

Unity Bank Digest

December 31st, 2018



The Highlights

Unemployment up 4.3% to 23.1% in Q3'18

After a one-year delay, the labour force statistics for the last four quarters has been released by the National Bureau of Statistics. The report showed an increase of 4.3% in Nigeria's unemployment rate to 23.1% in Q3'18 from 18.8% in Q3'17. On the other hand, underemployment declined to 20.1% compared to 21.2% in Q3'17. Subsequently, Nigeria's misery index remains high at 54.48%. A further breakdown of the report showed a mixed movement in the urban and rural unemployment rates – urban unemployment declined to 21.2% while rural unemployment increased to 23.9%. Unemployment among the young demography (15-35years) increased to 29.7% within the review period, reflecting insufficient labour demand to absorb the growing number of graduates entering the labour market annually. The increase in unemployment rate is reflective of the need for fiscal incentives to boost infrastructural development in Nigeria. Increased capital projects would boost the demand for labour across various sectors in the long term.

US Fed raises interest rate by 25bps to 2.25%-2.5%

At its last meeting in 2018, the US Fed raised interest rates by 25bps to 2.25%-2.5% per annum (pa). This is the 4th increase in 2018 and the 9th since December 2015. Key considerations for the committee were: strong economic growth, a lower unemployment rate, and moderate inflation. The Fed Chairman, Jerome Powell, also warned of global economic and financial risks in 2019 and their implications on the US economic outlook. The committee projected: a weaker growth rate of 2.3% in 2019, a decline in the unemployment rate to 3.5%, and a fall in the inflation rate to 1.9%. These assumptions resulted in the committee hinting at the possibility of two rate hikes in 2019. The rise in the US benchmark interest rate would increase the pressure on the naira in the near term through increased capital outflows.

President Buhari submits 2019 budget (N8.83trn)

President Buhari submitted a proposed budget of N8.83trn for the 2019 fiscal year. This is 2.97% lower than 2018's budget size of N9.1trn. The budget was prepared against the following assumptions: a real GDP growth rate of 3.01%, an oil benchmark price of \$60pb, a domestic oil production rate of 2.3mbpd, an exchange rate of N305/\$, and an inflation rate of 9.98%. According to the budget, the FGN is allocating N2.03trn towards capital expenditure and N4.04trn towards recurrent expenditure. The government has also allocated 24% (N2.14trn) of the budget to servicing its debts. While presenting the budget to the National Assembly, President Buhari also reassured Nigerian workers of the efforts to implement the new minimum wage in the coming months. The presentation of the budget at a time when the President is refusing to assent to the electoral act will increase the acrimony between the executive and legislative arms of government.

MTN settles out of court with the CBN on \$8.1bn dispute

Nigeria's telecommunications giant, MTN, has settled its dispute with the CBN concerning its Certificates of Capital Importation (CCI) out of court. Instead of paying the initial sum of \$8.1bn, the telecoms giant will pay \$53mn. In August, the apex bank had ordered MTN to refund \$8.1bn which was claimed to be illegally repatriated as dividends between 2007-2015. In addition, CBN also imposed sanctions of approximately \$16.23mn on four banks – Standard Chartered, Stanbic IBTC, Citibank and Diamond Bank – due to allegations of foreign exchange remittance with irregular CCIs. The immediate effect of MTN's decision to settle was a jump of approximately 8.2% in its share price. The company's share price lost 34% within a week after the dispute with the CBN in August. The settlement will ease concerns of investors about regulatory highhandedness in the country.

Access Bank and Diamond Bank sign agreement to merge

Access Bank and Diamond Bank have announced a strategic merger. This comes six years after Access Bank acquired Intercontinental Bank in 2012. The merger, which is expected to be complete by H1 '19, will result in Nigeria's largest retail bank by customer base (29mn customers) with an asset size of N6.7trn. The new entity is expected to have 548 branches across Nigeria, generate employment in excess of 6,000 and boast of the second largest shareholders' fund of N695bn (after Zenith Bank – N778bn). Under the

agreement, there is a purchase consideration of N3.13/share for Diamond Bank's shareholders. This is split between a share exchange of two Access Bank shares for every seven held by Diamond Bank shareholders and a cash purchase of N1/share. Access bank will remain the dominant party after the merger, maintaining 81% stake in the new entity. The recent consolidation further emphasizes the need for banks to strengthen their capital buffers in order to withstand regulatory stress tests.

