FDC Bi-Monthly Update

Volume 9, Issue 14

September 24, 2019

A Financial Derivatives Company Publication

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In This Issue ...

MPC Holds its Fire – Calls on the Fiscal Team to Increase Buffers

At its penultimate meeting in 2019, the MPC maintained status quo on all monetary policy parameters. This is the 3rd consecutive meeting where status quo has been maintained (MPR at 13.5% p.a.) since the 50bps cut in March 2019. Of the 11 committee members, nine were present at the meeting.

External considerations

The MPC considered the subdued output growth in key advanced economies and the response of major central banks who are shifting towards monetary accommodation. In Q2'19, economic growth in the US slowed to 2.0% from 3.1% in Q1'19 while GDP growth in the UK, Germany, Turkey and Singapore contracted by 0.2%, 0.1%, 1.5% and 3.3% respectively.

The escalating US-China trade tensions and the rising uncertainty surrounding Brexit are increasing fears of a global recession. In response to this, the US Fed, at its FOMC meeting on Sept 18th, cuts its benchmark interest rates by 25bps to 1.75%-2.0%p.a. The ECB also cut its deposit rate by 10bps to -0.50%p.a. Central banks in emerging economies have also joined in the race to cut interest rates. In August, the monetary authorities in over 15 emerging market economies cut interest rates including, Egypt, Botswana, Mozambique, India, Thailand etc.

Domestic Considerations

In the domestic environment, major considerations for the Committee include, the decline in Q2'19 GDP growth, moderation in headline inflation, depleting external reserves and slow growth in credit to the private sector.

The committee considered the decline in the headline inflation for 3 consecutive months to 11.02% in August but noted that it is still above the 6-9% target. Since the last MPC meeting in July, external reserves have lost 5.95% ($2.68bn) to close at $42.36bn on Sept 20th. This ruled out a rate cut as it will increase system liquidity and heighten inflationary pressures. The committee also noted that a rate cut could drive growth in consumer credit without corresponding adjustments in real sector output.

On the other hand, they considered the impact of further tightening monetary policy in an economy where growth is tepid and slowing. Although, this is likely to support external reserves accretion and taper inflationary pressures, it will further constrain economic growth.

In the end, the decision to hold all policy parameters was premised on a need to fully ascertain the impact of the implementation of the minimum lending threshold of 60% in boosting credit to the private sector.

Implications

The MPC's decision to leave the MPR unchanged at a time when the US Fed cut interest rates by 25bps, will increase the interest rate differential between US bonds and those in Nigeria. This makes Nigerian assets more attractive.

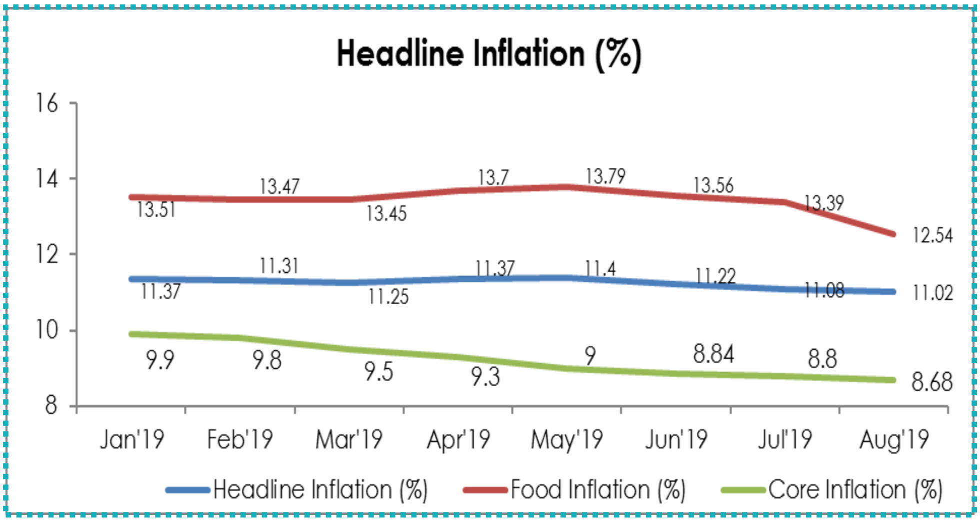
The CBN's new LDR requirement has a deadline of September 30. This will induce credit growth and lead to a mild expansion in output growth. However, it will boost system liquidity and stoke price inflation.

The committee also called on the Government to increase fiscal buffers by disposing redundant public assets through an efficient, effective and transparent privatization process. This will boost government revenue and resuscitate the redundant assets to generate employment and contribute effectively to national economic growth.

August Inflation Down, Surprising to Analysts

Surprisingly and contrary to expectations, Nigeria's August headline inflation slid to 11.02% from 11.08%. This is the 3rd consecutive monthly decline and the lowest level since February 2016. The continued fall in headline inflation was partially as a result of harvesting and declining consumer disposable income.

A breakdown of the inflation data shows that all sub-indices, except for urban inflation declined. The marginal increase in urban inflation suggests that the impact of the forex restrictions on selected food imports and the border closure is more pronounced in the urban markets. These markets are highly dependent on food items produced or imported into the country. Thus, any shortages in food supply will have a direct hit on the urban dwellers.



[1]

Data Breakdown

Month-on-month inflation marginally down by 0.02% to 0.99% in August

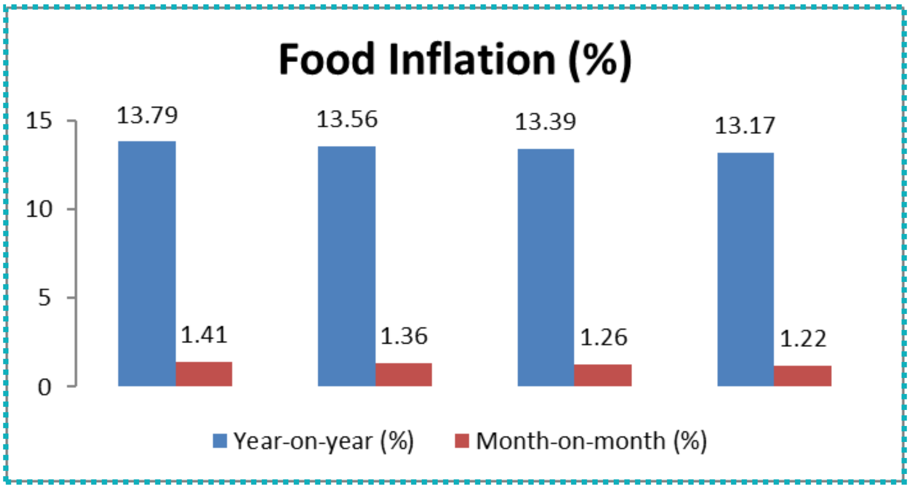
The monthly inflation, a more relevant measure of prices, declined in August. This index slowed by 0.02% to 0.99% (12.54% annualized), partly due to the harvest season and reduced aggregate demand. The magnitude of the decline, which was only marginal, indicates that the boost in output due to the harvest may have been limited.

[1]NBS, FDC Think Tank

Food inflation dipped by 0.22% to 13.17%

Food inflation, the major culprit of price level in Nigeria, slowed in August. On an annual and monthly basis, this index declined by 0.22% and 0.04%, to 13.17% and 1.22% respectively. This confirms the view that crop production is a key determinant of inflation direction.

The food items that recorded price increases were: Oils and fats, Meat, Bread and cereals, Potatoes, yam and other tubers and Fish.



[2]

Core inflation down to 8.68%

The year-on-year core index declined to 8.68% in August from 8.80% in July. On a monthly basis, it fell to 0.67% from 0.77% in July. This could be partly due to the partial closure of the Nigerian border, which curtailed smuggling of petrol products and reduced pressure on prices. The index also benefited from the CBN's sustained intervention in the forex market, which helped to maintain currency stability. The naira traded flat N360/$ at the parallel market.

The items that recorded the highest price increases include, cleaning, repair and hire of clothing, repair of household appliances, hospital services, glassware, tableware and household utensils, passenger transport by air and repair and hire of footwear.

Core inflation is 4.61% below the 364-day primary market T/bills rate of 13.29%. This is indicative of a positive rate of return on investment.

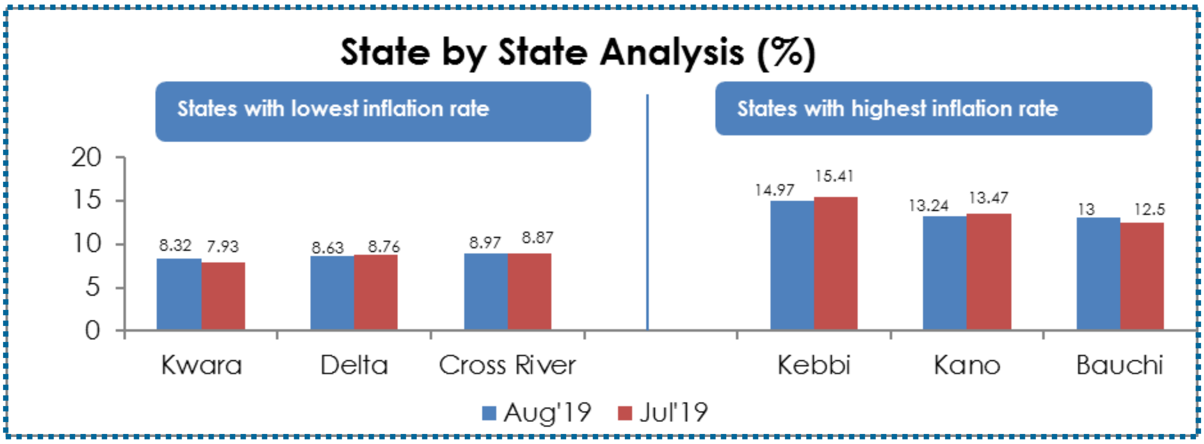
[2]NBS, FDC Think Tank

Rural inflation down but urban inflation up marginally

The year-on-year rural inflation rate declined by 0.03% to 10.61% in August while urban inflation increased by 0.05% to 11.48%. However, on a monthly basis, both indices fell by 0.03% to 1.04% and 0.96% respectively. The uptick in the urban price index suggests that the impact of the border closure and the various restrictions on food imports is more pronounced in the urban markets. Most food items are produced in the rural areas and are moved to the cities due to the large market size. The urban markets also rely heavily on food imports. Thus, the direct impact of any shortages in food supply will be borne by the urban dwellers.

