees (Corona)	N425,250	+5.00	↑

Things that will Change

- ✓ Minimum wage will be reviewed upwards
- ✓ Mobile payment system will revolutionize the telecoms and financial institutions
- ✓ Put the banks at a competitive disadvantage
- ✓ Banks will lay off redundant staff



Things that Won't Change

- ✓ Nigeria would remain an oil dependent nation
- ✓ Economic growth will continue to lag population growth (2.6%)
- ✓ Over 40% of Nigerians would remain below the poverty line
- ✓ Fuel subsidy would remain a politically sensitive issue



Things that Could Change

- ✓ Forex market structure heading towards full convertibility
- ✓ Policy structure
 - ✓ Tighter monetary policy could be adopted
 - ✓ Signing of the African Continental Free Trade Agreement
- ✓ Rebound in the stock market post election

What Makes 2019 Different?- Risks



Global

- ✓ OPEC cracks and oil price crashes
- ✓ Rising protectionism
- ✓ Reversal of financial flows



Domestic

- ✓ Inflation from minimum wage
- ✓ Currency weakness (Niger
Delta & oil price)
- ✓ Election deadlock
- ✓ Boko Haram blows up bridges
or airport

Summary

- ✓ 2019 will be an interesting year with four distinct parts
- ✓ H1'19 would be solely concentrated on the election and its fallouts
- ✓ Election outcome could swing in any direction
 - ✓ A boycott, run off or conflicts
- ✓ Focus on economic policies and initiatives would begin by H2'19
- ✓ Currency adjustment is likely to occur by 2019-end

Happy
New
Year

A 3D rendering of the words "Happy New Year" in a bold, red, sans-serif font. The letters are thick and have a slight shadow, giving them a three-dimensional appearance. The text is set against a white background that is filled with numerous small, red, diamond-shaped confetti pieces scattered throughout. The words are arranged in three lines: "Happy" on top, "New" in the middle, and "Year" at the bottom. The "Year" is the largest and most prominent word. The overall scene is festive and celebratory.