

Unity Bank Digest

July 16th, 2019



The Highlights

Headline inflation eases to 11-month low of 11.22% in June

Nigeria's headline inflation rate declined by 0.18% to 11.22% in June from 11.40% in May. This is the lowest level since July 2018 and brings the CBN closer to its target range of 6%-9%. The reduction is primarily due to increase in aggregate output. Month-on-month inflation moved in tandem with headline inflation, declining from 1.11% (14.23% annualized) to 1.07% (13.69% annualized). Both the food and non-food consumer price basket also declined in June. Food basket eased from 13.79% in May to 13.56% in June while core inflation (inflation less seasonalities) declined from 9.0% to 8.8% in June.

We expect the commencement of the harvest season to push down commodity prices in the third quarter. Hence, headline inflation is likely to continue its current downward trend in July. Although, the moderation in inflation numbers will be cheery news to the doves in the monetary policy committee at their meeting next week, we expect the committee to continue with its wait and see approach on monetary policy parameters.

Oil production jumps to a four-year high of 1.86mbpd

According to OPEC's latest monthly report, Nigeria's oil production jumped by 7.51% to a 4-year high of 1.86mbpd in June. This was despite a flat rig count of 14 for five consecutive months. Meanwhile, OPEC's crude oil production declined by 68tb/d to an average of 29.83mbpd. The increase in production will have a positive impact on Nigeria's terms of trade, balance of trade and fiscal position.

On the flipside, OPEC's extension of its production cut till March 2020 would require the country to reduce output by 9.68% to 1.685mbpd if forced to comply. Given that Nigeria is more production sensitive than price, a decline in production would weigh on the country's oil revenue.

Capital importation flows into Nigeria spiked 216.03% to \$8.49bn in Q1'19

Capital importation into Nigeria increased by 216.03% to \$8.49 billion in Q1'19 relative to \$2.69 billion in Q4'18 and an increase of 34.61% relative to \$6.30 billion in the corresponding quarter in 2018. Total capital imported consists of three categories – Portfolio investment, which accounted for the highest was 84.21% of capital inflows (\$7.15bn), followed by 'Other Investments', which accounted for 12.91% (\$1.10bn) and then Foreign Direct Investment which accounted for 2.86% (\$243.36mn). On a country-by-country basis, Nigeria received the highest inflows from the United Kingdom (\$4.53bn) followed by United States (\$1.53mn) and South Africa (\$763.51mn). Although capital inflow increased in all the three categories, FDI remained the lowest component of capital inflows into Nigeria in Q1'19. Investment, a key stimulant for economic growth, is a needed stimulus for the various sectors in Nigeria.

China's economic growth slumps to 27-year low of 6.2% in Q2'19

China's economic growth rate fell to 6.2% from 6.4% in Q1'19. This is the slowest pace of growth since 1992. The decline could be partly attributed to the prolonged trade tension with the United States and lingering financial problems. The biggest drag to the Chinese economy was the trade sector. The country's export dipped 1.3% y-o-y and imports fell by 7.3%. China is one of Nigeria's major trading partners. It accounted for 19.7% of its imports and 2.4% of exports. The slowdown in the country's economy could weigh on Nigeria's trade balance.

Nigeria's current account now in deficit

Nigeria's current account recorded a deficit of \$1.1 billion in Q1'19 relative to a surplus of \$1.1 billion in the previous quarter (Q4'18). The decline was due to a fall of \$2.8 billion in crude exports. Nigeria is highly dependent on crude oil revenue and it accounts for 80% of total export earnings. Nigeria's compliance to the OPEC output cut implies that the country would have to cut its production by 9.68% to 1.68mbpd which would have a negative impact on Nigeria's export earnings. Nevertheless, the import substitution strategy of the federal government and the development of selective non-oil exports would moderate the loss from oil earnings.

Nigeria signs Africa continental free trade area pact

President Muhammadu Buhari signed the Africa free trade agreement at the African Union (AU) summit in Niger on July 7. Nigeria is now among the 54 countries that have signed the African Continental Free Trade Agreement (AfCFTA), after 16 months of delay. Only Eritrea is yet to sign. For a country with a population of 191 million and an economic size of \$422bn, the largest in Africa, accounting for 5.5% of total African trade (\$7.1bn), this is a significant feat.