State-by-state analysis - Kwara, the best performing state

Kwara state retained its position as the best performing state with an inflation rate of 8.32%. Other states with low inflation rate were Delta (8.63%) and Cross River (8.97%). The states with the highest inflation rates are mainly in the North West – Kebbi (14.97%), Kano (13.24%) and Bauchi (13.00%).



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Inflation outlook in Q4'19

At the MPC meeting last week, the MPC considered the moderation in the headline inflation for 3 consecutive months but noted that it is still above the 6-9% target. However, the option to further tighten its monetary policy was ruled out as it restricts the cost of credit and further constrains investment and output growth.

In the coming months, we expect inflationary pressures to be re-ignited due to increased seasonal demand, minimum wage implementation and forex restrictions on food imports. The critical issue is if the spike in the price level is significant enough to make the MPC change its stance from the tight situation to further tightening in November.

[3]NBS, FDC Think Tank


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The CBN's Cashless Policy – Impact Analysis

What has happened?

The CBN has introduced a new policy on cash-based transactions in Nigeria. Cash deposits above N500,000 for individuals and N3 million for corporates would now attract charges of 2% and 3% respectively. This is in addition to existing charges on withdrawals. The directive took effect in six states (Lagos, Ogun, Kano, Abia, Anambra, Rivers state) and the Federal Capital Territory on September 18th, 2019, with nationwide implementation scheduled to take effect from March 31, 2020. This is aimed at reducing the amount of money in circulation while encouraging more electronic-based transactions. Higher transaction costs would incentivize the use of mobile money services and electronic payments.

State-by-state analysis

States	GDP (2017) – N'trn	Q3'18 Unemployment (%)
FCT	10.63	24.4
Rivers	5.11	36.4
Anambra	3.08	17.5
Kano	2.97	31.3
Ogun	2.81	16.4
Lagos	N/A	14.6
Abia	N/A	31.6

[4]

The states where the cashless policy has kicked-off are those with high levels of economic activities. Four of these states and the FCT account for approximately 39% of the aggregate GDP (22 states). The other two states that were excluded are commercial hubs (Lagos - commercial hub for the country and Abia - commercial hub for the East). It is expected that the cashless policy will increase the velocity of money in these states and boost economic activities. However, unemployment could increase as technology displaces cash handlers.

[4]NBS, FDC Think Tank

Benefits

The benefits of cashless policy include:

- **Boost in tax revenue:** Increased usage of electronic platforms for business deals will ease the tracking of transactions. This will assist the government to widen the tax net and lower tax evasion. An increase in the tax base will boost government revenue and lower the fiscal deficit (currently at N1.9trn).
- **Increase in the effectiveness of monetary policy:** The new cashless policy will help to reduce the amount of cash outside the banking system. This will increase the effectiveness of monetary policy in managing inflation. It helps to keep a cap on inflation.
- **Reduction in the cost of printing currency notes:** An increase in the use of e-payment platforms will increase the CBN's savings due to lower cost of printing currency notes.
- **Reduction in cash related crimes:** It will help to reduce related crimes such as money laundering, corruption, and other cash related fraudulent activities.

Economies of the payment system

The economies of the payment system can be illustrated with the equation of exchange. In monetary economies, the equation of exchange was used to explain the relationship between money supply, velocity of money, price level and index of real expenditure. The equation is given as

$$M*V = P*Y$$

Where; M = money supply

V = velocity of money

P = price level

Q = index of real expenditure

Increased usage of electronic payment platforms will enhance efficiency in payment for transactions and increase the velocity of money i.e. the number of times money is exchanged in an economy. This in turn will help to increase aggregate output and stimulate economic growth.

Disadvantages

- **Structural unemployment**: increased usage of electronic platforms reduces the need for cash handlers, thus resulting in structural unemployment. unemployment rate in Q3'18 was 23.1% and is projected to increase to 30% in Q3'19 .

Liquefied Petroleum Gas Adoption in Nigeria: How Relevant is the Informal Sector?

Liquefied petroleum gas (LPG) is one of the byproducts of natural gas production and the crude oil refining process. Globally, LPG use has grown with the advocacy for cleaner air and efforts to reduce global warming. It is widely acknowledged as environmentally friendly because it burns cleanly and does not emit much carbon monoxide. LPG is useful for cooking and as a fuel for powering motor vehicles. In Nigeria, it is mostly used for cooking hence its popular reference as "cooking gas." Cooking gas is said to be a cleaner alternative to coal, kerosene and firewood which are harmful to human health and the environment at large. LPG is reportedly one of the most underutilized petroleum products in developing countries, especially Nigeria.

Reforms in the Nigerian LPG sector

LPG consumption grew by 68% to 420,000 metric tonnes in 2017 from 250,000 metric tonnes in 2013.[5, 6] Fear of explosions and accidents were once major deterrents to the use of cooking gas. However, these fears are declining through advocacy and as knowledge on the proper use of the fuel becomes more well known. LPG adoption in Nigeria has also grown with the increase of roadside gas cylinder filling outlets. However, lack of proper safety measures by roadside gas retailers has resulted in a clampdown on several of them by the Department of Petroleum Resources (DPR). It closed a total of 25 outlets in July, due to failure to meet acceptable safety standards for operations as laid down by the agency.[7]

[5]Department of Petroleum Resources (DPR), 2017. "Nigerian oil and gas industry annual report", https://www.dpr.gov.ng/wp-content/uploads/2018/10/2017-NOGIAR-WEB.pdf
[6]Omomia, Omosomi., 2013, "LPG consumption survey: Assessment of market opportunities and penetration", BusinessDay Research and Intelligence Unit (BRIU), http://businessdayonline.com/wp-content/uploads/2016/10/LPG-Consumption-Survey-Assessment-of-market-opportunities-and-penetration.pdf
[7]Department of Petroleum Resources, 2019, https://www.dpr.gov.ng/news-updates/

Anxiety around possible LPG explosions has now been replaced by lackadaisical attitudes towards the use of the cooking gas. Use of damaged gas cylinders and roadside gas filling without proper safety controls is creating safety and health concerns in the country. This has necessitated regulatory measures from the government as it seeks to promote LPG use. The Nigerian government proposed a ban on personal ownership of gas cylinders to reduce the use of damaged ones. The regulation transfers ownership of the LPG cylinder to LPG distributors so that damaged gas cylinders can be spotted early and taken out of circulation.

There is paucity of data on the operations of the informal sector in Nigeria. However, it is estimated that the sector accounts for more than 40% of total economic activities.[8] The government has directed that informal retailers in the LPG sector should get formal approval for their operations or risk a clampdown. The government has also proposed the creation of micro distribution centres to replace road side retail outlets.

Economic implications of reforms in the LPG sector

While the clampdown on street trading will strengthen efforts to promote the safety and health of consumers and suppliers, the strategy has implications for employment. Informal retail LPG outlets are spread across the country providing a means of livelihood to a significant number of Nigerian street vendors. A clampdown on these outlets will add to the already bloated unemployment rate in the country. Nigeria's unemployment rate currently stands at 23.10%.[9] The plan for the creation of micro distribution centers will only be able to contribute to employment creation in the country if local road traders are properly integrated into the proposed plan.

The federal government approved a national gas policy in 2017 as part of its efforts to deepen LPG use.[10] The government is seeking a 40% LPG adoption rate by 2024.[11] Domestic consumption, representing only a 9% adoption rate of LPG, still lags potential capacity. It is noteworthy that the rise in LPG adoption in Nigeria has been largely influenced by the informal sector. Retail LPG traders provide home delivery services to their customers and have built friendship ties overtime. Informal retail outlets

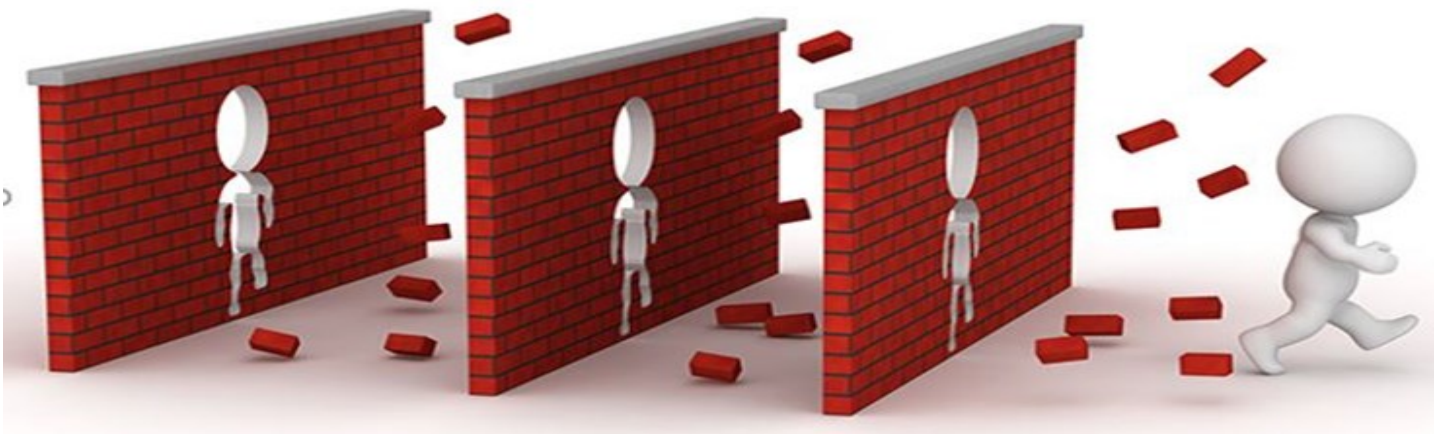
[8]National Bureau of Statistics, 2016. "Formal and Informal Sector Split of Gross Domestic Product", http://www.nigerianstat.gov.ng/download/403
[9]Real time. "Nigeria Youth Unemployment Rate," Trading Economics, https://tradingeconomics.com/nigeria/youth-unemployment-rate
[10]Ministry of Petroleum Resources, 2017, "National Gas Policy: Nigerian Government Policy and Actions", Nigeria National Gas Policy, Federal Republic of Nigeria, http://www.petroleumindustrybill.com/wp-content/uploads/2017/06/National-Gas-Policy-Approved-By-FEC-in-June-2017.pdf
[11]The State House, Abuja, 2019. "LPG Sub-Sector can Create up to 2 Million Jobs for Nigerians, Says Osinbajo at Commissioning of Lekki Plant", http://statehouse.gov.ng/news/lpg-sub-sector-can-create-up-to-2-million-jobs-for-nigerians-says-osinbajo-at-commissioning-of-lekki-plant/

have helped to provide better accessibility to cooking gas and thereby enhanced LPG penetration. Clampdown on local retail outlets will impact negatively on the realization of the LPG penetration target as accessibility to customers could be threatened.

