Volume 9, Issue 3

March 13, 2019

FDC MONTHLY ECONOMIC UPDATE

A Financial Derivatives Company Publication

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In This Issue ...

Nigeria's Post-election Economic Reality: Investment as the multiplier 3

7 Sugar production in Nigeria: a revenue opportunity despite a growing health consciousness

Protecting against another recession – Nigeria's top four diversification opportunities 11

14 Global Perspective: The new scramble for Africa – Culled from The Economist

Macroeconomic Indicators 17

25 Stock Market Review

Nigeria's Post-election Economic Reality: Investment as the multiplier

"*Consume rather than Invest, the curse of oil*" – Ruchir Sharma

Background

Nigerians re-elected President Buhari for another four years in what many have termed – a chance to make amends. In what could be called his third stint at the helm of affairs in Africa's most populous country (Buhari 3.0), questions about a coherent economic strategy are already being asked. In the last dispensation, protectionist posturing was worsened by a management style perceived to be distant while crucial decisions were delayed.

The economy is set to continue its recovery from the worst recession in its history. Nonetheless, the forecast is for economic growth to remain well below historic averages in the next five years. According to the Economist Intelligence Unit (EIU), Nigeria's Gross Domestic Product (GDP) is set to reach $473.5bn in 2019 and rise to $680.9bn by 2022. This prediction will hinge, for the most part, on the current intensity of economic reforms and current rate of investment being sustained.

Declining Income per Capita

It is important to note that Nigeria has a huge population of 180,000,000 and a population growth rate of 2.6% - higher than the 2018 GDP growth of 1.9%. GDP growth is projected to reach 2.0% and 2.2% in 2019 and 2020 respectively before rising to 3.2% by 2021. This means Nigeria would have had five consecutive years of declining income per capita – from 2016 to 2020. A burgeoning youth population is also unlikely to be matched by job growth, meaning unemployment – at over 40% - is likely to rise even further.

A breakdown of the GDP components show that Nigeria's gross fixed investment, at $66.5bn, will account for just 14.0% of GDP in 2019. This pales in comparison to that of other notable emerging economies – Brazil (19%), India (27.12%), China (42.86%), and South Africa (18.7%). Majority of countries in the world have gross fixed investment of 18-22%. The EIU goes further to forecast that gross fixed investment in Nigeria will rise by just one basis points to 14.1% ($86.2bn) by 2022.

Why does this matter?

The importance of this component of GDP is that it is a clear indicator of the future productive capacity of the economy. The aforementioned basically means that the current and projected rate of investment is simply suboptimal and far below the level required to propel Nigeria to an accelerated growth path. It is incapable of providing Nigeria with the investment impetus that will have the desired multiplier effect on output. Nigeria has also grossly underinvested in its infrastructure. The existing infrastructure gap is estimated at over $300bn and requires 10% of GDP ($37.6bn)/annum over the next 10 years to bridge – an unlikely feat given that current infrastructure needs are far in excess of current cash flows. Nigeria's capital budget in 2018 was $7.98bn – 26.6% of total budget and 2.2% of GDP. This compares to 6% of combined GDP of emerging market economies. Nigeria's share of emerging markets total spend on infrastructure is currently less than 1%.

Few options, Tough Choices

Nigeria's high population growth rate means it must be much more efficient with economic policy. Putting Nigeria on an accelerated path to a free and market driven economy requires making tough game-changing decisions now. It will begin with figuring out how to raise the level of gross fixed investment to levels above and beyond the global average of 18-22%. Investment in the next 3-5 years will depend on policies and incentives. Galvanizing domestic and international investment will be crucial. This will require a structure that incentivises private investment considerably more than what is currently obtainable. Achieving this will require significant increases in public investment in infrastructure, in addition to more comprehensive and deep-seated market-oriented structural reforms.

Our Suggestions: Game changing Formula

Raising the level of investment in infrastructure given the government's current revenue and borrowing constraints requires rethinking ways to attract private sector funding in the form of Public Private Partnerships (PPP). Outright sale and concessions of government assets – airports, seaports, inner city highways and trunk roads – should be a key consideration for policymakers.

$$Y = C + I + G + \underbrace{X - M}$$

	Y	C	I	G	X - M
Scenario 1: Growth sub-optimal					
GDP growth: 2-3%	$427.5bn	$341.3bn	$62.5bn	$19.9bn	$8.7bn
Scenario 2: Full employment					
GDP growth: 6%	$550bn	$423.9bn	$88.7bn	$24.7bn	$12.7bn
Scenario 3: Transformation & Improved quality of life					
GDP growth: 8-10%	$700bn	$534.2bn	$116.1bn	$32.2bn	$17.5bn

Airports concessioning has the potential to lower the average cost for aviation operators by 50%. The government's stake in the power distribution companies should be sold to the private sector while the power sector forbearance needs to be dealt with. The rail investment program needs to be accelerated while the road networks to major seaports need to improve.

Another item that is top on the list of reforms is the foreign exchange policy where a movement to currency convertibility with minimal intervention is paramount. Fears of a wild depreciation if the Central Bank of Nigeria lets go of its current policy of a managed float, are greatly exaggerated. The almost insignificant deviation between the parallel and the Investor Exporter Foreign Exchange (IEFX) window – which is closer to market equilibrium than the official rate – supports this fact. There is also the issue of fuel subsidy which has now taken the form of under-recovery as the Nigerian National Petroleum Company (NNPC) now fully bears the brunt of the subsidy as the sole importer of Premium Motor Spirit (PMS). Deregulating the downstream sector of the petroleum industry requires the removal of subsidies, which will spur competition, bring about efficiency and increased investment in domestic refining – the lack of which has been a huge drain on Nigeria's foreign exchange earnings over the years.

Not only is a game changing formula now imperative, it has become inevitable. Nigeria can continue at its current pace of reforms and investment – a recipe for chaos, social and political disintegration; or take drastic measures to raise public and private sector investment to levels that will accelerate productivity and economic growth.

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Sugar production in Nigeria: a revenue opportunity despite a growing health consciousness

Sugar, a commodity that has received increased attention in recent years, provides an avenue for Nigeria to improve its diversification strategy. Nigeria's sugar output barely accounts for 7 percent of its demand. Grown in states such as Katsina, Taraba, Kano, and Adamawa, the commodity fetches Nigeria a miserly $24.88 million in revenue and the demand gap is approximately 900,000 metric tons. This has resulted in an annual sugar import bill of approximately $100 million, the largest import bill for the commodity in sub-Saharan Africa.

The sub-optimal sugar output in Nigeria may be connected with the projected slowdown in global consumption, which is tied to the increased health awareness towards diseases such as diabetes and obesity caused partly by too much sugar intake. However, there are still arguments in favour of Nigeria boosting its sugar output.

