

Unity Bank Digest

February 4th, 2019



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The Highlights

Nigeria moves up 4 places to 144th in corruption ranking

Global anti-corruption agency, Transparency International, has released its 2018 Corruption Perception Index. In the report, Nigeria moved up four places to 144th out of 180. Nigeria's rank came in behind other SSA countries like Angola at 19th, Benin at 40th, Burkina Faso at 41st and Botswana at 61st. New Zealand lost its position as the country with the lowest level of perceived public sector corruption to Denmark. According to the report, the highest ranking countries were Denmark, New Zealand, Finland, Singapore and Sweden. On the other hand, Somalia, Syria, South Sudan, Yemen and North Korea were the countries at the bottom of the list.

International Monetary Fund (IMF) revises Nigeria's 2019 growth forecast to 2%

The IMF has revised its growth projection for Nigeria to 2% in 2019 from an earlier forecast of 2.3%. It has also revised downwards Nigeria's growth forecast in 2020 to 2.2% from 2.5%. The sharp drop in oil prices was the key driver for the downward revision. Oil dependent sub-Saharan African (SSA) countries, including Nigeria and Angola, bore the brunt of the revision. The IMF revised its growth forecast for SSA in 2019 to 3.5%, from its earlier projection of 3.8%. On the global front, the US-China trade war resulted in a downward revision in the IMF's 2019 global growth forecast to 3.5% from its October forecast of 3.7%. The downward revision of Nigeria's growth forecast at the same time with political uncertainty surrounding the 2019 general election is negative for investor confidence.

Monetary Policy Committee maintains status quo

At its first meeting in 2019, the Monetary Policy Committee (MPC) voted unanimously to maintain status quo on all its policy parameters: the monetary policy rate (MPR) was retained at 14% per annum (pa), the cash reserve ratio (CRR) at 22.5% pa, the liquidity ratio at 30% pa, and the asymmetric window at +200/-500 bps. This marks the 15th consecutive meeting with no change in policy parameters. The MPC lauded some domestic developments such as the convergence of the foreign exchange markets as

well as a resolution of the CBN's dispute with MTN. However, the MPC remained concerned about Nigeria's fragile growth rate, the uptick in headline inflation and the political uncertainty surrounding the 2019 elections. On the global front, the US-China trade war, Brexit deal and the monetary policy normalization in advanced economies posed risks to the global economy in 2019. The MPC recommended a sustained pace in infrastructural development by the FGN in order to increase labour productivity and reduce the unemployment rate. The decision to do nothing again is expected to have minimal impact, as markets will remain largely unperturbed. However, activities within interest-rate sensitive sectors will remain challenged by high borrowing rates.

FGN Launches the Strategic Revenue Growth Initiatives (SRGI)

The FGN has unveiled its Strategic Revenue Growth Initiative (SRGI) aimed at boosting revenue across all sectors. The initiative is broken into three distinct targets:

- Achieving sustainability in revenue generation to maintain fiscal buoyancy and resilience.
- Identifying new avenues for revenue generation and enhancing revenue collection.
- Achieving cohesion between revenue generating entities.

The Minister of Finance, Mrs Zainab Ahmed, also hinted at the possibility of a VAT increase from its current rate of 5% pa. This is premised on Nigeria's low VAT revenue to GDP at 0.8% compared to the ECOWAS average of 3.4%. We expect the increased tax drive by the FGN to fund the proposed 2019 fiscal deficit of N1.86trn. This would ease the need for the government to increase its domestic and foreign borrowing levels.

Consumer Confidence Index spikes to 64.3 points in Q4'18

The Consumer Confidence Index spiked by 6.81% to 64.3 points in Q4'18, up from 60.2 points in the preceding quarter. The rise in consumer confidence reflects increased spending patterns of many households in Q4'18. The Index, a measure of consumer's perception about their present and future economic prospects, consists of the Present Situation Index (PSI) and Expectation Index (EI). In the quarter under review, there was mixed movement in the sub-indices. While the PSI declined to 38.3 points from 41.7 points in Q3'18, the EI increased to 91.2 points from 84.2 points in Q3'18. We expect the prospects of a minimum wage review to improve consumer perception of future prospects and boost consumer confidence in the near term.