Barriers to the formalization of the sector

The DPR's process for getting a license for LPG retail trading in Nigeria involves a number of stringent requirements which a typical local retail trader will find very difficult to meet.[12] Notable among these requirements is the specifications regarding the type of shop that will be approved to carry out the business. The DPR requires that LPG retail shops be at least three by four meters, well ventilated and have concrete roofing.[13] Shop specifications are usually beyond the control of LPG retailers who mostly rent their spaces and cannot influence the design of the building. Getting a shop that meets the DPR's specifications will be almost impossible. The regulations on the proper location for the businesses will also be a major limitation for local retail traders. LPG retail outlets should not be located in a residential environment neither should it be close to motor parks, mechanic workshops and similar work environments.

Another constraint is the cost of a license estimated at N7,500 per year.[14] The fee includes an application fee of N5,000 per year and an annual grant fee of N2,500. LPG retail traders, identified as 'category D' in the DPR procedure document, are the only ones required to pay the application fee every year.[15] The majority of informal traders in Nigeria is in the low or middle class and may not be able to afford this financial requirement. Limited knowledge about safety precautions required for operating an LPG retail outlet is also a challenge that will negatively impact local retailers' operations. Many are not well educated on the safety requirements for operating an LPG retail outlet.



[12]Department of Petroleum Resources (DPR), 2018, "Procedures and conditions to be fulfilled before the grant of approval and license for the construction/ installation, modification, relocation and operation of liquefied petroleum gas (LPG) facilities", https://www.dpr.gov.ng/wp-content/uploads/2019/05/LPG-Guidelines-Issued-September-2018.pdf
[13]Ibid
[14]Ibid
[15]Ibid

The way forward

The identified challenges to informal sector compliance with formal regulations guiding LPG retail in Nigeria will require specific strategies by the government as it seeks to deepen LPG adoption throughout the country. Local LPG traders typically have close connections with consumers which can be harnessed to achieve the targeted adoption rate. The government should seek to upgrade local traders to acceptable standards to maintain the existing LPG supply chain. The upgrade of existing micro retail outlets should be prioritized instead of clampdowns and the establishment of new micro distribution centers.

Construction of LPG complexes located in established locations could be leased to retail traders at a discounted and affordable cost and may help to address the constraints on shop specifications. Cost reduction on licensing fees should also be considered. The application fee could become a one-time payment at registration to ease compliance among LPG retail traders. Training on safety procedures, including installed fire extinguishers, a sand bucket painted red and other safety facilities, would help to improve the adoption of safety measures.

Conclusion

The adoption of LPG in Nigeria has been unexpectedly slow and still far below the potential supply and demand capacity of the country. LPG production in Nigeria is reportedly the second largest in Africa and the sixth largest globally, estimated at about four million metric tonnes per annum.[16] Most of what is produced is usually exported due to weak domestic demand which hovers around 10% of total production. Per capita consumption of LPG in Nigeria is slightly above one kilogram which falls well below what is consumed in other West African countries such as Ghana (4.7kilograms) and Senegal (nine kilograms).[17] Deepening domestic use of LPG is desirable for the economy given its positive effect on health and the environment. It is particularly expedient for Nigeria since LPG is locally sourced and in robust supply. The realization of the government's 40% adoption target will require continued easy access to LPG. Consequently, informal retail outlets must remain a strategic component to the successful LPG penetration in Nigeria.

[16]Ministry of Petroleum Resources, 2017, "National Gas Policy: Nigerian Government Policy and Actions", Nigeria National Gas Policy, Federal Republic of Nigeria, http://www.petroleumindustrybill.com/wp-content/uploads/2017/06/National-Gas-Policy-Approved-By-FEC-in-June-2017.pdf
[17]Abdul-Kadir K. Ahmed, 2015. "Domestic market growth- infrastructure, challenges and opportunities", NLNG, http://nigerialpgas.com/downloads/Domestic_LPG_Market_Growth_Infrastructural_Challenges_and_Opportunities.pdf

Cotton Production in Nigeria: The Pathway to Recovery

In 2010, with a total production capacity of 602,440metric tons, Nigeria was Africa's leading cotton producer and the 12th largest in the world.[18] Cotton production in Nigeria has slumped significantly since then. In 2017, it was the sixth largest cotton producing country in Africa and the 22nd globally. Nigeria's cotton output nose-dived by 51.66% to 291,207metric tons in 2017 from its peak of 602,440metric tons in 2010.[19] Export earnings from cotton in Nigeria also plunged significantly to $6.07 million in 2017 from close to $570million in 2010.[20] The slump in cotton production in Nigeria is largely attributed to low yields due to poor quality seeds, pest damage and weak demand. Recent initiatives to improve the contribution of the agricultural sector to economic growth in Nigeria have emphasized the importance of cotton production in stimulating the economy.

Cotton production in Nigeria has been linked to the productivity of the Nigerian textile industry. The demand for the commodity is usually driven by the demand for cotton lint by textile producers. The textile industry used to be the country's largest consumer of cotton with over 180 textile mills.[21] A sizable proportion of the Nigerian workforce at the time was also engaged in processing cotton into finished products. The influx of imported textile materials, however, has negatively affected the productivity of the industry. The number of textile mills dropped to 25, employing not more than 20,000 workers.[22] Importation of textile products is estimated at approximately $4billion annually.[23] The revival of cotton production is imperative to stimulate the ailing textile industry.

[18]Food and Agriculture Organisation, 2019."FAOSTAT-Crops," United Nations. http://www.fao.org/faostat/en/#data/QC
[19]Food and Agriculture Organisation of the United Nations (FAO), ibid.
[20]TradingEconomics.com, 2019. "Nigeria exports of cotton," Trading Economics .https://tradingeconomics.com/nigeria/exports/cotton
[21]Godwin I Emefiele, CON, July 11, 2019. "Governor's opening remarks at the meeting with service chiefs and chief executives of uniformed services in Nigeria towards reviving the textile industry through enforcement of executive order 003 in support of local content in procurement by MDAs," Central Bank of Nigeria, https://www.cbn.gov.ng/out/Speeches/2019/Governors%20Address%20at%20Meeting%20with%20Service%20Chiefs.pdf.
[22]Ibid.
[23]Ibid.

Efforts to revive cotton production in Nigeria

Nigeria's cotton cultivation is challenged by low yields from lack of high yielding cotton seeds and pest damage. The cotton crop is highly susceptible to pest infestation which negatively affects yields, thereby reducing farmers' income. Policy makers in the country have admitted that low yields have contributed to the decline of productivity in the industry.[24] This has resulted in a number of initiatives focused on providing farmers with quality cotton seeds to boost productivity. In 2015, the Raw Material Research and Development Council (RMRDC) offered cotton farmers about 5.82 metric tons of SAMCOT 7' 8' 9' 10' 11' and 12'cotton seeds, in collaboration with the Institute of Agricultural Research (IAR), under the auspices of the National Cotton Association of Nigeria (NACOTAN).[25] This distribution yielded an approximately 5% uptick in cotton production in the country between 2015 and 2017.

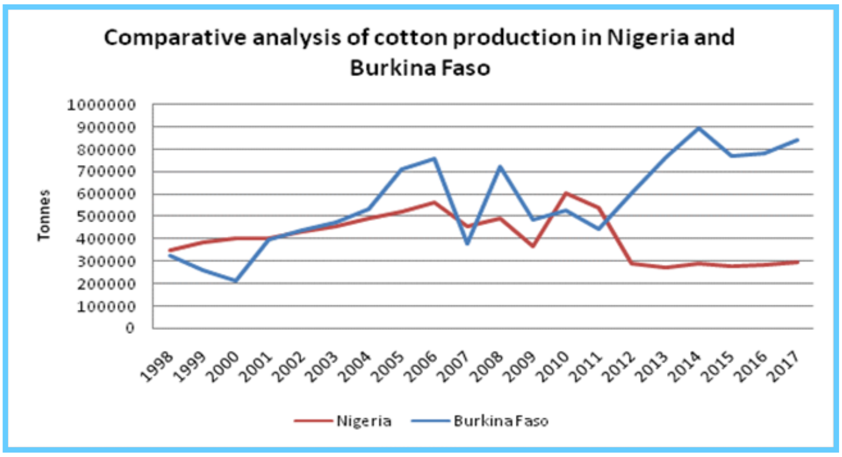
Cotton is also a focused commodity under the Anchor Borrower Program initiative of the Central Bank of Nigeria. The program provides small scale farmers with necessary inputs in cash and in-kind services to enhance productivity. Most cotton farmers in Nigeria are typically small holdings farmers who cannot afford the cost of inputs. In May 2019, the governor of the CBN launched the distribution of cotton seeds to 150,000 cotton farmers in Katsina state, the leading cotton producing state in the country.[26] The farmers were also offered other inputs like fertilizers, pesticides, and knapsack sprayers. It is expected that the initiative will help to improve yields of cultivated cotton to four metric tons from the current one metric ton per hectare.

[24]Raw materials research and development council, 2015."Annual report 2015", Federal Ministry of Science and Technology (FMST), https://www.rmrdc.gov.ng/AnnualReportDetail.aspx?annid=1
[25]Ibid.
[26]Godwin I Emefiele, CON,, July 11, 2019. "Governor's opening remarks at the meeting with service chiefs and chief executives of uniformed services in Nigeria towards reviving the textile industry through enforcement of executive order 003 in support of local content in procurement by MDAs," Central Bank of Nigera,https://www.cbn.gov.ng/out/Speeches/2019/Governors%20Address%20at%20Meeting%20with%20Service%20Chiefs.pdf.