The most obvious is that the country's growing population is likely to keep demand for the commodity stable in spite of increased health consciousness across the world. As such, it is worth investing in sugar to close the demand gap. An even more sustainable investment opportunity, however, lies in the increasing global demand for ethanol, a by-product of sugarcane and corn.

Ethanol has witnessed growing demand in the transportation industry over the past four decades as it is a cleaner and more affordable source of energy. To take advantage of this sugar opportunity, however, Nigeria must address certain challenges such as land acquisition and inadequate funding towards the ethanol sub-sector. In striving to address these obstacles, Nigeria can learn lessons from Brazil, which has tackled many of these challenges to become the leading global sugar producer.

Insecure investments and poor industry protections put sugar production at risk

The Nigerian Sugar Master Plan of 2012 is the starting point for this opportunity. The plan's objective was to boost domestic production of sugar to attain self-sufficiency by 2020 and to contribute to the production of ethanol and the generation of electricity.

FGN 2020 Sugar Industry Targets

Parameters	2020
Sugar demand (MMT)	1.75
Sugar importation (MMT)	-
Sugar production (MMT)	1.797
Number of sugar factories	28[1]
Ethanol production (ML)	161.1

[1]National Sugar Development Council. 2012. Nigerian Sugar Master Plan. Federal Government of Nigeria. http://www.nsdcnigeria.org/wp-content/uploads/2016/07/Nigerian-Sugar-Master-Plan.pdf

However, supply chain bottlenecks across the various producing states have hindered government attempts to meet the 2020 targets. Amongst the challenges hindering sugar production is the issue of land acquisition. Many sugarcane farms have been turned into residential areas, making it difficult for private investors to acquire land to establish sugar plants. The Dangote Group, for example, experienced several bottlenecks in acquiring enough land to meet its production 2013 target of 1.5 million metric tons. The Group was eventually forced to review its target downward to 1 million metric tons. If unable to secure the required land space to situate plants, investors become discouraged and Nigeria's sugar output remains sub-optimal.

Another challenge stifling sugar output is the government's poor protection of the local sugar industry. Currently, government incentives to boost domestic production of sugar include:

* a five-year tax for investors in the value chain
* a 10 percent import duty and 50 percent levy on imported raw sugar
* a 20 percent duty and 60 percent levy for imported refined sugar

However, without proper attention and implementation, these incentives are ineffective. Other governments have implemented strict measures with proper monitoring to encourage local farmers. For example, the U.S. deliberately keeps sugar prices high to encourage farmers to repay loans and continue production. The domestic sugar sub-sector needs serious attention from the government that goes beyond the formulation of a long-term plan, if it is to meet national consumer demand and explore ethanol opportunities.

The ethanol opportunity: lessons from Brazil

Policy makers can look to Brazil to better understand how to enter the ethanol market. Brazil, the leading producer of sugar, has relied on its export earnings from sugar for over five decades.

Its output has more than doubled from 122.08 million metric tons in 1965 to 671.4 million metric tons in 2009, fetching the country revenue of approximately $10 billion annually. Sugar production for ethanol has ensured that Brazil continues to remain relevant, producing more than 30 billion litres in 2015/2016. There are also projections that Brazil's annual ethanol capacity could rise beyond 50 billion litres by 2030.[2]

Brazil's ethanol industry dates back to the 1970s, after the oil price shock of 1973. Sugar cane became the country's main agricultural crop, serving as the feedstock for ethanol refineries. In the last two decades, the renewable liquid fuel became a replacement for gasoline in powering internal combustion engines.

The challenges facing Nigeria's sugar and ethanol output are not peculiar to Nigeria. Brazil has successfully addressed these obstacles and is worth emulating both for its ability to overcome bottlenecks and for its efforts to protect the sugar industry. To encourage ethanol producers, the Brazilian government introduced the RenovaBio program in 2017. The program is expected to double the use of ethanol by 2030 from its current level of 26 billion litres by fuel distributors. The framework of the program is designed to reward producers who invest in manufacturing clean biofuels. Fuel distributors will also be encouraged to buy the clean biofuel produced through a credit trading program. This structure is expected to attract new investment in the ethanol subsector and could be useful in modifying the Nigerian Sugar Master Plan.

[2]Rio De Janeiro. 2011. 'Brazil ethanol output could double by 2030-gov't study'. https://www.reuters.com/article/brazil-ethanol/brazil-ethanol-output-could-double-by-2030-govt-study-idUSL1N1U70U1

Another concern of biofuel expansion is the diversion of land meant for food production towards energy processing. The expansion of Brazil's ethanol output has come at a great cost and resulted in 14 percent of total agricultural land in the country being used to grow sugarcane. However, the boost in Brazil's ethanol output in the last two decades has not resulted in a drop in the country's food production. The replication of the Brazil model would require a substantial amount of land space in order to attract investors. It is important for the Nigerian government to engage communities on the long-term benefits of sugar plantations in the Nigerian economy. This would help to reduce the clashes between the government and omo oniles (local people who lay traditional claim to the land and often demand compensation ahead of land development). Compensation for affected families can also be used to encourage them to release the land to the government and prevent disputes. Such was the case in Oyo State when the government compensated approximately 77 families whose lands were acquired for mass production of cassava within the region in 2018.

Conclusion

In conclusion, Nigeria has a long way to go before it attains self-sufficiency in sugar production. However, with the right investment and government attention the country can become a net exporter of this commodity and a key player in the global market. Ethanol production offers a viable avenue and incentive for Nigeria to boost its sugar output, regardless of increased health consciousness.

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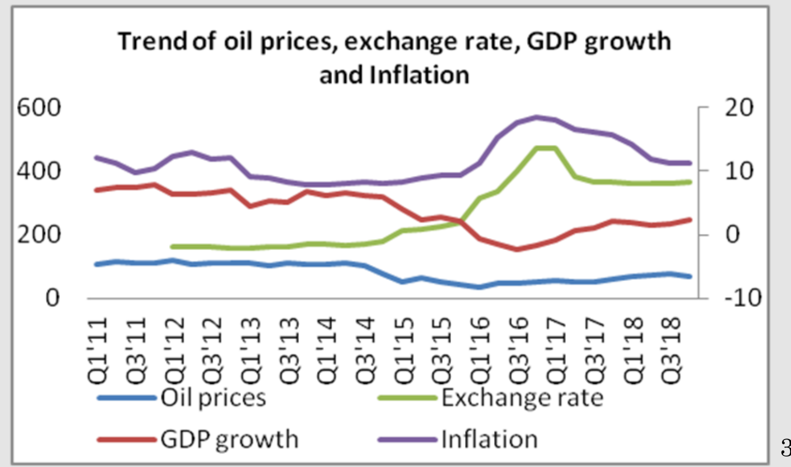
Protecting against another recession: Nigeria's top four diversification opportunities

The oil sector serves as a major source of foreign earnings in Nigeria, accounting for more than 80 percent of its export revenue and 60 percent of the total government revenue. Nigeria is exposed to the oil price shock owing to its reliance on oil revenue. In 2016, Nigeria's economic growth slipped into a recession due to plummeting oil prices and production shortfalls. The spillover effect was a currency crisis, with external reserves falling to as low as $23.9bn and several exchange rate adjustments implemented. The forex controls and resultant devaluation of the currency led to imported inflation as the headline inflation rate spiked to as high as 18.72% (January 2017).