Federation Account Allocation Committee (FAAC) allocation up 3.12% to N812.76bn in December

The Federation Account Allocation Committee (FAAC) disbursed a total of N812.76bn in December, 3.12% higher than November's allocation of N788.17bn. The total FAAC allocation to governments in 2018 was N8.52trn, 36% higher than the N6.25trn allocated in 2017. A breakdown of the disbursement shows that the gross statutory revenue stood at N649.63bn, gross revenue from Value Added tax (VAT) was N92.08bn and the forex equalization was N70bn. According to the Permanent Secretary, Ministry of Finance, Mr. Mahmoud Isa-Dutse, Nigeria's Excess Crude Account had been depleted by 72.8% from \$2.32bn in October to \$631mn in November. This was as a result of the payment of the final tranche of the Paris Club Refund to state governments. We expect increased naira liquidity in the near term due to higher FAAC disbursement and increased consumer demand over the Christmas break. This would push up commodity prices in the coming weeks.

External reserves gain \$1.15bn in four weeks

After declining consistently for six months, Nigeria's gross external reserves gained \$1.15bn in four weeks. External reserves level was \$43.23bn (as of December 27th), which is 11.66% above 2017's peak of \$38.77bn. The accretion in external reserves is primarily attributed to a drawdown of the \$2.8bn Eurobond issued in November 2018. However, the level of Nigeria's external reserves is expected to resume its downward trend in Q1'19 as liquidity pressures mount and the impact of lower oil proceeds kicks in.

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Social Corner

Manchester United manager, Jose Mourinho, sacked

- Manchester United has announced the exit of Jose Mourinho as its coach. He was the club's coach for two and a half years.
- There is speculation that Mourinho was fired due to the club's poor start to the season including its 3-1 loss to Liverpool, his last game as its coach.
- Mourinho was appointed as Manchester United's manager in 2016 after managing other top teams including Chelsea and Real Madrid. During his tenure as the coach, Manchester United won three trophies in the 2016/2017 season.
- Ole Gunnar Solskjaer, the former Manchester United striker, has been hired as the club's interim manager for the rest of the season.



Miss Universe 2018

- The 67th edition of the Miss Universe pageant was held on December 17 in Nonthaburi Province, Thailand. The show was hosted by Steve Harvey and Ashley Graham.
- Miss Philippines, Catriona Gray, was crowned the winner of the competition after beating contestants from 93 different countries. South Africa's Tamaryn Green came in as the first runner up, while Sthefany Gutierrez from Venezuela was the second runner up.



- Nigeria was represented at the competition by 21-year old model, Aramide Lopez. The model had earlier claimed the first runner-up title at the Most Beautiful Girl in Nigeria competition held in September 2018.

Gatwick airport sold for \$3.7bn to French firm, Vinci Airports

- Majority stake in UK's second busiest airport, Gatwick Airport, has been sold to a French firm, Vinci Airports.
- Vinci Airports plans to buy 50.01% stake in Gatwick Airport. The current owners, Global Infrastructure Partners (GIP) would control the remaining 49.99% stake. Gatwick airport would become the largest airport in Vinci's network.
- The deal comes days after flights through Gatwick Airport were disrupted over the Christmas holidays owing to reports of drone sightings. Approximately 140,000 passengers were stranded over the three-day incident.



Chanel bans fur and exotic animal skins

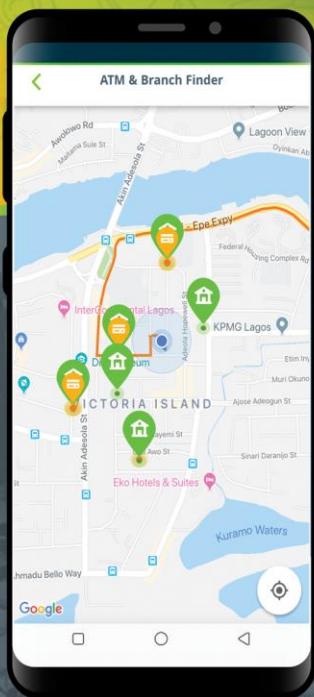
- French fashion house, Chanel, has announced its plan to stop the use of fur and exotic skins in its future collections.
- The decision by the fashion brand was in response to pressure from animal rights organization, People for the Ethical Treatment of Animals (PETA). A spokesperson for Chanel also expressed the company's recent difficulty in sourcing for animal skins that match their ethical standards.
- Italian luxury brand, Gucci, had made a similar decision in 2017 to ban the use of mink, coyote, raccoon or any animal bred for the purpose of using its fur.