AfCFTA aims to integrate markets, creating a \$3.4 trillion economic bloc that could usher in a new era of development. Thus, participating in a trade area such as this provides a larger market for Nigerian goods. However, increased regional integration would lead to unfair competition for jobs and goods.



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Social Corner

Algeria defeats Nigeria to face Senegal in final

- Nigeria lost 2-1 to Algeria in the semi-final of the Africa Cup of Nations (AfCoN).
- Algeria's first goal was an own-goal which was scored by Troost-Ekong while the second goal was scored by Mahrez through a free kick.
- Algeria will be competing in the final of the continental tournament for the first time in 29 years with Senegal on Friday, July 19.



Social Media Apps -WhatsApp, Facebook, Instagram- Down

- Social media experienced a meltdown for users across the world on July 3rd, with most users being unable to download media files.
- Facebook, Instagram, WhatsApp and Twitter experienced various issues. Facebook, on behalf of its other apps, Instagram and WhatsApp, apologized for any inconvenience through their various platforms and disclosed that the malfunction was triggered by their routine maintenance operations.



USA wins Women's World Cup 2019

- The US Women's National Team (USWNT) on July 7 defeated the Netherlands (2-0) to emerge as the winner of the FIFA Women's World Cup for the fourth consecutive time.
- The team achieved its biggest ever score margin in World Cup history when they



defeated Thailand (13-0). Germany held the previous record, defeating Argentina 11-0 in 2007.

- Furthermore, the USWNT is currently suing the U.S. Soccer Federation for gender discrimination, with a focus on the pay gap between the men and women's teams.

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Main Report

Capital importation up 34.61% (y-o-y) to \$8.49 billion in Q1'19

- The total value of capital importation into Nigeria spiked by 216.03% to \$8.49 billion in Q1'19 compared to \$2.69 billion in Q4'18. It also increased by 34.61% compared to the first quarter of 2018.
- A further breakdown showed a 40.38% increase in Foreign direct investment (FDI) quarter-on-quarter (q/q) to \$243.36mn. Likewise, portfolio investment rose sharply by 305.85% q/q to \$7.15bn while other investments grew by 45.97% q/q to \$1.09bn.
- Portfolio investment remained the largest receiver of capital inflow. It accounted for 84.21% of total capital importation. Followed by other investment (12.91%) and foreign direct investment (2.86%). However, portfolio investment is hot money and is bad for the economy. FDI is more stable therefore, the hot money could fizzle out at the slightest sniff of crisis.
- On a country-by-country basis, Nigeria received the highest inflow from the United Kingdom (\$4.53billion), United States (\$1.53billion) and South Africa (\$763.51million).

Analysis & outlook

The increase in capital importation is indicative of the sustained investor confidence in the Nigerian economy following the peaceful conduct of the 2019 general elections. We expect a further increase in capital flows in Q2'19. The possible shift towards monetary accommodation in the advanced countries would enhance the attractiveness of emerging markets to investors such as Nigeria. This would have a positive impact on the performance of markets (bonds and equities).

Business Update

(Review Period: 1st – 12th July, 2019)

The Forex Market

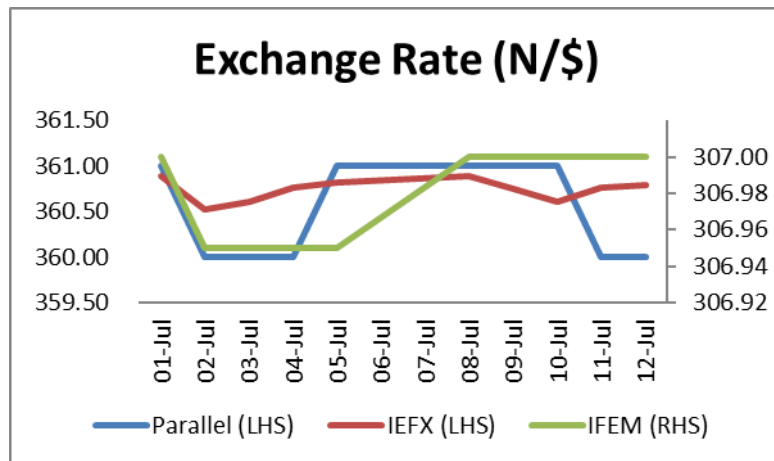
The currency appreciated against the dollar by 0.28% to close the period at N360/\$ from N361/\$ at the start of the review period. This was despite the decline in the CBN's forex intervention. The apex bank intervened with \$298.71 million in the first twelve days of July, 40.81% lower than \$504.7 million in the corresponding period in June. On the other hand, whilst the naira weakened by 0.22% against the pound to close at N463/£ on July 12, it strengthened against the euro by 0.49% to N405/€ on July 11 before depreciating to close the review period at N407/€.