Nigeria was reminded of its oil dependency again at the end of 2018 when, after a peak oil price of $86.29 a barrel in October 2018, Brent crude oil prices declined sharply to $50.47 a barrel on December 24, 2018. This resulted in lower oil revenue and external reserves which wilted in recent times. While oil prices are now trading above $60 a barrel, thanks to OPEC's (and its allies) further output cuts, this most recent price drop should be a reminder of Nigeria's dependency.



[3]

Deepening Non-oil Revenue

The Nigerian government needs to make revenue diversification a reality. There are five key areas where the Nigerian government and its agencies should focus to make a significant impact on revenue generation.

1. Improve the tax administration

Tax is less than 12% of federal government revenue, which is a reflection of the leakages in the tax administration system. To guard the loopholes and curb the effect of oil shocks on government revenue, avenues for higher tax income such as improving tax compliance, employing necessary and appropriate technology, introducing other indirect taxes to capture a greater share of the non-formal economy and increasing the effective tax rate for the elites through VAT on luxury goods should be put in place.

[3] FDC Think Tank

2. *Sales and Leasing of public assets*

An effective way to reduce deficits is by following the footsteps of some developed countries such as the United Kingdom and Australia by selling and leasing some government assets. FGN can harness revenue from financial assets by securitizing the government's minority equity holdings in Joint Ventures (JVs) and non-financial assets by commercializing idle lands and buildings and also, privatizing state-owned enterprises.

3. *Intervention in other mineral resources*

Nigeria has many discovered and proven solid minerals but a very small portion of them are currently mined. These untapped mineral resources will not only generate revenue but also create jobs and wealth for Nigerians. An enabling environment would also attract much-needed investment in this industry.

4. *Encourage the production of semi-processed commodities*

Agriculture was the mainstay of the economy and Nigeria's main export before the oil boom, and it remains one of the largest employers of labour. The major impediment of this sector is the lack of various seedlings, storage facilities, and inadequate farming techniques. Aside from the different agricultural programmes/funding schemes provided, measures need to be taken to ensure the provision of various seedlings, storage facilities and most importantly mechanized farming tools to genuine farmers. Nigeria has a comparative advantage in some Agric products such as tomatoes, rice, and groundnut in SSA. Harnessing necessary investments to these commodities will not only make the commodities sufficient for domestic consumption but also enough to generate export earnings. The agricultural sector, if given the required boost, would improve its share of government revenue, create more jobs for the unemployed youth, reduce the country's reliance on imports of processed food products and boost exports.

5. *Investment in power and infrastructure*

Operational capacity is less than 40% of Installed capacity of 12,522MW. Although there has been an improvement in power generated in the past few years, large challenges remain in all phases of the power value chain. Therefore, substantial funding is required to improve the efficiency and effectiveness of this sector. Also, good roads should be built and existing ones should be properly maintained. This would facilitate inter-state commerce and mobility, attract investments and encourage industrialization. Subsequently, the internally generated revenue would increase.

The impact of the price of oil on the Nigerian economy is reflected in high inflation, an unstable economy, a weak naira and the loss of jobs. The prevailing decline in crude oil prices has been moderated by OPEC's oil production cuts. However, there is an urgent need for the government to initiate tailored policies to save the Nigerian economy. Revenue diversification is fundamental to economic sustainability both now and when crude oil prices inevitably decline again.

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The new scramble for Africa, This time, the winners could be Africans themselves - Culled from Bloomberg

THE FIRST great surge of foreign interest in Africa, dubbed the "scramble", was when 19th-century European colonists carved up the continent and seized Africans' land. The second was during the cold war, when East and West vied for the allegiance of newly independent African states; the Soviet Union backed Marxist tyrants while America propped up despots who claimed to believe in capitalism. A third surge, now under way, is more benign. Outsiders have noticed that the continent is important and becoming more so, not least because of its growing share of the global population (by 2025 the UN predicts that there will be more Africans than Chinese people). Governments and businesses from all around the world are rushing to strengthen diplomatic, strategic and commercial ties. This creates vast opportunities. If Africa handles the new scramble wisely, the main winners will be Africans themselves.

The extent of foreign engagement is unprecedented. Start with diplomacy. From 2010 to 2016 more than 320 embassies were opened in Africa, probably the biggest embassy-building boom anywhere, ever. Turkey alone opened 26. Last year India announced it would open 18. Military ties are deepening, too. America and France are lending muscle and technology to the struggle against jihadism in the Sahel. China is now the biggest arms seller to sub-Saharan Africa and has defence-technology ties with 45 countries. Russia has signed 19 military deals with African states since 2014. Oil-rich Arab states are building bases on the Horn of Africa and hiring African mercenaries.

Commercial ties are being upended. As recently as 2006 Africa's three biggest trading partners were America, China and France, in that order. By 2018 it was China first, India second and America third (France was seventh). Over the same period Africa's trade has more than trebled with Turkey and Indonesia, and more than quadrupled with Russia. Trade with the European Union has grown by a more modest 41%. The biggest sources of foreign direct investment are still firms from America, Britain and France, but Chinese ones, including state-backed outfits, are catching up, and investors from India and Singapore are eager to join the fray.

The stereotype of foreigners in Africa is of neo-colonial exploiters, interested only in the continent's natural resources, not its people, and ready to bribe local bigwigs in shady deals that do nothing for ordinary Africans. The stereotype is sometimes true. Far too many oil and mineral ventures are dirty. Corrupt African leaders, of whom there is still an abundance, can always find foreign enablers to launder the loot. And contracts with firms from countries that care little for transparency, such as China and Russia, are often murky. Three Russian journalists were murdered last year while investigating a Kremlin-linked mercenary outfit that reportedly protects the president of the war-torn Central African Republic and enables diamond-mining there. Understandably, many saw a whiff of old-fashioned imperialism.

However, engagement with the outside world has mostly been positive for Africans. Foreigners build ports, sell insurance and bring mobile-phone technology. Chinese factories hum in Ethiopia and Rwanda. Turkish Airlines flies to more than 50 African cities. Greater openness to trade and investment is one reason why GDP per head south of the Sahara is two-fifths higher than it was in 2000. (Sounder macroeconomic policies and fewer wars also helped.) Africans can benefit when foreigners buy everything from textiles to holidays and digital services.