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Top Stories

US Fed raises rates by 25bps to 2.25%-2.5% pa

- Monetary policy normalization in the US continued as the Federal Reserve raised the benchmark rate to 2.25%-2.5% pa at its meeting on December 18/19. This marks the fourth increase in 2018 and the ninth within three years.
- The decision of the committee is predicated on the strong performance of major economic fundamentals in 2018, including the GDP growth rate, the unemployment rate, and the inflation rate. GDP growth rates in the first three quarters of 2018 were 2.2%, 4.2% and 3.5% respectively. Unemployment rates eased from 4.16% in Q1'2018 to 3.78% in Q3'2018. The inflation rate declined from a record high of 2.85% in June to 2.2% in November 2018.
- The committee hinted at the possibility of two rate hikes in 2019. This represents a downward review from its earlier projection of three rate hikes at its September meeting.

Analysis and Outlook

The consistent increase in the US interest rate raises concerns about its implications on emerging markets, including Nigeria. An increased rate of return from advanced economies would intensify capital outflows from emerging markets such as Nigeria ahead of the elections in February 2019. This would subsequently heighten the pressure on the naira.

Unemployment up 4.3% to 23.1% in Q3'18

- Unemployment rate in Nigeria increased by 4.3% to 23.1% in Q3'18 from 18.8% in Q3'17. On the other hand, underemployment rate declined by 1.1% to 20.1% in Q3'18 compared to 21.2% in Q3'17. Subsequently, the summation of both indices increased from 40% in Q3'17 to 43.3% in Q3'18.

- A further breakdown of the report showed a mixed movement in urban and rural unemployment. Urban unemployment fell to 21.2% in Q3'18 while rural unemployment increased to 23.9% within the review period.
- Unemployment among the young people (aged 15-35 years) increased to 29.7% within the review period while underemployment within the same category declined to 25.7% in Q3'18. This is evidence of insufficient labour demand to absorb new entrants into the labour market.

Analysis and Outlook

The misery index (unemployment + underemployment + inflation rate) in Nigeria remains high at 54.58. A high misery index could lead to an increase in the level of criminal activity in Nigeria. Without proper fiscal incentives to boost Nigeria's gross capital formation, labour demand would remain insufficient to absorb new entrants into the labour market.

Business Update

(Review Period: December 17th – 27th, 2018)

The Forex Market

At the parallel market, the naira depreciated by 0.27% to N365/\$ within the review period before appreciating to close at N364/\$ on December 27th. The aberrational movement in the exchange rate was driven by speculative demand in the forex market ahead of the 2019 elections. A sharp decline in the CBN's intervention in the forex market - \$840.02mn in December compared to \$1.08bn in November- could also be responsible for the currency depreciation.

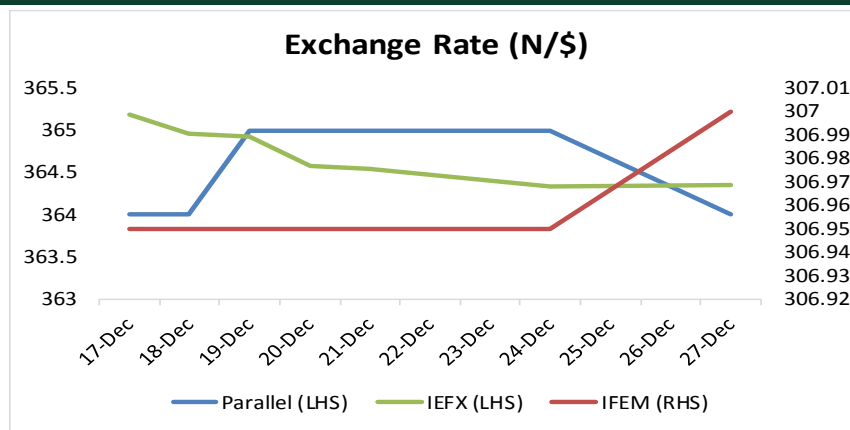
The naira appreciated by 0.22% against the pound sterling to close at N464/£ while it depreciated by 0.24% against the euro to close at N413/€ on December 27th.