At the inter-bank market, the naira depreciated to N307/\$ from N306.95/\$. In the same vein in the IEFX window the currency also depreciated by 0.06% to N360.79/\$ from N360.57/\$ at the beginning of the review period. Total forex traded in the IEFX window spiked by 50.44% to \$1.70 billion compared to the corresponding period in the previous month.

The level of Nigeria's external reserves increased by 0.18% to \$45.13 billion on July 10th from its level of \$45.05 billion at the start of the review period. Subsequently, Nigeria's import cover rose to 11.24 months from 11.22 months on July 1st.

Outlook & Implications

We expect the naira to depreciate to N362/\$ in the coming weeks due to demand pressure from pilgrimage (Hajj). Nevertheless, we expect the CBN to remain committed to defending the naira either through its regular intervention in the forex market or its aggressive OMO intervention strategy.



SOURCE: FDC Think Tank, CBN, FMDQ

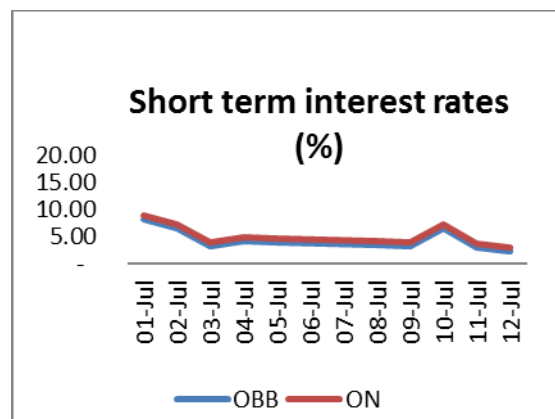
The Money Markets

During the review period, the average liquidity within the banking system stood at N512.91 billion, 44.49% higher than the position of N354.99 billion recorded in the corresponding period in June. The increase in liquidity could be partly attributed to a fall of 16.07% in OMO sales to N400 billion and an increase of 4.07% in OMO repayments to N184.82 billion. This resulted in a net outflow of N215.18 billion during the period. In response to the high liquidity, the short term interest rates (OBB & ON) declined by an average of 374bps to close the period at 2.21% pa and 2.93% pa respectively.

At the primary market, the yields for 91-T/Bill tenor increased by 90bps while 182 and 364-T/Bills tenors fell by an average of 15bps. Meanwhile, at the secondary market, the 91-day and 182-day tenors decreased by an average of 133.5bps while the 364-day tenor increased by 14bps.

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates moved in the same direction during the review period. The 30, 90 and 180 day tenors decreased by an average of 169bps.

Tenor	NITTY rates as at July 1 st , 2019	NITTY rates as at July 11 th , 2019	Change
30-day	10.91%pa	9.23%pa	-168bps
90-day	11.80%pa	9.86%pa	-194bps
180-day	12.54%pa	11.09%pa	-145bps



SOURCE: CBN, FMDQ

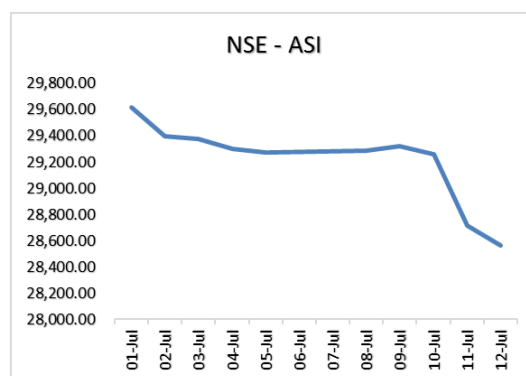
Tenor	Secondary market rates as of July 1 st , 2019(%pa)	Secondary market rates as of July 12 th , 2019 (%pa)	% change	Primary market rates as of June 19 th , 2019(%pa)	Primary market rates as of July 3 rd , 2019(%pa)	% change
91-day	11.61	10.06	-1.55	9.60	10.5	0.90
182-day	11.79	10.67	-1.12	11.89	11.7	-0.19
364-day	11.40	11.54	0.14	12.02	11.91	-0.11