Even so, Africans can do more to increase their share of the benefits. First, voters and activists can insist on transparency. It is heartening that South Africa is investigating the allegedly crooked deals struck under the previous president, Jacob Zuma, but alarming that even worse behaviour in the Democratic Republic of Congo has gone unprobed, and that the terms of Chinese loans to some dangerously indebted African governments are secret. To be sure that a public deal is good for ordinary folk as well as big men, voters have to know what is in it. Journalists, such as the Kenyans who exposed scandals over a Chinese railway project, have a big role to play.

Second, Africa's leaders need to think more strategically. Africa may be nearly as populous as China, but it comprises 54 countries, not one. African governments could strike better deals if they showed more unity. No one expects a heterogeneous continent that includes both anarchic battle zones and prosperous democracies to be as integrated as Europe. But it can surely do better than letting China negotiate with each country individually, behind closed doors. The power imbalance between, say, China and Uganda is huge. It could be reduced somewhat with a free-trade area or if African regional blocs clubbed together. After all, the benefits of infrastructure projects spill across borders.

Third, African leaders do not have to choose sides, as they did during the cold war. They can do business with Western democracies and also with China and Russia—and anyone else with something to offer. Because they have more choice now than ever before, Africans should be able to drive harder bargains. And outsiders should not see this as a zero-sum contest (as the Trump administration, when it pays attention to Africa, apparently does). If China builds a bridge in Ghana, an American car can drive over it. If a British firm invests in a mobile-data network in Kenya, a Kenyan entrepreneur can use it to set up a cross-border startup.

Last, Africans should take what some of their new friends tell them with a pinch of salt. China argues that democracy is a Western idea; development requires a firm hand. This message no doubt appeals to African strongmen, but it is bunk. A study by Takaaki Masaki of the World Bank and Nicolas van de Walle of Cornell University found that African countries grow faster if they are more democratic. The good news is that, as education improves and Africans move rapidly to the cities, they are growing more critical of their rulers, and less frightened to say so. In 1997, 70% of African ruling parties won more than 60% of the vote, partly by getting rural chiefs to cow villagers into backing them. By 2015 only 50% did. As politics grows more competitive, voters' clout will grow. And they will be able to insist on a form of globalization that works for Africans and foreigners alike.

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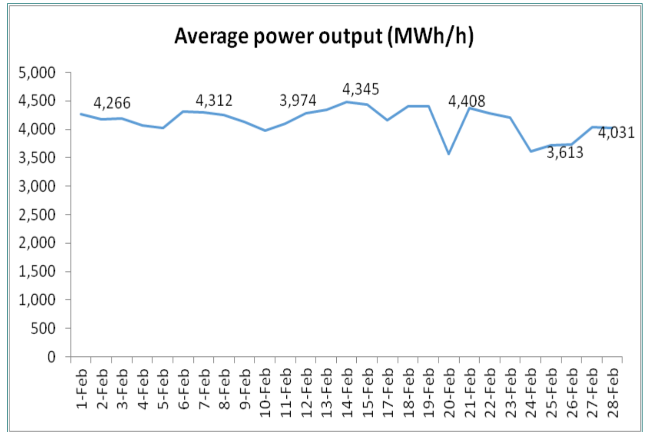
Macroeconomic Indicators

Power Sector

In February, average on-grid power output increased by 4.96% to 4,148MWh/h compared to the previous month's average of 3,952MWh/h. This was due to lower gas constraints in Egbin and Kainji power plants.

Insufficient gas supply to the GenCos remains a major constraint to power output. The gas constraint during the period was 58.53% (52,224MWh/h) of total constraints (89,229MWh/h). Revenue loss in February amounted to N44.38bn (N1.15trn annualized).



[4]

Outlook

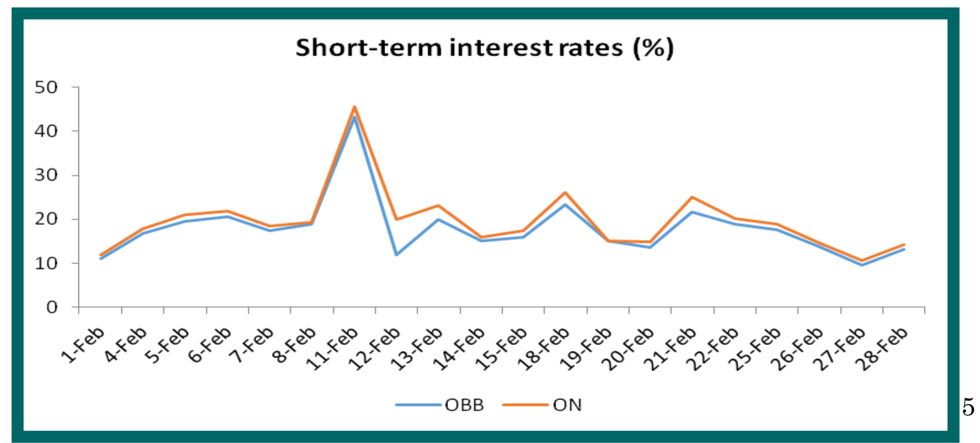
We expect an increase in on-grid power output as the largest GenCo – Egbin power plant – has reiterated its commitment to achieve 100% utilization of its installed capacity in 2019. The forthcoming rainy season would increase hydro power. Average power output is expected to oscillate within the range of 4100-4300MWh/h in the coming weeks.

Impact

A sustained rise in power supply is expected to ease business operations within the country.

Money Market

The average opening position of the interbank money market in February declined by 44.19% to N43.38bn long. The drop in liquidity was as a result of increased OMO bills sold by the CBN. A sum of N2.58trn was sold compared to N2.38trn in the prior month. This also pushed up interbank rates (OBB/ON) to an average high of 18.87% and 18.73% respectively. The total OMO bills that matured was N3.04trn, not sufficient to ease the tight liquidity.



[5]

[4]FGN, FDC Think Tank
[5]FMDQ, FDC Think Tank

At the last primary market auction, the yields on the 91-day, 182-day and 364-day T/Bills tenors rate fell by an average of 35bps. Similarly, at the secondary market, the rate across the three tenors declined by an average of 131bps during the review period.

T/bills Tenor	Secondary market rates as at Feb 1st (%pa)	Secondary market rates as at Feb 28th (%pa)	Direction	Primary market rates as at Feb 13th (%)	Primary market rates as at Feb 27th (%)	Direction
91	11.68	9.57	↓	10.97	10.90	↓
182	13.32	12.74	↓	13.40	13.01	↓
364	14.91	13.66	↓	14.95	14.37	↓

[6]

The Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates declined across the three tenors of 30, 90 and 180 days by an average of 113bps in February.