At the IEFX window, the naira appreciated by 0.23% to close at N364.35/\$, from N365.18/\$ on December 17th. Total forex traded in the IEFX window increased by 20.29% to \$1.66bn within the review period compared to \$1.38bn in the corresponding period in November.

In addition, the naira depreciated at the interbank foreign exchange market by 0.02% to close at N307/\$ from N306.95/\$ on December 17th.

Demand pressure is expected to build up in the coming weeks as the payment of tuition by international students commences. Also the supply of forex from visiting family and friends is expected to thin out as they return. The currency could depreciate to as low as N390/\$ at the parallel market.

Also, the level of Nigeria's gross external reserves increased by 0.44% (\$190mn) to \$43.23bn as at December 27th from \$43.04bn on December 17th. Subsequently, Nigeria's import cover increased from 10.72 months to 10.76 months at the end of the review period.

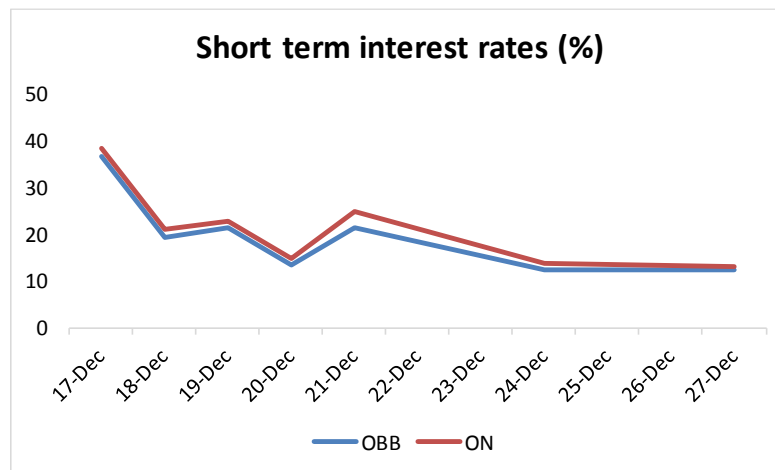


SOURCE: FDC Think Tank, CBN, FMDQ

The Money Markets

Short-term interest rates (OBB and ON) started the period at a high of 36.67% pa and 38.58% pa respectively before dropping sharply to close at 12.5% pa and 13.25% pa respectively. The volatility in interest rates during the period resulted from the FAAC disbursement of N812.76bn, 3% higher than the disbursement of N788.13bn in November. Total OMO sale during the period was N163.46bn compared to maturities of N607.04bn. This resulted in a net inflow of N443.58bn. Average liquidity within the banking system declined sharply to N99.35bn long compared to N364.94bn long in the corresponding period in November. At the last primary market auction on November 28th, the 91-day and 182-day T/Bills tenors declined by an average of 6bps to 10.90% pa and 13.10% pa respectively. On the other hand, 364-day tenor closed flat at 14.45% pa. At the secondary market, 91-day, 182-day and 364-day tenors declined by an average of 74bps to 12.55% pa, 12.62% pa and 14.87% pa respectively. As at December 24th, the Nigerian Inter-Bank Treasury bill True Yields (NITTY) were 15.09% pa (30-day), 13.26% pa (90-day) and 13.28% pa (180-day).

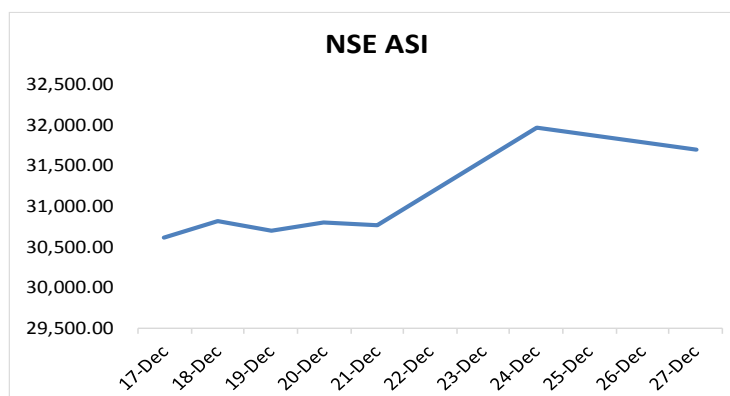
Tenor	Secondary market rates as at December 17 th 2018 (%)	Secondary market rates as at December 27 th 2018 (%)	% change	Primary market rates as at November 14 th 2018 (%)	Primary market rates as at November 28 th 2018 (%)	% change
91-day	13.81	12.55	-1.26	10.95	10.90	-0.05
182-day	13.50	12.62	-0.88	13.16	13.10	-0.06
364-day	14.95	14.87	-0.08	14.45	14.45	0.00