Federal Accounts Allocation Committee (FAAC) disbursement falls to N649.20bn in January

FAAC allocation fell to an 8-month low of N649.2bn in January. This is 20.12% lower than December's disbursement of N812.76bn. The decline in FAAC disbursement was largely driven by a drop in the federation's crude oil export sales to 1.7mbpd. There were reports of a shutdown of production at several terminals in December owing to flooding, fire and leakages. A further breakdown of the statutory allocation showed that the Federal Government was allotted 39% (N255.2bn) of total revenue, state governments received N129.44bn while local governments received N99.79bn. According to the Committee, Nigeria's Excess Crude Account currently stood at \$631mn. We expect FAAC disbursement in February to be in the range of N650-N700bn, as Brent prices averaged \$60.08pb in January. The expected decline is negative for government spending and investments in various states. This could also result to increased salary arrears and lower consumer disposable income.

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Social Corner

HULU Announces change in prices

- Hulu, an American entertainment company and a close Netflix competitor, dropped the price of its cheapest video-on-demand package by \$2. The price decline is in direct response to Netflix's price increase.
- However, Hulu increased the price of its ads-free live TV plan by \$7 to \$51, while the one with ads rose by \$5 to \$45 with effect from February 26th 2019.
- Hulu's paid subscriber base (58 million) is still 58.27% lower than Netflix's (139 million).



2019 Oscars Nomination

- The nomination list of the 2019 Academy Awards was announced on January 22nd. The 91st Academy Awards is scheduled to hold on February 24th in Los Angeles, United States.
- British historical romp, *The Favourite* and the Netflix original movie *Roma* topped the nominations list with 10 nominations each. Marvel Studio's blockbuster, *Black Panther*, also made history by being the first superhero movie to receive a nomination for the Best Picture category.
- The Academy is yet to announce a new host for the show after Kevin Hart stepped down from the role following some controversial tweets.



Facebook plans to integrate WhatsApp and Instagram

- Facebook revealed its intention to integrate the social networks messaging apps (WhatsApp, and Instagram) into a single platform. The apps will remain standalone but messaging will be linked.
- The main reason for this decision is to enhance the efficiency and reliability of the three social network messaging apps. However, the plan to integrate the messaging services of the 3 apps does not sit well with Instagram and WhatsApp founders, and it could tamper with their initial agreement with Facebook.
- Also, the decision could raise concerns over data privacy as different apps have their unique ways of gathering information.



WhatsApp Reduces limit on Forwarded Message

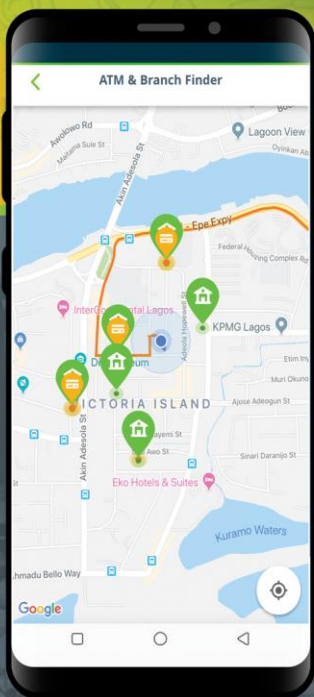
- WhatsApp reduced its limit on message forwarding to five from its initial limit of 20. This was announced on January 21st, ahead of the general election in Indonesia on April 17th.
- The decision was made to deter the spread of false information through the app.





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Monetary Policy Committee maintains status quo in its last meeting before election

- The Monetary Policy Committee voted to maintain status quo on all monetary policy parameters at its meeting on January 21 and 22. Subsequently, the MPR remained at 14% pa, Cash Reserve Ratio at 22.5% pa, the liquidity ratio at 30% pa and the asymmetric window at +200/-500 bps.
- The MPC considered both domestic and external factors before voting unanimously to maintain the status quo. Key considerations ranged from domestic happenings such as a fragile growth rate, an uptick in headline inflation and political uncertainties to global factors including the US-China trade war and an unclear direction of the Brexit deal.
- According to the MPC, risks to Nigeria's growth rate in 2019 include the sharp drop in oil prices, persistent security challenges and perceived political risks associated with the 2019 elections. The MPC also noted the disruptions to the food supply chain in insurgency-prone states as a key risk to headline inflation.

Analysis & Outlook

The MPC's decision to maintain status quo was in line with market expectations. Nonetheless, interest-rate sensitive sectors, such as real estate, will continue to feel the impact of a tight monetary policy stance. This could lead to a slow-down in the growth of these sectors, reflected in the Q4'18 GDP report scheduled to be released on February 11th.