NITTY Tenor	Rates on Feb 2nd (%pa)	Rate on Feb 28th (%pa)	Direction
30	10.41	9.46	↓
90	11.84	10.64	↓
180	14.25	13.04	↓

[7]

Outlook

Interest rates movement is a function of market liquidity. The volatility in crude oil prices coupled with Nigeria's implementation of its OPEC quota would weigh on oil revenue and FAAC disbursements in March. Therefore, we expect reduced naira liquidity which would in turn lead to a rise in interest rates.

Impact

In principle, nominal interest rates are inversely related to liquidity. An increase in nominal interest rates will lead to an increase in government debt interest payments.

Forex Market

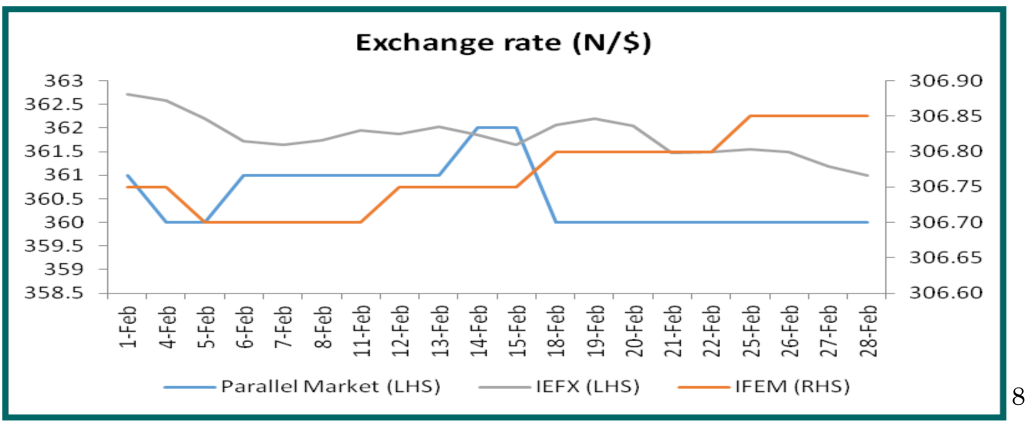
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

[6] FMDQ, FDC Think Tank
[7] FMDQ, FDC Think Tank

Exchange Rate

At the parallel market, the naira appreciated by 0.28% to N360/$ in February, despite the reduction in the CBN's forex intervention. The CBN's forex intervention reduced by 18.2% to $967.53mn in February from $1.18bn in January. Similarly, the naira appreciated by 0.73% and 0.42% against the euro and the pound sterling to N408/€ and N470/£, respectively.

At the interbank market, the naira depreciated by 0.03% to close the month at N306.85/$ while at the IEFX window, the naira appreciated by 0.47% to N360.99/$. This was due to an increase in the total turnover at the IEFX window which was up by 40.13% to $6.67bn.



[8]

Outlook

We expect the exchange rate to be largely dependent on the CBN's forex intervention. The peaceful conduct of the 2019 Presidential and National Assembly elections contributed immensely to naira stability. However, the demand pressures by manufacturers to stock up inventories ahead of the Easter celebrations could lead to exchange rate depreciation.

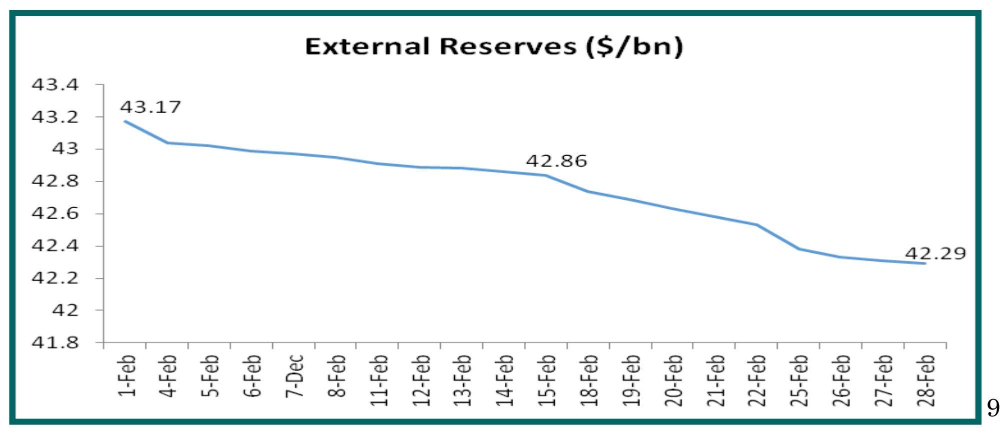
Impact

Currency depreciation is negative for the country's import bill and the manufacturing sector which is import-dependent.

[8] FMDQ, FDC Think Tank

External Reserves

Gross external reserves declined by 2.02% to close at 42.3bn in February from January's close of $43.17bn. This was despite a reduction in the level of CBN's forex intervention in February by 18.2%. Consequently, the import cover declined to 10.54 months from 10.73 months in January.



[9]

Outlook

Nigeria's external reserves are a function of crude oil earnings. With the possible continuation of global supply tightening by OPEC and its allies till June 2019, Nigeria would be under pressure to implement the new OPEC quota of 1.685bpd. Unless crude oil prices are high enough to compensate for the lower crude oil production, we expect a moderate decline in external reserves in March.

Impact

Depletion in external reserves could limit the CBN's forex intervention and subsequently, impact negatively on the stability of the exchange rate.

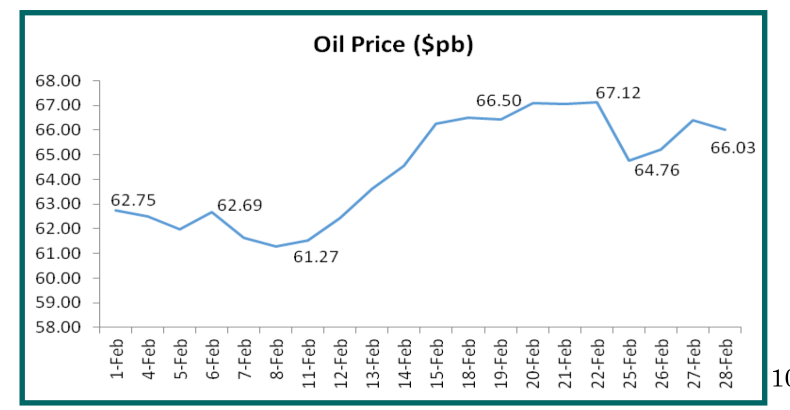
[9]CBN

Commodities Market - Exports

Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

Brent prices averaged $64.43pb in February, 6.94% higher than January's average of $60.25pb. The increase in oil prices could be attributed to OPEC led production cut and US sanctions on Venezuela and Iran's crude oil exports.