The Stock Market

The Nigerian Stock Exchange All Share Index (NSE ASI) lost 4.67% to close the review period at 28,566.79 points. This was despite the listing of Airtel Africa on the NSE. Airtel listed on NSE on July 9th at N399.30 per share and it has lost cummualtively 18.98% to close at N323.50. On the other hand, market capitalization increased by 6.67% from N13.05 trillion on July 1st to N13.92 trillion on July 12th. Also, the policy and regulatory highhandedness of the CBN weighed on the performance of the banking sector index during the review period. The market's current YTD return is now negative at 9.11%. The market gained in only two of the ten trading days during the period.

Outlook & Implications

We expect the NSE to remain volatile in the coming weeks given mixed investor sentiment. We expect long term investors to take advantage of undervalued stocks. The speculative activity by investors should trigger a rebound on the bourse in the coming weeks.



SOURCE: NSE

- **Brent oil** prices rose by 2.55% during the review period to close at \$66.72pb on July 12th, due to a lower than expected US inventories.

Outlook & Implications

- We expect an increase in the prices of oil due to OPEC's oil cuts extension to March 2020 coupled with the drawdown in the US shale stockpiles. This will have a positive impact on Nigeria's external reserves and the CBN's support of the Naira.
- **Natural gas** prices increased by 7.93% to \$2.45/mmbtu on July 12th from \$2.27/mmbtu on July 1st, due to high global demand.

Outlook & Implications

- A sustained increase in US natural gas inventories would weigh on prices. LNG is Nigeria's second major export; lower prices will have a negative impact on the country's external buffers and fiscal position.
- **Corn prices** increased by 8.70% from \$422.5/bushel at the beginning of the review period to \$459.25/bushel at the end of the review period, despite improved US weather conditions.

Outlook & Implications

- Increased production in the US is expected to push down prices in the coming weeks. Nigeria is a net importer of corn. Lower corn prices would likely reduce the country's import bill.
- **Wheat** prices gained 2.20% to end the review period at \$523/bushel, as a result of a tight supply in Ukraine

Outlook & Implications

- Expectations of a robust US supply would likely have an adverse impact on prices. Nigeria's manufacturing firms depend largely on imported wheat to augment lower domestic production. An increase in the global price of wheat would weigh on the production costs of wheat dependent firms such as Flourmills and Honeywell.

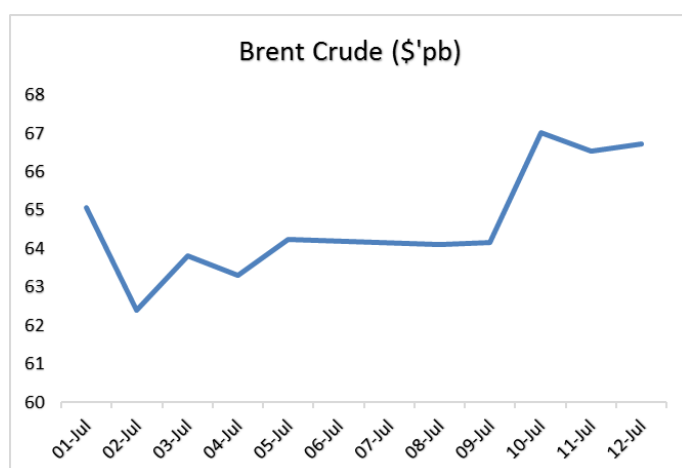
- **Sugar** prices declined by 2.15% to close the period at \$12.30/pound from \$12.57/pound at the beginning of the period, despite the adverse weather conditions in India.

Outlook & Implications

- We expect an increase in the price of sugar due to low output from India. The projected increase will filter through to higher input costs of sugar-producing companies such as Dangote.
- **Cocoa** prices increased by 0.08% to close at \$2,503/mt, amid delays in the implementation of a price floor by Ivory Coast and Ghana.