Despite the identified efforts, cotton production in Nigeria remains remarkably low compared to other African countries like Burkina Faso and Mali. The sustainability of current measures, aimed at reviving cotton production in Nigeria, is limited considering experiences in other cotton producing countries. Pesticides increase the input cost of cotton farming which has implications on farmers' profits and have also been found to be detrimental to the environment. Instead, the adoption of genetically modified cotton seeds, like Bt cotton, is associated with better pest control, high cotton yields and improved revenue. This has been found to be a common factor in the success stories of leading cotton producing countries like India and Burkina Faso.[27]

The way forward: Lessons from Burkina Faso

Burkina Faso is one of the countries that experienced a substantial boost in cotton production over the years. Cotton output in the country jumped 123.75% to 844,337 metric tons in 2017 from 377,364 metric tons in 2007.[28] This is 65.51% more than Nigeria's output in 2017. The country is the leading cotton producing country in 2017, a position it has sustained for about a decade.[29] The adoption of genetically modified cotton is widely acknowledged as the catalyst for the increases in Burkina Faso's production output. The West African country adopted the Bt cotton in 2008 in a bid to address low yields from cotton cultivation due to pest invasion. The genetically modified pest resistant crop helped to prevent the damaging effect of pests on cotton yields.



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As in other cotton producing countries, pest infestation was a major challenge in Burkina Faso until the introduction of the pest resistance Bt cotton in 2008. Rising input costs from increased expenses on pesticides and low income due to low yields from cultivated cotton prompted the introduction of the genetically modified cotton seed. Two Bt cotton varieties were approved in 2008 by the National Biosafety Agency for the commercial production of genetically modified

[27]FAO, 2018."OECD-FAO agricultural outlook 2018-2027, chapter 10." http://www.fao.org/docrep/CA4076EN/CA4076EN_Chapter10_Cotton.pdf
[28]Food and Agriculture Organisation of the United Nations (FAO), ibid.
[29]Food and Agriculture Organisation of the United Nations (FAO), ibid.
[30]Food and Agriculture Organisation of the United Nations (FAO), ibid.

cotton, after several field-testing efforts between 2003 and 2007. By 2014, the adoption of Bt cotton by cotton farmers had increased to 70% from 29% in 2009.[31] The cultivation of Bt cotton reportedly led to a significant improvement in cotton yield and facilitated better income. Burkina Faso's export earnings from cotton rose to $368.10million in 2017.[32]

Cotton output in Burkina Faso plummeted after the decision to stop the use of genetically modified cotton in 2016. Cotton output fell by 8% in 2018 and is expected to remain suppressed in 2019.[33] Concerns about the quality of cotton lint from cotton produced using the Bt cotton led to regulations by the government to halt the adoption of the genetically modified crop.[34] Bt cotton was found to produce cotton lint with a shorter length compared to lint from cotton produced conventionally. The benefits of a higher yield from Bt adoption was therefore compromised by a reduced quality of the cotton lint. However, conventional cotton production could also be prone to low quality cotton lint from the detrimental effect of pest infestation on the cotton crop.

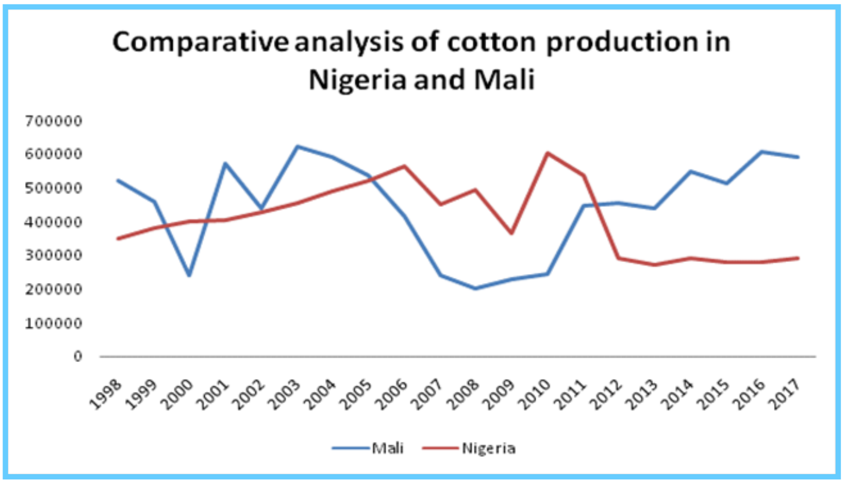
The low quality of the cotton lint was attributed to the fact that the genetically modified seed was not well developed to adapt to the climatic conditions of the country.[35] Proper research and the development of genetically modified cotton seeds with adaptive traits to the domestic climatic conditions of Nigeria could make up for the limitation experienced by Burkina Faso. The Burkina government resorted to providing farmers with needed inputs including pesticides to make up for the shortfalls on cotton yield after the decision to stop the adoption of Bt cotton. The use of genetically modified pest resistant cotton seeds has, however, proven more efficient in cotton pest control compared to pesticides. Cotton production in the country still lags what it was when the country adopted Bt cotton.

Lessons from Mali

Mali is the second leading cotton producing country in Africa and is set to take over from Burkina Faso as the leading cotton producer in Africa given its recent decline. Mali's cotton output rose by 59.06% to 591,637 metric tons in 2017 from 242,239 metric tons in 2007.[36] This is 50.78% more

[31]Ine Pertry, Edouard Sanou, Stijn Speelman, and Ivan Ingelbrecht, 2013, "The success story of Bt cotton in Burkina Faso: a role model for sustainable cotton production in other cotton-growing countries?" https://biblio.ugent.be/publication/8500337/file/8501700
[32]TradingEconomics.com, 2019. "Burkina Faso exports of cotton", Trading Economics. https://tradingeconomics.com/burkina-faso/exports/cotton
[33]The Economist Intelligence Unit (EIU), 2019, "Burkina Faso economy: Quick View - Authorities aim to reverse decline in cotton output", views wire.
[34]Simon Gongo, Apr 14, 2016."Monsanto GM cotton banned by top African producer of crop", Bloomberg, https://www.bloomberg.com/news/articles/2016-04-14/africa-s-top-cotton-producer-stops-growing-monsanto-s-gm-seeds.
[35]Ibid
[36]Food and Agriculture Organisation, 2019."FAOSTAT-Crops," United Nations. http://www.fao.org/faostat/en/#data/QC

than Nigeria's output in 2017.About 40% of the rural populace in Mali depend on cotton, the country's second leading export earner after gold. Mali's cotton export revenue was $134.64million in 2017, which is significantly higher than the $6.07million record in Nigeria for the same period.[37]



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Unlike Burkina Faso, Mali has remained with the conventional method for its cotton production due to the cotton lint quality limitation of the Bt cotton. The winning strategy for cotton production in Mali has been a huge budgetary allocation for input subsidies. Mali allocates up to 18% of its national budget for subsidies; the cotton sector is its foremost beneficiary. Other strategies include improved access to land and increased producer prices to make up for shortfalls in global cotton prices. Nigeria needs to consider experiences in Mali and Burkina Faso as it looks to revive the nation's cotton, textile and garment industries. Nigeria's budgetary allocation to the agricultural sector hovers around 2% and would require a significant boost if the country wishes to achieve its growth desires for cotton production.

Outlook

The use of genetically modified cotton has been widely acknowledged as an effective approach to pest control in cotton farming despite issues around the quality of the cotton lint. With proper field trials and the development of genetically modified crops that are adaptive to domestic climate, Bt cotton could improve cotton productivity and facilitate the production of high-quality cotton lint for textile production in the country. Nigeria could also intensify existing efforts to revive cotton production by allocating more funds for the development of the sector and providing inputs at reduced price to farmers to encourage increase cotton cultivation.

[37]TradingEconomics.com, 2019. "Mali exports of cotton,". Trading Economics, https://tradingeconomics.com/mali/exports/cotton
[38]Food and Agriculture Organisation, 2019."FAOSTAT-Crops," United Nations. http://www.fao.org/faostat/en/#data/QC


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African Tourism: What's Holding the Continent Back?

Africa is rich in attractions, including wildlife, beaches, traditional cultures and often year-round warm weather. Even so, most travelers, even Africans themselves, still choose to spend their time and money elsewhere. The continent's reputation for political instability and terrorism is hard to jettison. The US State Department has travel safety warnings for nearly one-third of Sub-Saharan African (SSA) countries.[39] For South Africa, which is arguably the region's most advanced nation, travelers are told to exercise increased caution due to crime, xenophobia, civil unrest and drought, coupled with frequent demonstrations and protests. In 2015, Kenya's tourism arrivals slumped to just 750,000 from a three-year average of 1.2 million, mainly because of heightened security risks linked to al-Shabab, a Somalia-based terrorist group.[40] Prospective visitors have also shown a tendency to conflate the dangers associated with particular locations with their perception of the continent as a whole. For example, Botswana's central bank attributed slowing tourism growth in 2015 to tourists' fears over the Ebola crisis, which happened thousands of miles away in West Africa (Liberia, Sierra Leone and Guinea).

[39] Travel.State.Gov, May 2019 "Travel Advisories," US Department of State. https://travel.state.gov/content/travel/en/traveladvisories/traveladvisories.html/
[40] The Economist Intelligence Unit. January 2019. "*Kenya's tourism rebounds in third quarter*". INSERT URL

No lack of tourist attractions

Africa is blessed with abundant tourist attractions with its lush landscapes and animal wildlife. From the breathtaking Victoria Waterfalls, which is close to the Zambia/Zimbabwe border to the Giza pyramids in Egypt or the Sahara dunes in Morocco, potential tourists have a ton of sites and attractions to choose from. There is also rich and diverse wildlife. One can watch how mountain gorillas interact with their fellow primates at the Nyungwe National Park in Rwanda or marvel at exotic flamingos at the Lake Nakuru National Park in Kenya. However, visitors are often put off by erratic electricity and water supply, which plague most countries across SSA. Also, the fact that poor transport links makes travel to these tourist destinations, slow and tedious, acts as a deterrent to tourists. The continent's rich tourist attractions are in danger of becoming laggards if the challenges of underdeveloped infrastructure, weak security and its negative reputation are not addressed.

A niche appeal

It appears that traveling throughout SSA appeals to a segment of the younger demographic, who are more adventurous and amenable to taking risks. This is, however, a niche travel group that is both small in number and relatively low spending. Of the approximately 1.4 billion international tourist arrivals globally in 2018, only about 40 million travelled to or within SSA and their spending per head was relatively low, at $720 in 2014, compared with $1,100 on trips globally.[41] This cannot easily be explained by cost disparities. Anecdotal evidence suggests that hospitality in SSA is often as expensive as competing destinations. If SSA's tourism sector is going to take off and close in on its potential, the region will have to broaden its appeal.