IMF revises Nigeria's 2019 growth forecast to 2%

- IMF revised its growth outlook for Nigeria in 2019 to 2% from its earlier projection of 2.3%. The IMF also revised its 2020 growth projection downwards to 2.2%. The downward revision of the country's growth rate was primarily driven by the sharp decline in oil price.
- On the regional front, the IMF also revised downwards its 2019 growth outlook for the SSA region to 3.5% from its initial forecast of 3.8%. This was mainly due to its downward revision in the region's key producing countries, Nigeria and Angola.
- The negative impact of the US-China trade war on China's economy and other global economies also resulted in a downward revision of global growth to 3.5% from a previous estimate of 3.7%.

Analysis & Outlook

The downward revision of the IMF's global and domestic growth forecast will have an impact on investor confidence. China, one of Nigeria's top trading partners, has witnessed weak economic growth in recent times – and this has been further compounded by the US-China trade war. This could have a negative impact on its demand for Nigeria's key export commodities. This is negative for the country's export revenue in the near term.

Business Update

(Review Period: 15th – 30th January, 2019)

The Forex Market

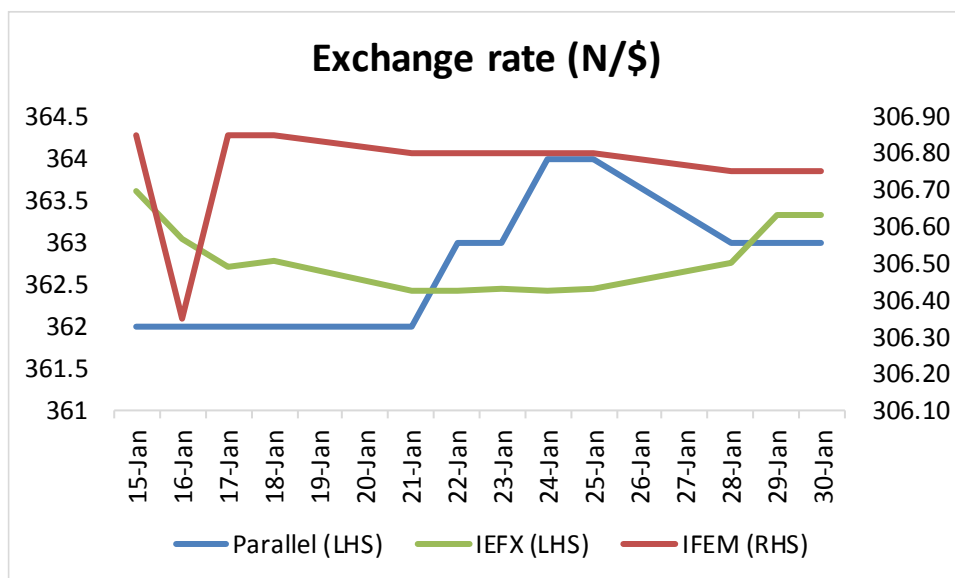
At the parallel market, the naira depreciated by 0.28% to N363/\$ on January 30th from N362/\$ on January 15th. The currency depreciation was partly driven by a decline in CBN's intervention in the forex market. The apex bank intervened with a total of \$499.76mn within the review period, 26.8% lower than its intervention of \$683mn in the first half of January. There was a mixed movement in the value of the naira against the pound and the euro. The naira depreciated by 1.49% to N469/£ from N462/£ at the start of the review period while the currency appreciated against the euro by 0.24% to close the review period at N411/€ on January 30th from N412/\$ on January 15th.

At the interbank foreign exchange market, the naira appreciated marginally by 0.03% to close the period at N306.75/\$ from N306.85/\$ on January 15th. The naira also appreciated at the IEFX window by 0.08% to close at N363.32/\$ from N363.61/\$ on January 15th. Total forex traded in the IEFX window was \$3.16bn compared to a turnover of \$1.37bn in the first half of January.

The level of Nigeria's gross external reserves went up by 0.16% to \$43.17bn at the close of the review period from \$43.10bn at the start of the review period. External reserves have now increased by 0.12% YTD. Nigeria's import cover increased to 10.75 months on January 29th from 10.73 months on January 15th.

Outlook & Implications

The currency is expected to remain under increased pressure owing to heightened political uncertainty. In the coming weeks, we expect the exchange rate to trade within a range of N365-N367/\$.