Outlook & Implications

- We expect prices to reverse its trend due to low output from Ghana and Ivory Coast. A further decline in global prices will decrease Nigeria's export revenue.



SOURCE: Bloomberg, EIA, Newsnow

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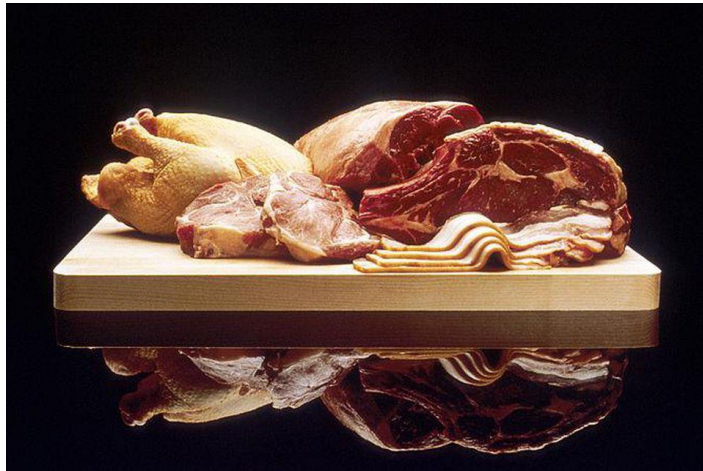


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Lifestyle



How A High-Fat Diet Can Increase Cancer Risk

Culled from Forbes¹

The fact that our diets affect our risk for various diseases is not new—in fact, science has shown that what we eat is linked to everything from diabetes to dementia to cancer. Colon cancer is one that's known to be especially dependent upon what we put in our bodies and body weight. And now, a new study in *Nature* discovers more about why a high-fat diet is linked to colon cancer risk—it has to do with how stem cells in the gut accrue molecular damage over time. This is not at all a suggestion to cut out fat, but perhaps more a reminder to keep an eye on fats, and to choose the ones we do eat wisely.

"We wanted to understand how a long-term high-fat diet influences the biology of stem cells, and how such diet-induced changes that occur in stem cells impact tumor initiation in the intestine," says study author Omer Yilmaz.

To clarify this, he and his team fed mice diets that were 60% fat, for a period of nine to 12 months. The mice in this group gained a lot of weight—by the end, they weighed 30% to 50% more than their counterparts who ate a diet of regular lab chow. The mice eating the high-fat diet also developed more tumors in their intestines than control mice.

¹ <https://www.forbes.com/sites/alicegwaltton/2016/03/02/how-a-high-fat-diet-can-increase-cancer-risk/#1877764852ce>

What seemed to underlie this difference, the researchers found, was the fact that intestinal stem cells proliferated in the obese mice—the cells were also able to operate more independently, without the usual cues from surrounding cells. The team discovered, too, that the stem cells' "daughters," progenitor cells, lived much longer in the obese mice, and started mimicking the behavior of stem cells.

"This is really important because it's known that stem cells are often the cells in the intestine that acquire the mutations that go on to give rise to tumors," Yilmaz says. "Not only do you have more of the traditional stem cells (on a high-fat diet), but now you have non-stem-cell populations that have the ability to acquire mutations that give rise to tumors."

The more cells accumulate genetic mutations, the more likely cancer will form. The fact that a high-fat diet alone can trigger these changes in intestinal cell function says a lot. "Under a high-fat diet, these non-stem cells acquire the properties of stem cells so that when they are transformed they become tumorigenic," said study author, David Sabatini.

One thing people should keep in mind is that the mice in the current study were fed diets that were very high in fat—more even than a typical American diet, which is generally between 20% and 40% fat. So it's unclear how the results apply to the human digestive system, but based on the similarities between the guts of mice and men, and the known links between diet and cancer in humans, chances are they're quite applicable.