SOURCE: FMDQ, CBN

The Stock Market

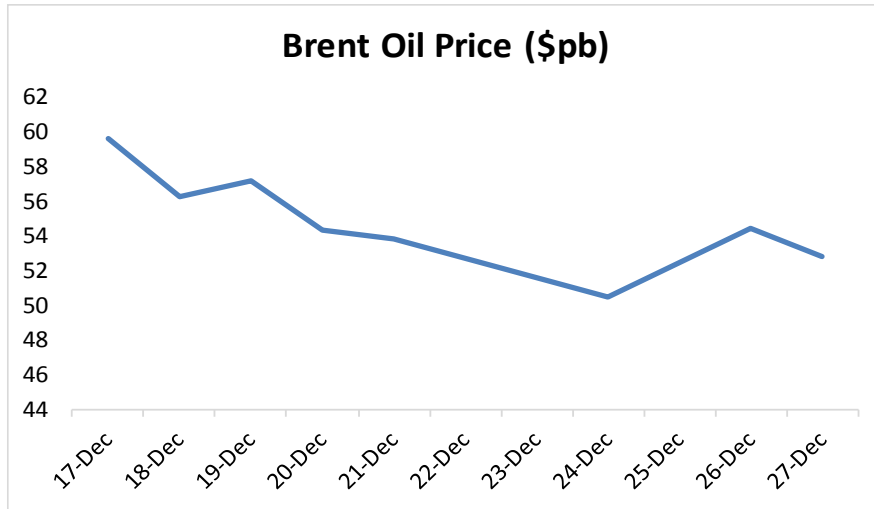
The Nigerian Stock Exchange All Share Index (NSE ASI) gained 3.54% to close at 31,692.63pts on December 27th from 30,609.06pts on December 17th. In the same vein, total market capitalization also increased by 0.36% to close at N11.58trn compared to N11.18trn on December 17th. During the review period, there were 4 negative days and 3 positive days.



SOURCE: NSE

The Commodities Market

- Brent crude declined by 11.37% to \$52.83pb on December 27th from \$59.61pb on December 17th.
 - Due to an increase in global oil supply by top producers and weakening global demand.
 - **Implications:** Lower oil price will reduce foreign earnings and hence reduce external reserves. This would limit the CBN's ability to support the naira, leading to increased pressure on the currency.
- The price of natural gas increased by 3.12% to close at \$3.64/mmbtu from \$3.53 /mmbtu on December 17th.
 - Against weakening demand caused by mild weather.
 - **Implications:** An increase in global natural gas price would increase Nigeria's export revenue considerably as it accounts for 12.6% of total export revenue.
- Corn prices decreased by 2.34% to \$3.75/bushel from \$3.84/bushel on December 17th
 - Amidst USDA's upward review of Ukraine's 2018/2019 corn output.
 - **Implications:** A decrease in corn price would reduce Nigeria's import bill.
- Wheat prices declined by 4.49% to \$5.11/bushel from \$5.35/bushel on December 17th.
 - As a result of an increase in production projected by Russia, a top producer
 - **Implications:** A reduction in the global price of wheat would result in a reduction in the amount spent on importation and also, reduce the cost of production for manufacturers that use wheat as an input. This should have a positive effect on the domestic price of bread and noodles.
- Sugar prices fell by 1.92% to \$0.1225/pound on December 27th from \$0.1249/pound on December 17th
 - On weak global demand.
 - **Implications:** Nigeria is currently the largest importer of sugar in SSA. A reduction in global sugar prices is positive for Nigeria's import bill and good for obesity.
- Cocoa prices increased by 6.41% to close the period at \$ 2,373/mt from \$2,230/mt.
 - Driven by increased global demand for chocolate.
 - **Implications:** Nigeria earns approximately \$500mn from cocoa. An increase in the price of cocoa will boost Nigeria's export revenue significantly in the near term.



SOURCE: Bloomberg, EIA, Newsnow



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Lifestyle



Have you made your financial resolutions for 2019? - Culled from The Punch¹

The complex nature of our nation's turbulent economy has impacted all Nigerians and leaves many feeling confused and anxious. The good news is that no matter how challenging things may be, the basic fundamentals of personal financial management still apply, so stay focused on this.