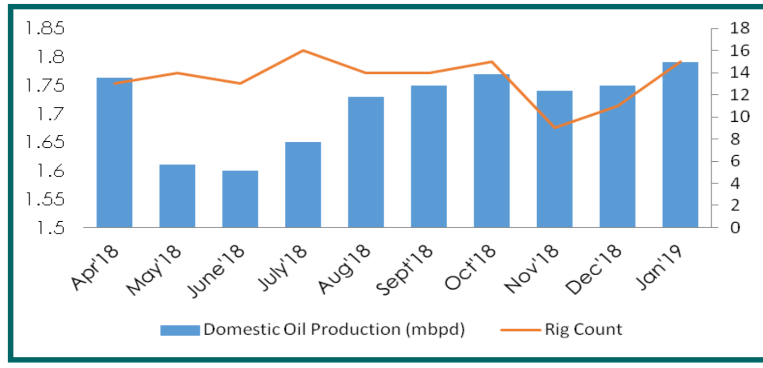
[10]

Outlook

We expect the bullish trend in prices to be sustained in the coming weeks due to a strengthened commitment and compliance to the production cut and a stronger global demand. However, a surge in US crude oil stockpiles could curtail the gains expected.

Oil Production

According to OPEC's latest monthly report, Nigeria had the highest increase in domestic oil production among the OPEC members. Domestic oil production in January stood at 1.79mbpd, 2.87% higher than December's output of 1.74mbpd and 6.23% higher than Nigeria's quota of 1.685mbpd. Similarly, Nigeria's oil rig count increased to 15 in January from 11 in December.[11]



[12]

Outlook

Nigeria's oil production is currently capped at 1.685mbpd and it is expected to comply with its quota. This would lead to a 5.87% reduction in the country's oil output from January levels.

Impact

Nigeria is more production sensitive than price sensitive. The projected increase in oil prices is positive for oil revenue. However, if oil production falls due to the commitment to the output quota, Nigeria's oil proceeds will fall with negative implications on fiscal and external buffers.

FACTS & FIGURES

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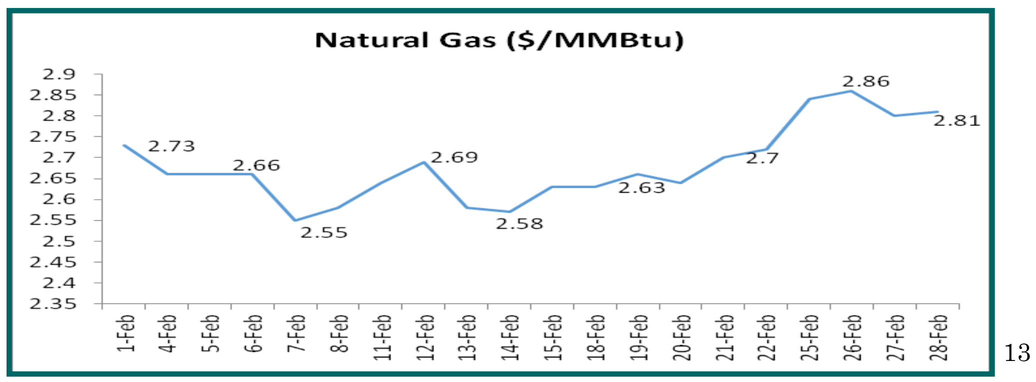
[10] Bloomberg
[11] Oilfield Knowledge Center, October 2018. Baker Hughes (a GE Company) Rig Count, http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsintl
[12] OPEC and Baker Hughes

Natural Gas

In February, the average natural gas prices stood at $2.68/mmbtu, which is 14.10% lower than January's average of $3.12/mmbtu. This could be attributed to EIA's report of a decline in US natural gas supplies.



[13]

Outlook

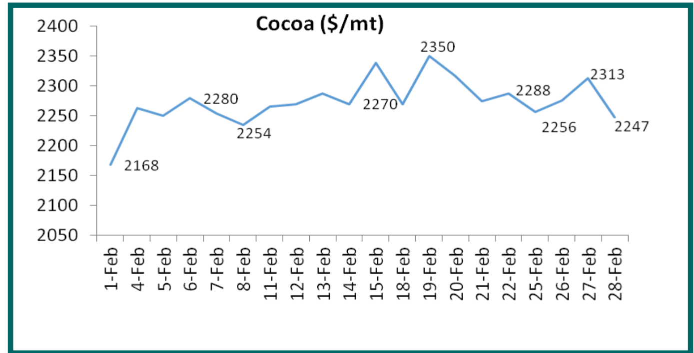
We expect prices to be bearish in the near term due to an increase in Iran's LNG supply and the discovery of natural gas reserves in China.

Impact

LNG accounts for approximately 10% of Nigeria's export revenue. A further decline in prices will reduce the country's export revenue with a negative effect on FAAC disbursements.

Cocoa

The average price of cocoa stood at $2,277/mt in February, 1.17% lower than the average price of $2,304/mt in January. This was driven by expectations of strong global supply in 2018/19 season.



[14]

Outlook

Improved weather condition in the major producing countries (Ivory Coast and Ghana) is expected to boost cocoa production. The resulting increase in global supply would weigh on cocoa prices.

Impact

Nigeria exports approximately 250,000 tonnes of cocoa.[15] A decline in cocoa prices would have a negative impact on Nigeria's export revenue.