Investing in core tourism infrastructure

In mid-2017, the Tanzanian government adopted a multi-pronged approach to increase tourism through the expansion of the country's offerings, as well as an upgrade of supporting infrastructure. Some of Tanzania's tourist attractions include Mount Kilimanjaro, Mafia Island and the Ngorongoro conservation area. Together with the country's established wildlife safari and marine parks, which are also set to undergo planned upgrades, the government is targeting so-called MICE tourism (which includes meetings, incentives, conferences and exhibitions). The Bank of Tanzania attributed the 8.8% year-on-year increase to $2.45 billion in tourism receipts in 2018 to these tourism promotion efforts. The country's marketing strategy has largely involved the use of online tourism portals as well as goodwill ambassadors, prominent figures who actively promote Tanzania. Coupled with the ongoing upgrade of the Julius Nyerere International Airport, the country's largest airport and the revival of Air Tanzania (the national carrier), these efforts are expected to result in further growth in tourism receipts for Tanzania in the coming years.

[41]United Nations World Tourism Organization. January 2019. *Tourism Highlights – The 2018 Edition*. https://www.e-unwto.org/doi/pdf/10.18111/9789284419876

Uganda is seeking to nearly double the country's tourism revenue from USh4.9 trillion ($1.3 billion) at present to USh9.4 trillion ($2.5 billion) by 2020.[42] Tourism is a priority sector for the government and accounts for around 10% of GDP, but it still has higher economic potential. The Uganda Tourism Board's efforts to drive private investments into the fundamental fronts of transportation and hospitality, through marketing events (such as the annual Pearl of Africa Tourism Expo), will help drive growth in the sector.[43] Meanwhile, broader plans to double tourism earnings by 2020 include: promoting local tourism, developing tourism offerings — particularly Uganda's attractiveness as a wildlife-safari destination — and driving investments in tourism-related infrastructure, including roads and convention centers. In addition, the government plans to revive its national carrier, Uganda Airlines, by September 2019. Reinstating the carrier will help the government improve connectivity, which should in turn boost tourist arrivals.

An image makeover

While infrastructure investments are a more medium to long term effort, efforts to improve the continent's image could also have a short to medium term payoff. Recommendations by travel companies are increasingly emerging as an equally effective means of bolstering Africa's hospitality industry. However, there must be something for these companies and publications to commend. Creating a high-quality tourism publicity campaign is expensive, which probably explains why the continent produces so few. However, when done well they can have an impact.

The Rwandan government is actively seeking to improve its image and reputation given its ugly history of ethnic-cleansing in the early 1990s. Rwanda reportedly paid Arsenal Football Club £30 million to emblazon 'Visit Rwanda' on its training and match day jerseys for a period of three years.[44] Periodicals and travel websites have also picked up on Rwanda's ecological conservationism and rigorous security presence in wildlife parks. These investments have helped to counter negative preconceptions about the country's violent past. It has also helped deliver the desired effect of rapid tourism growth with Rwanda's tourism receipts jumping 13.8% year-on-year to $1.4

[42]The Economist Intelligence Unit, February 2018. *Uganda eyes USh9trn from tourism by 2020.* INSERT URL
[43]Edgar R Batte, Aug 18, 2018. A peek into Uganda's tourism marketing strategic plan. Daily Monitor. https://www.monitor.co.ug/Business/Commodities/688610-4717516-tm459t/index.html
[44]Biana Britton and Simon Cullen, Aug 13, 2018. *"Arsenal sponsored by … Rwanda?"* CNN. https://edition.cnn.com/2018/08/13/football/arsenal-rwanda-deal-premier-league-spt-intl/index.html

billion in 2018.[45] Recently even politically volatile countries like the Democratic Republic of Congo have featured high up on tourism rankings owing to improvements to security and transportation in select places that tourists visit. Hence, even relatively small-scale efforts such as anti-poaching drives or cleaning up beaches are increasingly likely to be picked up by travel publications and pay small dividends.

Controlling crime

Another boost for the industry could come from encouraging more travel into cities, which tend to have better water and energy access than rural spots. Tackling high crime levels, which deter tourists from some urban areas, is one option for doing this. Destinations with a particular reputation, such as South Africa, have had success with initiatives such as introducing special tourist police officers who patrol areas frequented by visitors and safeguard hotels.[46] Other countries with less of a crime problem, such as Uganda, have also begun to implement similar measures to boost general reassurance. These measures are positively noted in travel advisory websites and are reflected in gradually increasing arrival numbers. But the initiatives are expensive and are usually implemented in countries that commit a relatively high proportion of government spending to tourism (such as Kenya and the Gambia). Hence, these initiatives should be seen as a way of boosting, rather than launching, a country's tourism industry and are unlikely to be adopted in most SSA countries.

Mauritania could soon start witnessing a return to commercial-scale organised desert tourism as the security situation improves. The country's desert landscape and historical oasis towns used to be major attractions for visitors, with specialist tour operators bringing groups to Adrar region. The region used to have more than 10,000 tourist arrivals a year in the early 2000s. However, violence and insecurity across the Sahara and Sahel has led to a decline in tourism. In 2007 four French tourists were killed near Aleg in the south of the country.[47] Over the past ten years the Mauritanian government has taken steps to improve security conditions by strengthening its borders and engaging in joint patrols with some of its neighbours to prevent terrorist attacks. However, the rebound in tourism activity will largely depend on Mauritania's success in ensuring that the security situation remains stable in the coming years.

[45]Erik Grimaldi, March 16, 2019. *"An inspirational story of recovery and transformation": Rwanda's tourism economy up 14% in 2018".* *World Tourism Mire* https://worldtourismwire.com/an-inspirational-story-of-recovery-and-transformation-rwandas-tourism-economy-up-14-in-2018-4085/

[46]Valerie Koga, May 4, 2019. *"Tourism is the new gold in Africa, says Ramaphosa" The East African.* https://www.theeastafrican.co.ke/business/Tourism-is-the-new-gold-in-africa-says-cyril-ramaphosa/2560-5100514-smob1mz/index.html

[47]Ibrahima Sylla. December 2007. *"Gunmen kill four French tourists in Mauritania: police" Reuters.* *https://www.reuters.com/article/us-mauritania-france-shooting/gunmen-kill-four-french-tourists-in-mauritania-police-idUSL2468313620071224*

Closer co-operation

Finally, a lack of regional co-operation and excessive red tape has proven to be major stumbling blocks to tourism, but evidence suggests that these constraints are beginning to ease. Single visa arrangements are increasingly emerging between countries and within regional blocs, which, according to the African Development Bank, could see tourism income surge by up to 25% for participating states.[48] South Africa plans to introduce initiatives, which would ease work-permit requirements and simplify the process for business and leisure travelers to obtain short-term entry documents.[49] Multiple-entry visas and electronic-visa applications will also be introduced. Moreover, the African Union's decision to introduce a continent-wide passport also signals an increasingly relaxed approach to cross-country visas. The European Schengen Agreement, which permits people to travel between participating countries, without having to show passports at internal borders has arguably led to strong growth in intra-European Travel. Of the 618 million arrivals originating from European source markets in 2016, 521 million (84%) were to European destinations.[50]

The African continent does not lack for tourism destinations and attractions. Their problems remain a lack of investment in the attractions themselves, which is challenging to source when core issues of infrastructure, reputation and security are so woefully eroded. With a strong focus in these three areas, African countries may not become globally competitive travel destinations overnight but the sectors could be better positioned to grow at a healthy pace.

[48] "World Tourism Day: Africa sees rise in tourism, new countries emerge as players. " African Development Bank. September 27, 2018. https://www.afdb.org/en/news-and-events/world-tourism-day-2018-africa-sees-rise-in-tourism-new-countries-emerge-as-players-18527/

[49] "South Africa eases rigid visa policy to tackle economic recession." African Liberty. September 2018. https://www.africanliberty.org/2018/09/26/south-africa-eases-rigid-visa-policy-to-tackle-economic-recession/

[50] United Nations World Tourism Organization. May 2019. European Union Tourism Trends. https://www.e-unwto.org/doi/pdf/10.18111/9789284419470

The Alternatives to Privatisation and Nationalisation

More public resources could be managed as commons without much loss of efficiency

IT SOUNDS VAGUELY elvish, like something from the pages of Tolkien. In fact, the Charter of the Forest is one of Britain's founding political documents, dating from the same period as Magna Carta, the "Great Charter", as the Charter of Liberties was known to distinguish it from its sylvan partner. Whereas Magna Carta concerned the interests of a few privileged barons, the Charter of the Forest was intended to safeguard those of commoners—in particular, their time-honoured right to make a living from the bounty of the great wild commons. As an economic institution, the commons now seems as old-fashioned as constitutional documents sealed by noblemen in meadows. To many economists, the spread of private property rights was essential to the creation of the modern world. But the shortcomings of commons can be overstated. They could usefully be granted a place in public policy today.

An ecologist, Garrett Hardin, coined the phrase "the tragedy of the commons" in a (shockingly eugenicist) essay in Science in 1968. But the free-rider problem that afflicts public goods has been well-known to economists for a century. Consider a pasture on which every herdsman may graze his cattle. Each has an incentive to use it as intensively as possible: since it is open to all, restraint exercised by one herdsman simply frees up grass to be chomped by another's animals, leaving those who hold back worse off, not just relatively, but in absolute terms. The common pasture will inevitably end up overgrazed to the point of ruin. Many valuable public resources are similarly prone to overconsumption. Roadways become congested, waterways overfished and slices of electromagnetic spectrum crowded into uselessness, to the detriment of total social welfare.

Two possible remedies are typically proposed. Governments may regulate access to the commons, as is usually the case with airspace, for instance. Or control over it may be sold, establishing a property right where none existed before. Economists tend to prefer the latter. Private owners have an incentive to use a resource sustainably, in order to maintain its long-term value. Privatisation should boost investment and innovation, too, since the profits flow to the owner.