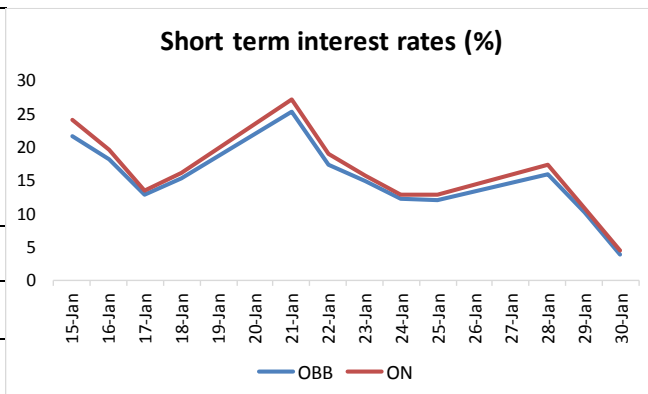
SOURCE: FDC Think Tank, CBN, FMDQ

The Money Markets

Average liquidity within the banking system improved from a negative position of N11.21bn in the first 14 days of January to N71.79bn long between Jan 15th-29th. The ease in the liquidity squeeze was reflected in a decline in average NIBOR (OBB&ON) from 23.76% between 1st-14th of January to 16.65% pa within the review period. Total OMO sale during the period of N1.42trn outweighed total maturities of N942.47bn, resulting in a net outflow of N477.53bn. At the last primary market auction on January 30th, the 91-day and 364-day tenors remained flat at 11.10% pa and 15% respectively. On the other hand, the 182-day tenor increased by 40bps to 13.5% pa. At the secondary market, the 91-day and 182-day T/Bills tenors declined by an average of 29bps to 11.63% pa and 13.35% pa respectively while the 364-day tenor increased by 45bps to 14.94% pa. As at January 29th, the Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates were 12.85% pa (30-day), 12.14% pa (90-day) and 14.16% pa (180-day).

| Tenor | Secondary market rates as at January 15 th , 2019 (%) | Secondary market rates as at January 30 th 2019 (%) | % change | Primary market rates as at Jan. 16 th 2019 (%) | Primary market rates as at Jan. 30 th 2019 (%) | % change |
|---------|--|--|----------|---|---|----------|
| 91-day | 11.68 | 11.63 | -0.05 | 11.10 | 11.10 | - |
| 182-day | 13.88 | 13.35 | -0.53 | 13.10 | 13.50 | 0.40 |
| 364-day | 14.49 | 14.94 | 0.45 | 15.00 | 15.00 | - |

| Tenor | NITTY rates as at January 15 th , 2019 | NITTY rates as at January 29 th , 2019 | Change |
|---------|---|---|---------|
| 30-day | 14.88%pa | 12.85%pa | -203bps |
| 90-day | 11.99%pa | 12.14%pa | 15bps |
| 180-day | 14.57%pa | 14.16%pa | -41bps |



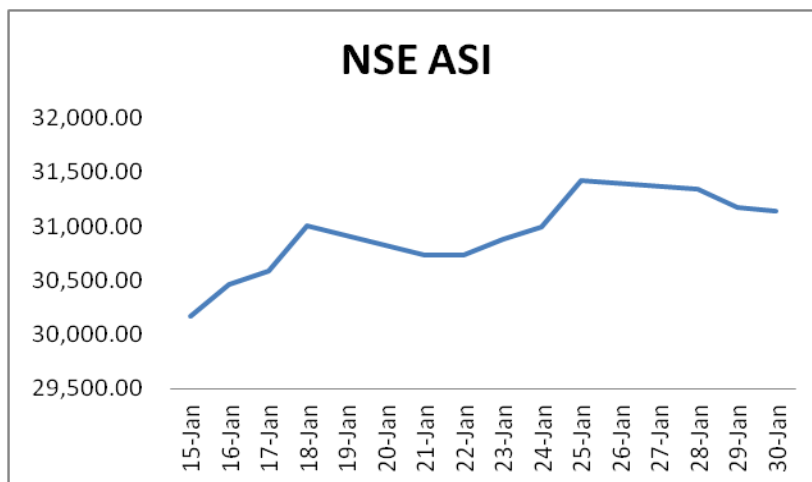
SOURCE: FMDQ, CBN

The Stock Market

The All Share Index (NSE ASI) increased by 3.22% to 31,145.34pts at the end of the review period from 30,173.53pts on January 15th. Market sentiment was largely driven by bargain hunting by investors. The bourse's YTD return is now at -0.91%. In the same vein, total market capitalization increased by 3.29% to close at N11.61trn compared to N11.24trn on January 15th. During the review period, there were 4 negative days and 8 positive days.