[13] Bloomberg
[14] Bloomberg
[15] EIU

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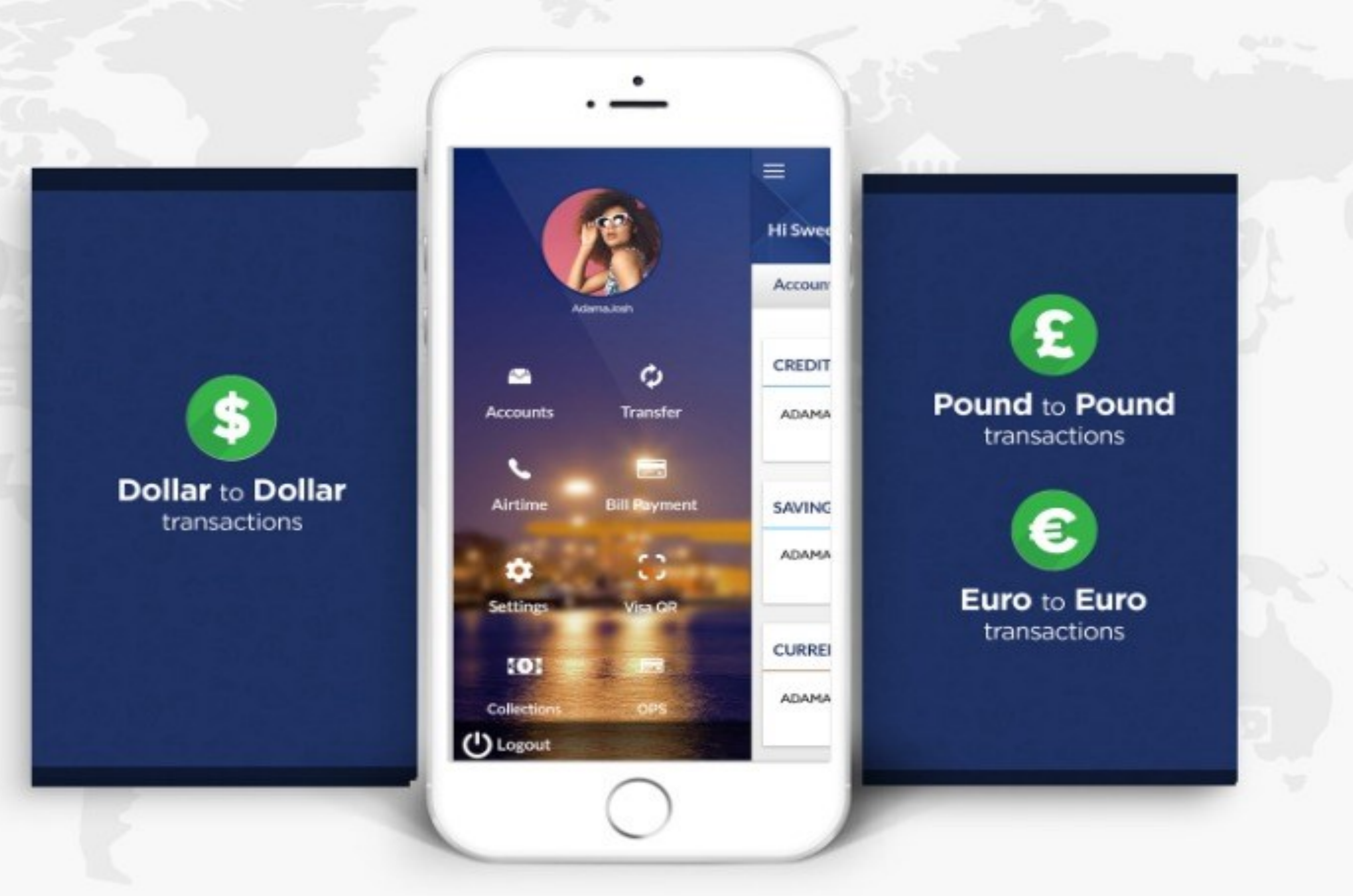

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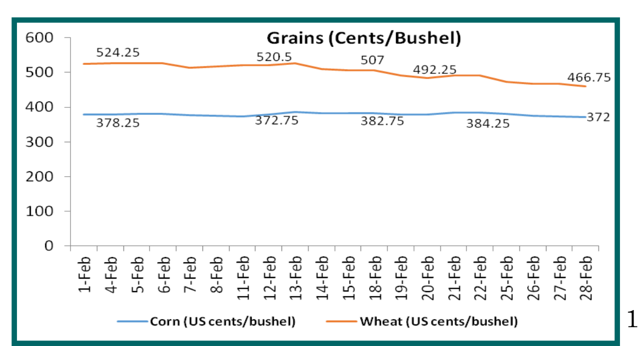
Commodities Market - Imports

Wheat

Average wheat prices declined by 2.71% to $5.03/bushel in February from $5.17/bushel in January. This could be attributed to a glut in global supply.

Corn

Corn price rose by 1.85% to $3.71/bushel on February 28th from $3.78/bushel February 1st. This was as a result of the optimism in the US/China trade deal.



[16]

Impact

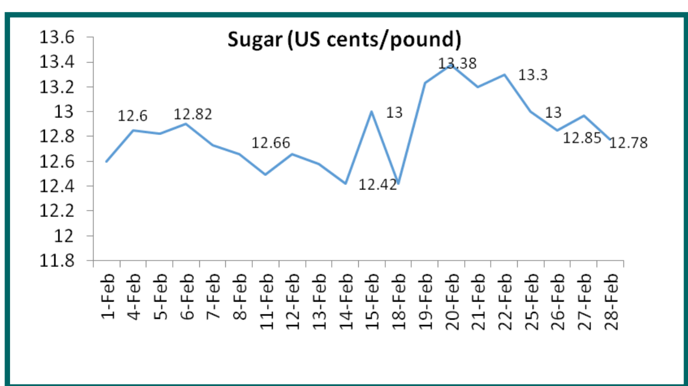
Nigeria is highly dependent on imported grains. An increase in grain prices would increase the country's import bill and also reduce the top line of companies that are grain-dependent such as Flour Mills of Nigeria Plc and Honeywell Flour Mill Plc.

Grains- Outlook

The performance of the grains market in the near term will depend largely on the outcome of the ongoing US-China trade talks. Positive outcome of the meetings will drive up prices as China renews its buying interest in grains (wheat and corn) from major producers such as the US.

Sugar

Sugar prices averaged $0.1287/pound in February, 1.42% higher than January's average of $0.1269/pound. During the review period, sugar prices touched a 16-week high of $0.1338/pound on February 20th before retreating to close the period at $0.1278/pound. This was despite the growing concerns over low global supply.



[17]

Outlook

We expect sugar prices to trend downward in the coming weeks due to a projected rebound in India's sugar production, the second largest producer in the world.

Impact

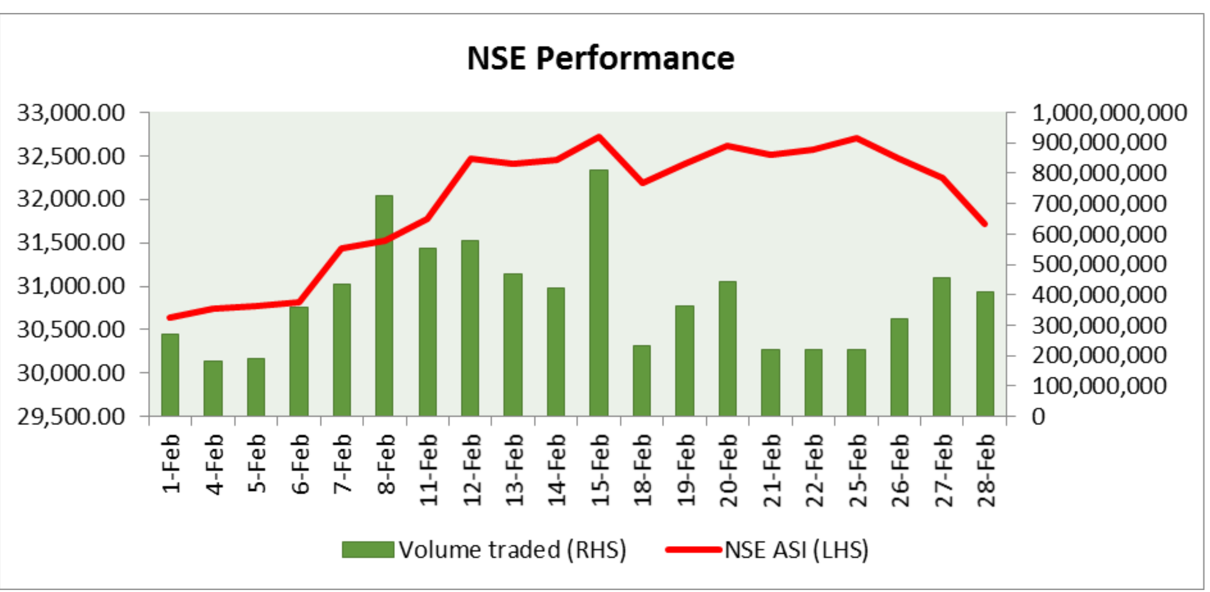
Nigeria is the 10th largest importer of sugar globally. A decline in sugar prices would filter through to lower production costs for FMCG companies such as Nestle and Cadbury.