Many economists see the spread of property rights as essential to kindling modern economic growth. Between the 16th century and the 19th most common land in England and Wales was enclosed and deeded to private owners. Economic historians long reckoned that enclosure, though unjust and brutal, spurred progress and laid the groundwork for industrialisation. Large tracts could be farmed more productively, freeing labourers to work in urban factories while also providing food to support them. "The break-up of the peasantry was the price England paid…to feed her growing population," wrote Peter Mathias, an economic historian, in 1983. The Industrial Revolution seemed to bury the concept of the commons for good.

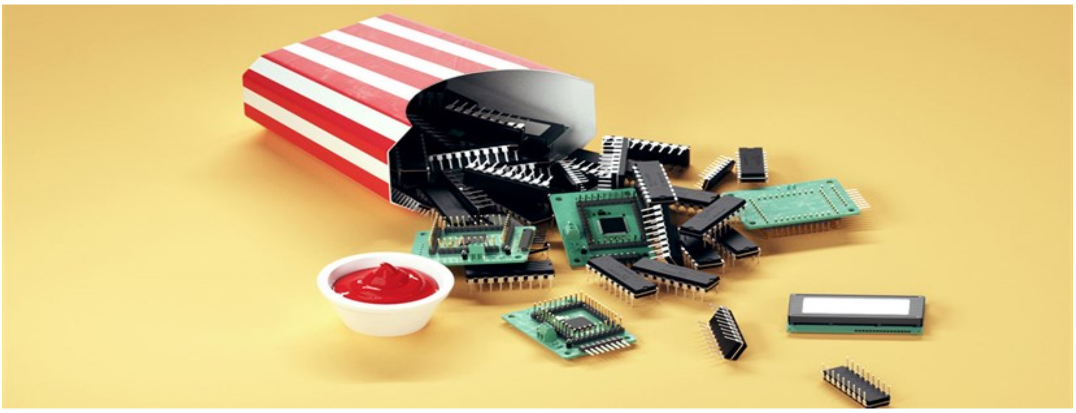
But such orthodoxies are being revisited. Privatising shared resources, it turns out, does not always lead to a productivity boom. More recent research suggests that enclosure may not have been such a boon for British agriculture or industry. Research by Robert Allen, an economic historian at New York University Abu Dhabi, concludes that the big, capitalist estates which resulted from enclosure were not much more productive than common land farmed by the yeomanry. Nor did the great lords who gained control of large tracts funnel their profits into industry. Most indulged in fine living; many were debtors rather than savers. As Guy Standing of the School of Oriental and African Studies in London writes in his book, "The Plunder of the Commons", property rights can create an incentive for owners to use resources well, but they also grant the liberty to squander the fruits of their holdings.

If privatising land raises productivity less than might have been expected, that could be because commons are not as doomed as used to be thought. In fact, many were well cared for. Elinor Ostrom, a Nobel prizewinner in economics, studied how rural villages around the world manage shared resources such as land or irrigation systems. The Swiss commune of Törbel, for instance, has successfully shared irrigation resources for more than half a millennium. An exclusive focus on states and markets as ways to control the use of commons neglects a varied menagerie of institutions throughout history. The information age provides modern examples, for example Wikipedia, a free, user-edited encyclopedia. The digital age would not have dawned without the private rewards that flowed to successful entrepreneurs. But vast swathes of the web that might function well as commons have been left in the hands of rich, relatively unaccountable tech firms.

A thirst for knowledge

Mr Standing thinks that the decline of commons caused useful civic concepts to fall into disuse. Medieval commoners expected both to benefit from and to help manage unowned social wealth. Prosperity today similarly depends on shared public resources, from customary behaviour that supports the rule of law to accumulated scientific knowledge to the environmental services provided by clean air, waterways and so on. Some institutional creativity might allow more resources to be managed as commons, reducing concentrations of wealth and power without much loss of economic efficiency.

A world rich in healthy commons would of necessity be one full of distributed, overlapping institutions of community governance. Cultivating these would be less politically rewarding than privatisation, which allows governments to trade responsibility for cash. But empowering commoners could mend rents in the civic fabric and alleviate frustration with out-of-touch elites. In her Nobel lecture Ms Ostrom said that public policy should "facilitate the development of institutions that bring out the best in humans". That sounds like common sense.

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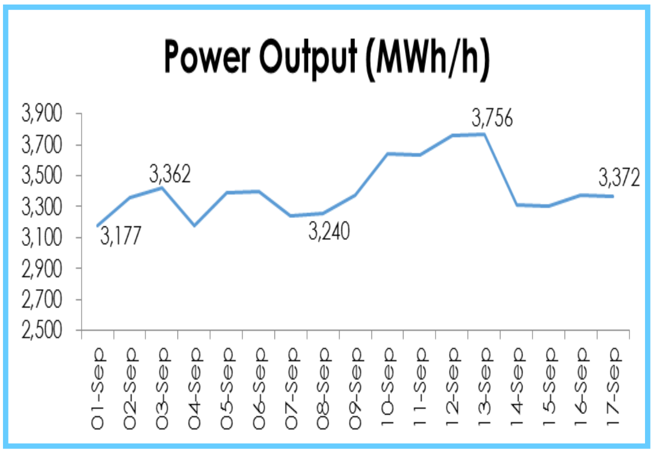
Macroeconomic Indicators

Power Sector

The average power output from the national grid was 3,409MWh/h in the period September 1st – 17th. This is 4.94% lower than the average of 3,586MWh/h in the corresponding period in August. In spite of increased rainfall during the period, gas constraints remained the principal challenge to power output, accounting for approximately 65% of the total constraints. The sector lost approximately N35.25bn, annualized at N0.85trn.



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Outlook

There has been no water constraint to power output in the last few weeks. However, this did not really translate to higher power output. If this trend persists in the coming weeks, the position of power supply would be largely dependent on the availability of gas.

Impact

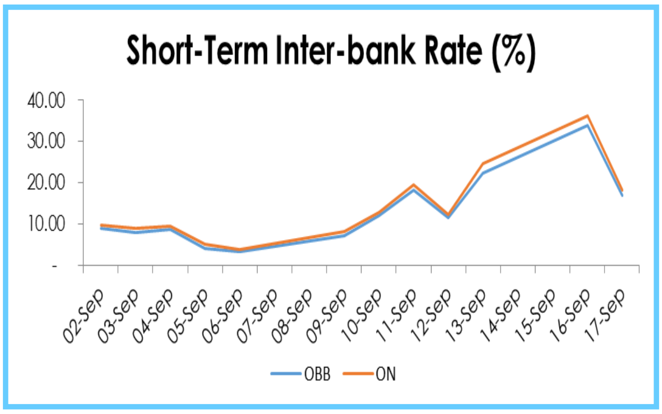
Lower power supply will have a negative impact on economic activities. Companies will have to result to alternative energy sources. This will increase their operating costs and could possibly push up the prices of this alternative power sources.

Money Market

The average opening position of the interbank money market was long at N154.67bn between September 1st – 17th. This represents a sharp decline of 30.63% compared to N222.97bn long during the same period in August. This decline in the opening position reflects market illiquidity, which filtered through to a spike in the average short-term interbank rates. Average NIBOR (OBB, O/N) increased by 367bps to 13.53% p.a. from an average of 9.86% p.a. The open buy back (OBB) and Overnight (ON) rates reached a period-high of 33.86% p.a. and 36.36% p.a. respectively on September 16th, before declining to close the period at 14.57% p.a. and 15.57% p.a. respectively.

[51]FGN, FDC Think Tank

During the period, a total of N750.14bn in OMO sales was issued while N1.07trn matured, compared to N88.7bn OMO sales and N395.27bn OMO maturity in the corresponding period in August. This resulted in total net inflows of N319.86bn compared to the net inflows of N306.57bn recorded in the same period in August.



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In the primary market, yields on T/Bills moved in different directions. T/bills yield was flat for 91-day tenor, increased for 182-day tenor and declined for 364-day tenor.

T/bills Tenor	Rate on Sept 11th (% pa)	Rate on Sept 19th (%)pa	Direction
91	11.10	11.10	↔
182	11.80	11.75	↓
364	13.29	13.30	↑

In the secondary market, T/bill yields increased for the 91 and 182-day tenors to close at 11.52% and 12.38% respectively and declined to 13.40% for the 364-day tenor during the review period.

T/bills Tenor	Rate on Sept 11th (% pa)	Rate on Sept 19th (%)pa	Direction
91	11.27	11.52	↑
182	11.80	12.38	↑
364	13.50	13.40	↓

Outlook

Interest rates movement is a function of market liquidity. The CBN has mandated banks to increase their loan-to-deposit ratio to 60% by September 30, 2019. This could put a strain on banking liquidity as they strive to meet up with this deadline to avoid facing sanctions.

Impact

Market illiquidity could push up short term interbank rates.

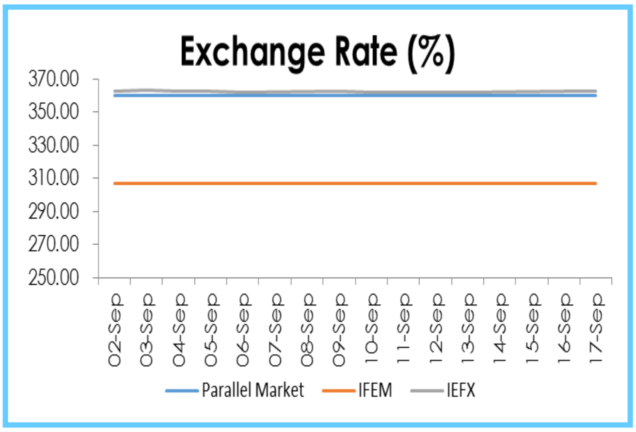
Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on 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.

[52]FDC Think Tank

Exchange Rate

The exchange rate was relatively stable across all market segments within the review period. It traded flat at N360/$ at the parallel market. At the interbank foreign exchange market, the currency opened the period at N306.90/$, appreciated to N306.85/$ on Sept 10th, before retreating to close the quarter at N306.90/$. The naira traded within the tight band of N361.80/$-N362.87/$ at the IEFX window. The total turnover at the IEFX window was $2.64bn, 28.07% lower than $3.67bn in the relative period in August. The CBN sold forex worth $531.11mn during the review period.