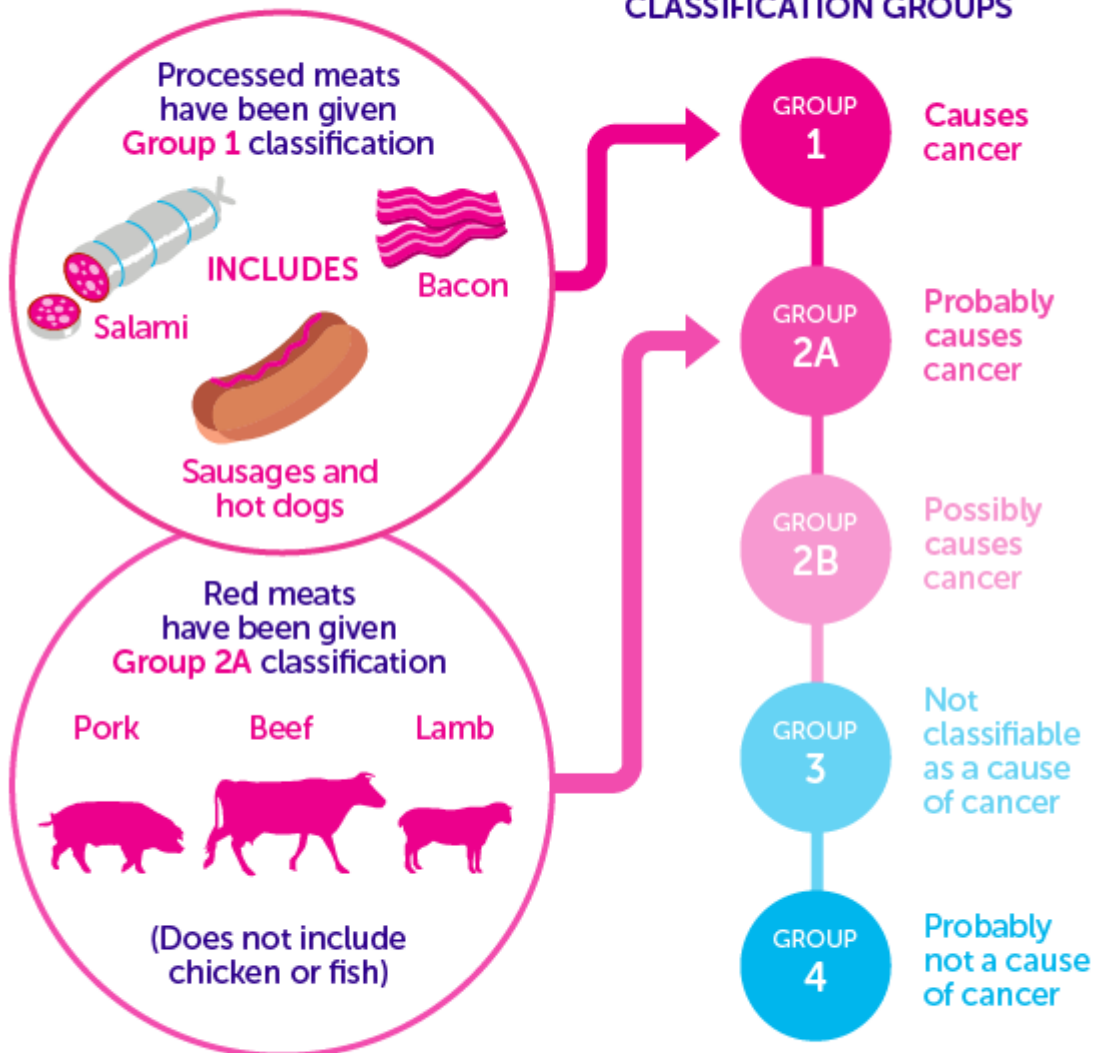
But the study does not suggest that people should cut out fat entirely—in fact, we need fat to live. And if the no-fat craze of the 80s taught us anything, it's that sacrificing fats for carbs is not the way to go: Processed sugar in excess are at least as bad for our health as diets high in fat.

Perhaps a better message to keep in mind is that we should choose our fats wisely. Unsaturated fats like omega-6 and omega-3 fatty acids are the healthiest fats to incorporate into our diets. Saturated fats have mixed evidence, but most experts say to try to keep them to a minimum; and trans fats are very clearly the ones to avoid completely. As a group, fats are definitely not the culprits we once believed. But like anything else, in extreme amounts, fats can do damage to the body over time. So moderation is (though we may not like to hear it), generally a good rule of thumb.

MEAT AND CANCER

HOW STRONG IS THE EVIDENCE?

IARC CARCINOGENIC CLASSIFICATION GROUPS



These categories represent how likely something is to cause cancer in humans, not how many cancers it causes.

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