Have you made your New Year resolutions? Did you include any financial ones? All major life events such as getting married, having a baby, educating children, losing a job, getting divorced, buying a home, losing a loved one, planning for your retirement and your estate come with financial consequences that must be prepared for. Here are 12 resolutions to consider for 2019. Don't try to tackle them all. Tackling just three or four will lead to significant improvement in your financial life.



¹ <http://moneymatterswithnimi.com/financial-resolutions-2019/>

1. Establish a budget

Living as though nothing has changed during challenging times can make a situation worse; changing your spending habits must be a priority. Budgeting is one of the most important tools for financial security. A good budget will help you to plan and monitor your expenses so you can identify where to cut back if necessary. Where does your money go? The traditional suspects are eating out every day, recharge cards etc. Can you cut back a little on these?

2. Build an emergency fund

An emergency fund is a must-have, particularly during times of financial challenge. Build a fund with at least six months' worth of your expenses in an accessible, interest bearing account. If you are suddenly faced with unemployment, medical expenses, or other unexpected events, you will have this financial cushion to fall back on. If you can't build six months, focus on three months. The key is to have something saved.

3. Automate your savings

Can you set aside a minimum of ten per cent of your monthly income for savings? One of the most effective ways to increase savings is to automate the process by having the funds deducted via a direct debit into a savings, money market or mutual fund account. If the funds are in an account attached to your debit card you may be tempted to dip into the funds.

4. Reduce your debt

Getting out of debt or at least reducing it is another key step to taking control of your finances. List all your debt, and prioritise by focusing on the debt with the highest interest rates first. Are you one of those people that avoid your lenders? Have you stopped taking their calls or ignore their reminders? You need friends and family as a lifeline when things are really bad, so if you damage relationships, it only comes back to haunt you. If your debt has become overwhelming, contact your creditors to discuss the possibility of coming up with more palatable repayment arrangements.

5. Invest for the future

If you have some savings and your debt is under control, consider investing in the stock market. It is important to remember that the stock market over the long-term has outperformed other asset classes. Many stocks are currently selling well below their true value. If you are fortunate enough to have cash for long term investing, this is a good time to seek professional advice to build a diversified portfolio. Remember that investing comes with risk; to mitigate this, you should diversify across the primary asset classes.

6. Improve your health

A healthier lifestyle means fewer medical expenses. If you are healthy, you will have brighter prospects in all aspects of your life. Do you need to lose weight, eat more healthily, or exercise more regularly? Take your health seriously and take concrete steps to improve it. Make this a way of life for your family to ensure that your spouse and children are healthy.

7. Invest in yourself

There is something everyone of us can do to earn extra income and it is time to find out what that is. What can you do outside your full time job? If you are unemployed, this becomes even more urgent. Have you considered tutoring, consulting, blogging, photography? Identify and nurture your passion and talent and begin to leverage on it to earn in 2019.

8. Protect yourself and your assets with insurance

You are your greatest asset. Do you have adequate cover for your health and your life, particularly if you are the primary breadwinner? Are your properties including your car and home adequately insured? Things happen and you cannot afford to be careless with insurance. In addition, do keep up with routine maintenance of your assets so that you can identify festering problems before they require expensive repairs. The odd noise coming from your car engine should not be ignored. Attend to issues early.

9. Retirement

Most Nigerians do not have enough money saved by the time they face retirement. Most of your retirement income will have to come from money you set aside and invest today whilst you are still young and earning. Do you have a Retirement Savings Account? Make this an important part of your long-term plans.

10. Put an estate plan in place

No one wants to think about death at the start of a new year, but you owe it to your family to put something in place should something untoward happen to you. Make an appointment with an estate-planning attorney who will put you through a relatively simple process. If you already have a Will, review and update it to make sure you have included any new assets or beneficiaries.

11. Build philanthropy into your plans

In spite of how difficult things might be for you, there are always people worse off. Philanthropy is a powerful and effective way to change lives. Determine your area of interest and identify ways in which you can make a positive impact.

12. It's not all about money

It is important to note that the most fulfilling things in life have little to do with money. They have to do with relationships; with your partner, your spouse, your children, your siblings, your parents, your friends. Remember to count your blessings in 2019. Enjoy your Life and may God grant you good health, happiness, and peace this year and beyond. Happy New Year!



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