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Outlook

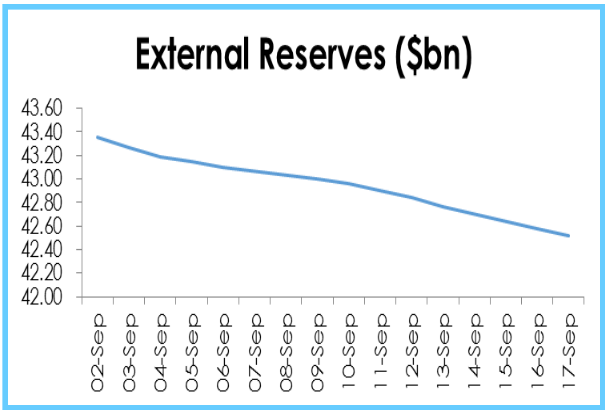
We anticipate increased forex demand pressures arising from tuition fees payment and the forex restriction on food imports. This is likely to weaken the naira at the parallel market. However, due to the CBN's continuous intervention, currency depreciation will be marginal at N361/$-N362/$ in the coming weeks.

Impact

Currency depreciation will have a negative impact on key sectors such as manufacturing that are highly dependent on imported inputs.

External Reserves

The gross external reserves recorded steady depletion during the review period. It lost 2.39% ($1.04bn) to close the period at $42.52bn. This was partly due to lower global oil prices and aggressive intervention by the apex bank in the FX market. Total forex intervention was up 8.38% to $531.11mn from $490.04mn in the relative period in August. The decline in external reserves has reduced the import cover to 10.70 months.



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[53]FDC Think Tank
[54]CBN, FDC Think Tank

Outlook

External reserves are expected to continue to decline and could reach $42bn by the end of September. The $9.6bn (20% of reserves) fine imposed on the Federal Government of Nigeria by a British commercial court poses significant downside risks to the external reserves outlook.

Impact

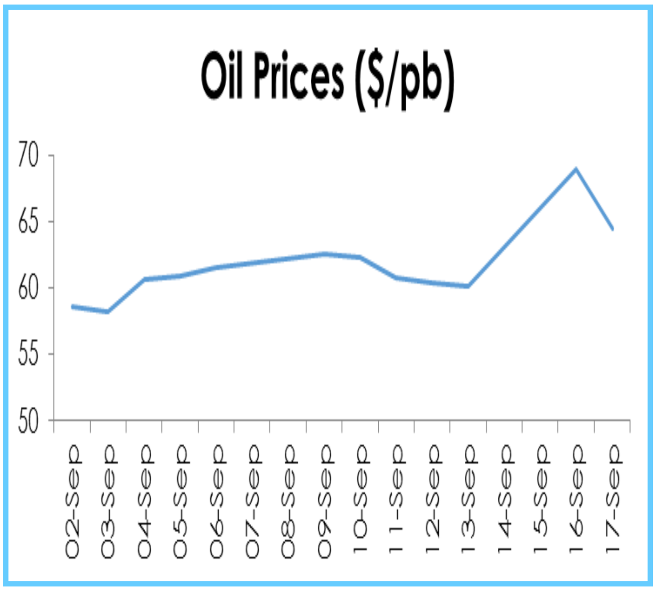
Sustained depletion of the external reserves could limit the CBN's ability to intervene in the forex market. Thus, the currency could come under pressure in the near term.

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

During the review period, the average price of Brent crude increased by 4.10% to $61.67pb from an average of $59.24pb in the corresponding period in August. During the period, oil futures touched a 16-month high of $69.02pb on Sept 16th, after drone strikes on two oil facilities in Saudi Arabia disrupted roughly 50% of the kingdom's production capacity or 5% of global crude supply. The political risk premium on oil prices has also increased considerably due to fears of reprisal attacks by Saudi Arabia and its allies.



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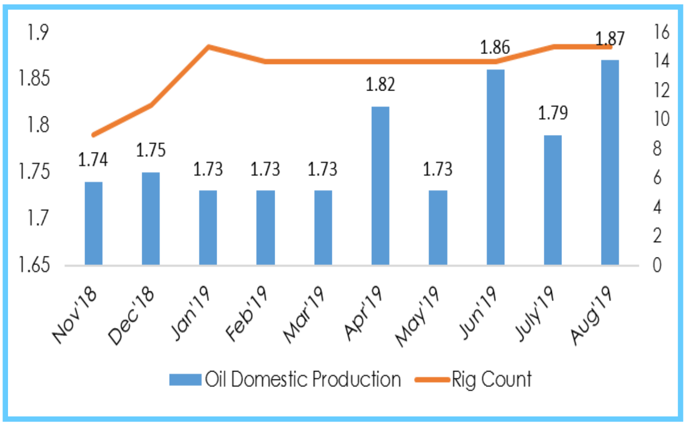
[55]FDC Think Tank

Outlook

Given the current market fundamentals, oil prices are expected to stay a little above $60pb in subsequent weeks. Also, Iran's foreign minister has warned that any attack on his country over the drone and missile strikes on Saudi Arabia's oil industry will result in "all-out war,". If this happens, oil prices could cross the $70pb threshold.

Oil production

Domestic oil production rose by 4.47% to 1.87mbpd in August from 1.79% in July.[56] This was in spite of a flat rig count of 15. Meanwhile, OPEC's crude oil production increased by 136tb/d to an average of 29.74mbpd. This was due to an increase in output in Saudi Arabia, Nigeria, Iraq and the UAE.



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Outlook

Nigeria's current oil output is 10.98% above the country's OPEC quota of 1.685mbpd. Although we expect the country's production to increase, there might be increased pressure to comply with output quota of 1.685mbpd.

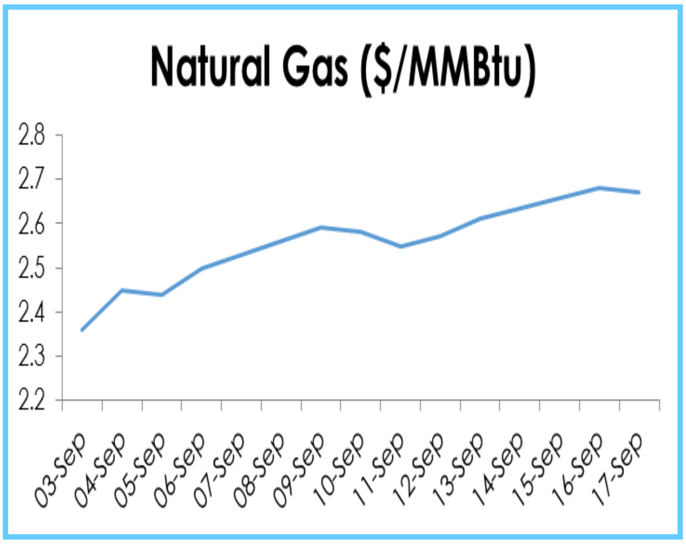
Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A decline in output would weigh negatively on fiscal and external buffers. This would have a negative trickle-down effect on proxies such as FAAC disbursements, external reserves and exchange rate stability. However, higher oil prices could help limit the impact of any shortfall in production.

Natural Gas

Natural gas price was up 13.14% to $2.67/mmbtu on Sept 17th from $2.36/mmbtu on Sept 1st. During the month, natural gas prices rose to a 5-month high of $2.68/mmbtu on Sept 16th. The average price of natural gas during the reviewed period was $2.55/mmbtu, 19.16% higher than the average of $2.14/mmbtu in the corresponding period in August. The increase in price was mainly due to the strong global demand for gas.

[56]OPEC
[57]OPEC, FDC Think Tank



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Outlook

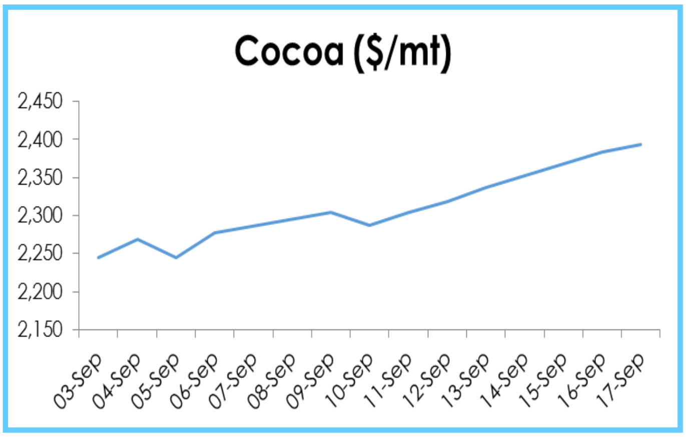
We expect prices to rise in subsequent weeks due to expectations of higher global demand.

Impact

LNG is Nigeria's second-largest export commodity. It accounts for approximately 12%[59] of the country's export revenue. An increase in global price will increase the country's export revenue and have a positive impact on the country's fiscal position.

Cocoa

The average price of cocoa was $2,306/mt between Sept 1st – 17th, 1.68% higher than $2,268/mt in the corresponding period in August. Cocoa prices increased by 2.20% to close the period at $2,394/mt from $2,245/mt on Sept 1st. This bullish trend was partly driven by a decline in Indonesia's cocoa output.



[60]

Outlook

Ghana and Ivory Coast, the world's top cocoa producers, are considering introducing a cocoa production ceiling to support global prices and discourage overproduction. This will push up cocoa prices.

Impact

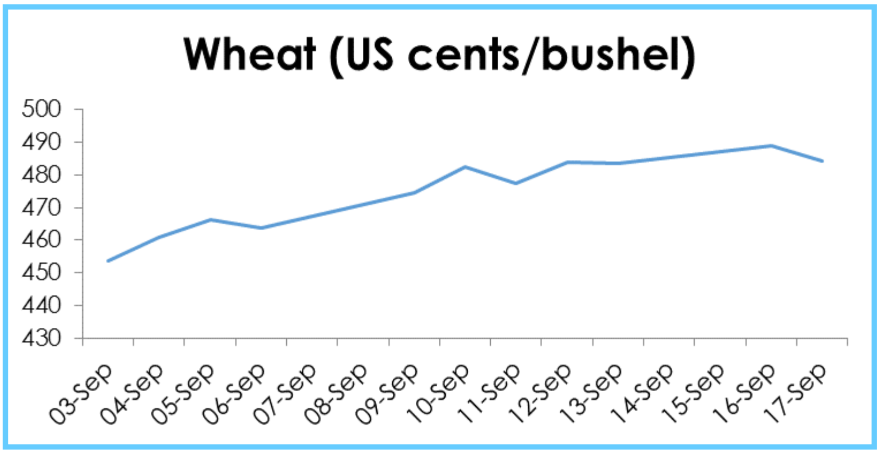
Cocoa is Nigeria's 2nd largest commodities export, accounting for approximately 90% of total exports. Higher cocoa prices imply an increase in the country's export revenue.