Outlook & Implications

Market performance will remain driven by bargain hunting by investors in anticipation of the release of FY'18 corporate earnings.



SOURCE: NSE

- **Brent** increased by 3.15% to close the period at \$62.55pb from \$60.64pb on January 15th.
 - Owing to Saudi Arabia's pledge to cut its crude oil output.

Outlook & Implication

- Threats of U.S. sanctions on Venezuelan oil output would result in increased oil prices in the near term. However, an increase in U.S. shale production could moderate gains in prices. Brent is currently trading above the budget benchmark of \$60pb. This is positive for government revenue and dollar accretion.
- **Natural gas** fell sharply by 18.57% to \$2.85/mmbtu on January 30th from \$3.50/mmbtu on January 15th.
 - Amidst forecasts of lower Turkish natural gas imports.

Outlook & Implication

- Prices are expected to continue the downward trend in the coming weeks due to an increase in US production. LNG accounts for 12.6% of Nigeria's export revenue. A further decline in prices will decrease the country's export revenue and have a negative impact on business proxies such as FAAC disbursements.
- **Corn** prices up by 2.43% to \$3.80/bushel from \$3.71/bushel at the start of the period.
 - Driven by unfavourable weather conditions in key producing countries including Brazil.

Outlook & Implication

- Unfavourable weather conditions are expected to push prices up in the near term. Corn is a key import commodity in Nigeria. Any increase in the global corn price is negative for Nigeria's import bill.
- **Wheat** prices gained 1.17% to \$5.17/bushel from \$5.11/bushel on January 15th.
 - Due to strong global demand.

Outlook & Implication

- The market is expected to be bullish in coming weeks due to arid weather conditions in Australia. Nigeria imports approximately 3% of global output. An increase in prices will increase the country's import bill and could result in an increase in prices of wheat-dependent commodities such as flour.

- **Sugar** prices down by 4.79% to \$0.1253/pound on January 30th from \$0.1316/pound.
 - On robust global supplies.

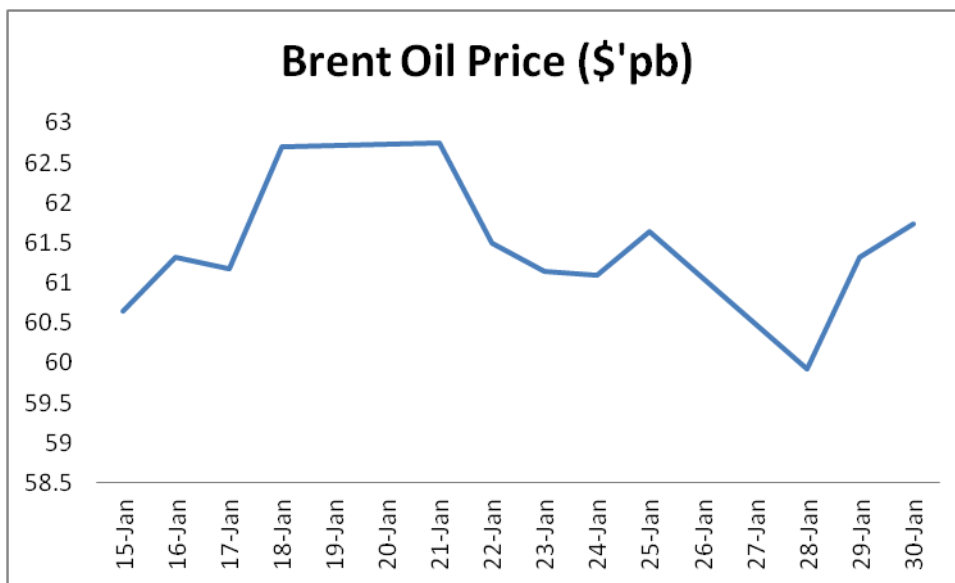
Outlook & Implication

- Prices are expected to increase in the coming weeks owing to a decline in India's sugar output. However, increased health consciousness by consumers could moderate price gains. Nigeria, the largest importer of sugar in SSA, spends approximately \$100mn annually to import the commodity. An increase in global sugar prices would result in an increase in the country's import bill.

- **Cocoa** prices down by 4.31% to close the period at \$ 2,176/mt from \$2,274/mt.
 - Owing to forecasts of strong output from Ghana.