[16] Bloomberg
[17] Bloomberg

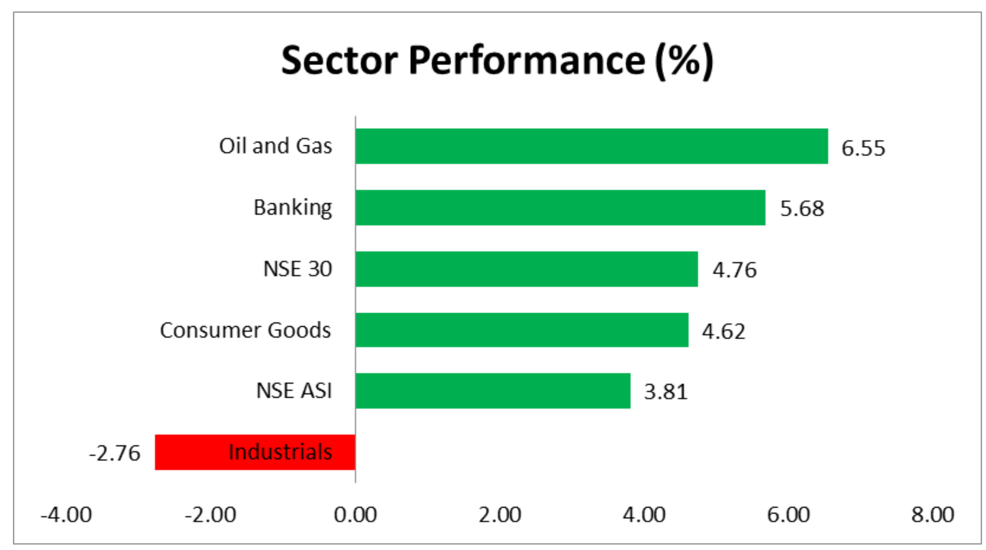
Stock Market Update

Investor bargain hunting of undervalued stocks and the declaration of dividends by market heavyweights such as Dangote Cement Plc and Zenith Bank Plc triggered a bullish sentiment on the Nigerian bourse in February. The NSE ASI gained cumulatively 3.81% to close at 31,721.76 points on February 28th relative to its close of 30,557.20 points on January 31st. The market capitalization also increased by 3.86% (N11.39trn) to N11.83trn. The market witnessed 14 days of positive trading and 6 negative trading days.

The NSE traded at a price to earnings (P/E) ratio of 7.76x as at February 31st, 12.22% lower than the close of January 31st (8.84x). The market breadth was positive at 3.0x relative to 0.6x in January, as 72 stocks gained, 24 lost while 72 stocks remained unchanged.



The market also saw an increase in activity level. Average volume traded rose by 39.05% to 394.50mn units while the average value of trades jumped by 71.59% to N4.65bn.



All indices except the industrial sector gained within the review period. Oil & gas led the sector indices as OANDO (19.19%) and SEPLAT (15.70%) recorded substantial gains, while the industrial sector lost, as a dominant player (CCNN (16.67%)) reversed some of its January gains.

Dangote Flour Mills Plc topped the gainers' list with an 81.67% increase in its share price; closely followed by Associated Bus Company Plc (58.82%), McNichols Consolidated Plc (54.55%), Ikeja Hotel Plc (42.00%) and Beta Glass Plc (31.67%).

TOP 5 GAINERS (N)				
Company	**Jan 31'19**	**Feb 28'19**	**% Change**	**Absolute Change**
DANGOTE FLOUR MILLS PLC.	6.00	10.90	81.67	4.90
ASSOCIATED BUS Co. PLC.	0.34	0.54	58.82	0.20
MCNICHOLS CONSOLIDATED PLC	0.33	0.51	54.55	0.18
IKEJA HOTEL PLC	1.50	2.13	42.00	0.63
BETA GLASS PLC	60.00	79	31.67	19.00

The laggards were led by C&I Leasing Plc (-26.88%), Cement Company of Northern Nigeria Plc (-16.67%), Vitafoam Nigeria Plc (-16.67%), Total Nigeria Plc (-14.91%) and International Breweries Plc (-13.22%).

TOP 5 LOSERS (N)				
Company	**Jan 31'19**	**Feb 28'19**	**% Change**	**Absolute Change**
C&I LEASING PLC.	9.04	6.61	-26.88	-2.43
CEMENT COMPANY NORTHERN NIGERIA PLC	24	20	-16.67	-4
VITAFOAM NIGERIA PLC	4.8	4	-16.67	-0.8
TOTAL NIGERIA PLC	223.3	190	-14.91	-33.3
INTERNATIONAL BREWERIES PLC	30.25	26.25	-13.22	-4

Corporate Disclosure

Dangote reported an 11.87 percent increase in sales to N901.21 billion for 2018 due to an increase in sales volume and price. The company posted an increase of 91.1% in profit after tax (PAT) to N390.33 billion as a result of a tax credit of N89.52 billion. It also proposed a dividend of N16 per share.

Nigerian Breweries reported a 4.26% fall in top line to N350.23bn as a result of the federal government's introduction of a sin tax on spirits and alcoholic beverages. The company's profit after tax (PAT) decreased by 41.18% to N19.44bn due to an increase in the marketing and distribution expenses. The company declared dividend of N1.83

Company	Sector	Topline	Profit After Tax (N'billion)	Dividend (N/share)	Dividend Yield (%)
Dangote Cement	Industrial	901.21 11.87%	390.33 91.1%	16	8.19
Nigerian Breweries Plc	Consumer Goods	350.23 4.26%	19.44 36.93%	1.83	2.44

Outlook

We expect to see some volatility on the NSE in the month of March. The market sentiment would be largely influenced by the second-term economic blue-print of the President-elect and the release of more corporate earnings.

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