Outlook & Implication

- Prices are expected to increase in the coming weeks due to arid weather conditions in Ivory Coast. Cocoa remains a key export commodity for Nigeria. An increase in prices will boost the country's export revenue significantly.



SOURCE: Bloomberg, EIA, Newsnow



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Lifestyle



Facts You Never Knew about Valentine's Day – Culled from Reader's Digest¹

Giving flowers, chocolate, and heart-shaped cards are all common customs on Valentine's Day. But why do we bother with these traditions anyway?

1. **Why we celebrate it on February 14:** Ah, the most important of Valentine's Day facts: why it is celebrated on the 14th of February. February 14 is the feast of St. Valentine, a Catholic saint who was executed by Roman Emperor Claudius II on that date sometime during the third century A.D. Many legends surround the reason for his death sentence. The most popular one says he was a priest who married young couples after Claudius outlawed marriage for young men (apparently, they were better soldiers when they were not romantically attached). Another says he helped save Catholics who were imprisoned for their religious beliefs. However, the holiday may have been promoted to overshadow the pagan festival Lupercalia. Between February 13 and 15, Romans celebrated by sacrificing a goat and a dog and whipping women with their hides. Crude as it may seem, people believed this made women more fertile, and women actually lined up to get slapped with bloody hides. In the fifth century, Pope Gelasius I outlawed Lupercalia and officially declared

¹ Full version available at <https://www.rd.com/culture/history-of-valentines-day/>

February 14 Valentine's Day. These other Valentine's traditions from around the world are much less gruesome.

2. **Why we call people “Valentines”:** Don't worry, there's a good reason we call our sweethearts the name of a beheaded priest. Legend has it that when St. Valentine was in prison, he prayed with the daughter of one of his judges and cured her blindness. Before his execution, he wrote her a letter, signing it “From your Valentine.” Whether or not this was a romantic gesture is up for debate. Nevertheless, the signature caught on and is still used to show affection.
3. **Why we give out roses:** Back in the Victorian era, people expressed their emotions through floriography, or the language of flowers. Giving a certain kind of flower conveyed a specific message, and red roses meant romance. Today, they carry that same symbol of romance—and they're really cheap. The United States buys huge quantities from large farms in Colombia and Ecuador, where the cost of labor is low. Then they're transported on refrigerated planes and arrive stateside in just three or four days. The reason these summer flowers bloom in February? Growers control what temperature they're stored at to make them open in time for Valentine's Day.
4. **Why we wear red:** Red has long been considered the color of passion and sexuality, and science can now confirm it. A study by University of Rochester psychologists found that men viewed women wearing red or standing in front of a red background as significantly more attractive and sexually desirable than women wearing or standing in front of different colors. Women felt the same way about men wearing red. The color also symbolizes confidence, spontaneity, and determination—all important factors in a romantic pursuit.
5. **Why we eat chocolate:** If you get a box of chocolates this Valentine's Day, thank Richard Cadbury. After he and his brother took over his family's chocolate manufacturing business, he discovered a way to extract pure cocoa butter from whole beans and added it to the company's chocolate drink. The process produced more cocoa butter than expected, so he put it in “eating chocolate” as well. Then, in a business ploy that would change the industry, Cadbury started designing beautiful boxes for his new chocolates, including special Valentine's Day ones with cupids and roses. It's believed that he made the first heart-shaped candy box, even though he didn't patent it.

6. **Why Cupid is a symbol of love:** Before he was called Cupid, the Greeks called this heavenly figure Eros, the god of love. He was considered somewhat of a sex symbol since he could woo humans and gods with his unnaturally good looks. According to Greek mythology, Cupid had two arrows, gold to make people fall in love and lead to make people hate each other. The Romans added him to their mythology as Cupid, the son of Venus, who was the goddess of love. During the Renaissance, artists painted Cupid as a putto, a cherub that resembled a naked child. Unfortunately for Cupid, that depiction stuck and went on to become a popular image for Valentine's Day.

7. **Why we use "XOXO" to represent hugs and kisses:** X as a symbol for kissing dates back to the Middle Ages. The most common theory states that many medieval folks who couldn't read would sign documents with a X, a symbol representative of Christ because of its similarity to a cross. They would then reverently kiss the X in a show of piety. It's not super clear where the O for "hugs" comes from; one theory is that the O was just along for the ride because it was also very easy to write. Another is that the "XOXO" symbol and the game Tic-Tac-Toe gained popularity at the same time, and thus X and O were already an established duo.



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