[58]Bloomberg, FDC Think Tank
[59]EIU
[60]Bloomberg, FDC Think Tank

Commodities Market - Imports

Wheat

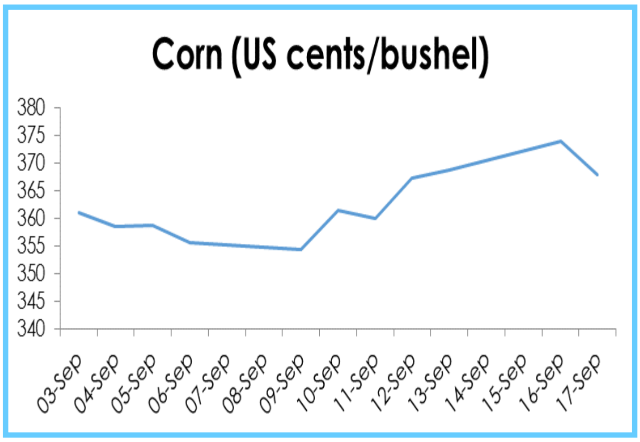
Wheat prices rose by 6.61% to $4.84/bushel on Sept 17th from $4.54/bushel on Sept 1st. this was partly due to lower exports from the US amid strong global demand. The US is the largest wheat producer in the World. Meanwhile, the average price of wheat between Sept 1st – 17th dipped by 2.07% to $4.74/bushel from the average of $4.48/bushel in the same period in August. This was driven by bumper harvest in the EU amid lower Chinese imports.



[61]

Corn

Corn prices were up 1.94% to $3.68/bushel on Sept 17th from $3.61/bushel on Sept 1st, driven by prospects of a surge in ethanol demand. However, the average price of corn for the period Sept 1st – 17th declined by 8.10% to $3.63/bushel from $3.95/bushel in the relative period in August. This was as a result of improved yield in the US due to favorable weather conditions and a boost in Brazilian exports.



[62]

Outlook - Grains

We anticipate a decline in wheat prices in the near term due to robust global harvest.

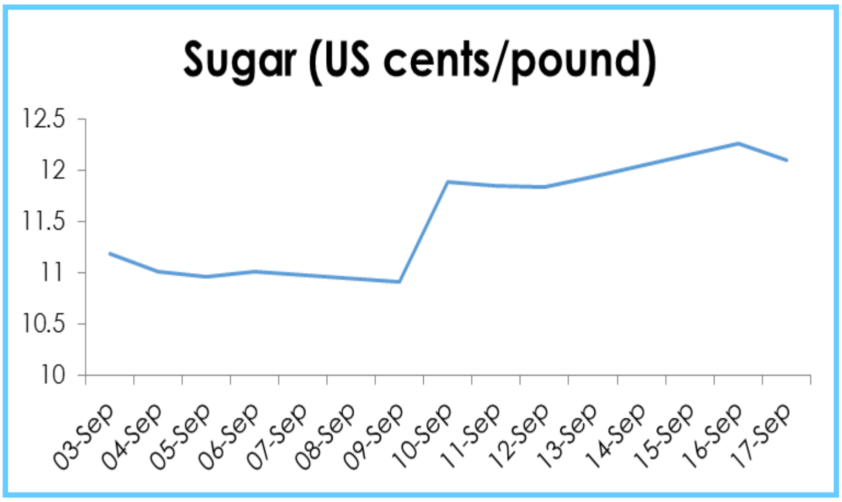
Impact

A reduction in the price of wheat will translate to lower production costs for companies that are heavily reliant on imported wheat.

[61]Bloomberg, FDC Think Tank
[62]Bloomberg, FDC Think Tank

Sugar

The average price of sugar for the period Sept 1st -17Th was $0.1154/pound. This is 1.45% lower than the average of $0.1171/pound recorded in the corresponding period in August. However, sugar prices advanced by 8.13% to close the period at $0.1210/pound from $0.1119/pound at the beginning of the period. The uptick in price was as a result of strong global demand amid lower exports from India.



[63]

Outlook

Sugar prices are likely to increase in the near term owing to the anticipated decline in Brazil sugar output. Brazil is the largest sugar producer in the world.

Impact

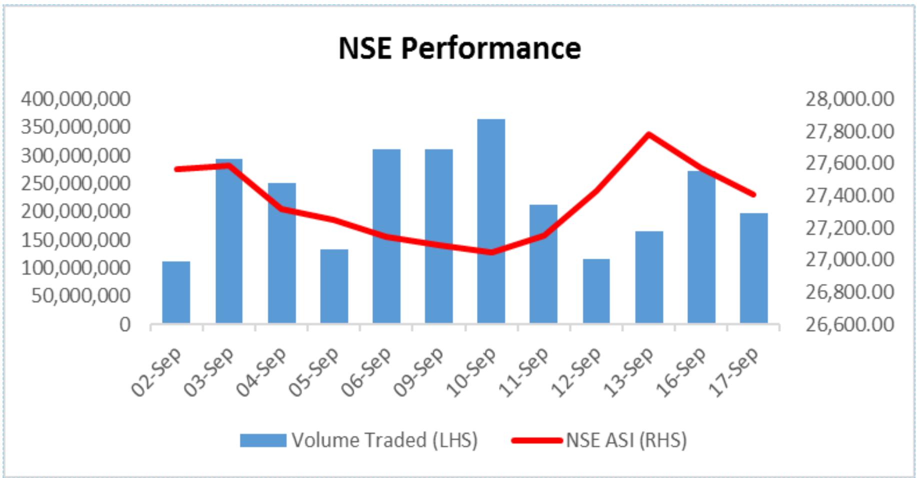
Nigeria is the largest sugar importer in Sub Saharan Africa and the 10th largest in the world. Higher sugar prices will increase the country's import bill. It also implies higher raw material costs for companies that use sugar as an input in production.

[63]Bloomberg, FDC Think Tank

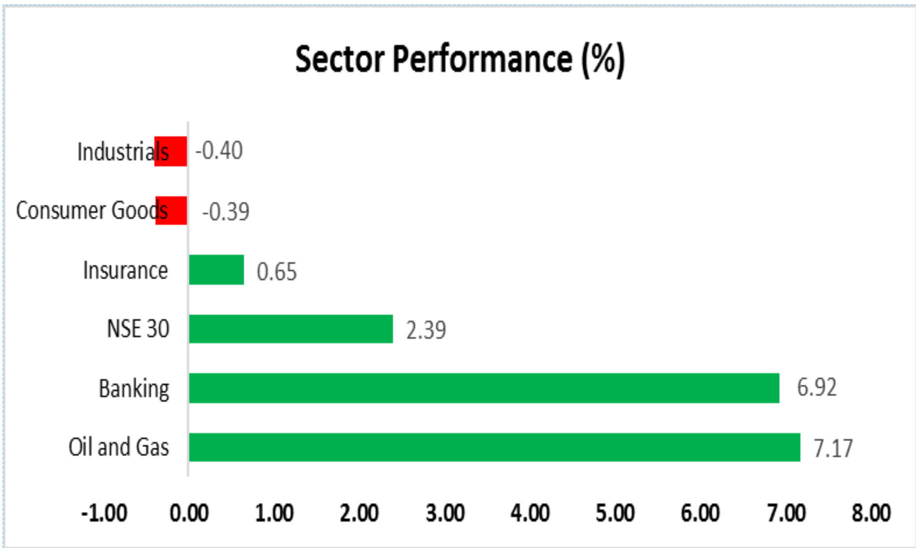
Stock Market Review

The NSE ASI lost 0.43% to close at 27,407.04 points on September 17th relative to its close of 27,525.81 points on August 30th due to the sell-off of bellwether stocks such as Airtel Africa Plc and Zenith Bank Plc. In the same vein, market capitalization fell by 0.37% (N50bn) to N13.34trn. In the 12-trading day period, the market lost in seven days and gained in five.

The NSE traded at a price to earnings (P/E) ratio of 7.14x as of September 17th, 1.42% higher than the close of August 30th (7.04x). The market breadth was positive at 1.35x as 42 stocks gained, 31 lost while 82 stocks remained unchanged.



On the other hand, the market saw a rise in activity level. Average volume traded rose by 4.29% to 228.17mn units compared to the same period in August, while the average value of trades rose by 1.65% to N3.08bn.



All indices with the exception of the industrial (-0.40%) and consumer goods (-0.29%) indices gained during the review period with oil and gas recording the best performance (7.17%).

UAC Property Development Company Plc topped the gainers' list with a 672.73% increase in its share price. This was followed by Cornerstone Insurance Plc(71.43%), Okomu Oil Palm Plc (32.41%),Cadbury Nigeria Plc (25.27%) and International Breweries Plc (23.08%).

TOP 5 GAINERS (N)				
Company	Aug 30'19	Sep17'19	Absolute Change	% Change
UAC Property Development Company Plc	0.88	6.8	5.92	672.73
Cornerstone Insurance Plc	0.21	0.36	0.15	71.43
Okomu Oil Palm Plc	41.5	54.95	13.45	32.41
Cadbury Nigeria Plc	9.3	11.65	2.35	25.27
International Breweries Plc	9.75	12	2.25	23.08

The laggards were led by UAC of Nigeria Plc(-71.60%), University Press Plc(-23.36%),Champion Breweries Plc (-18.30%),Ikeja Hotel Plc (-18.18%) and Tripple GEE and Co. Plc (16.18%).

TOP 5 LOSERS (N)				
Company	Aug 30'19	Sep17'19	Absolute Change	% Change
UAC of Nigeria Plc	5	1.42	-3.58	-71.60
University Press Plc	1.37	1.05	-0.32	-23.36
Champion Breweries Plc	1.53	1.25	-0.28	-18.30
Ikeja Hotel Plc	1.43	1.17	-0.26	-18.18
Tripple GEE and Co. Plc	0.68	0.57	-0.11	-16.18

Corporate Disclosures

Below is the snapshot of some companies that released their H1'19 earnings during the review period

Sectors	Company	Revenue N'bn	Profit/(loss) before tax N'bn	Profit/(loss) after tax N'bn	EPS (Naira)
Banking	Access Bank	324.38 28.20%	74.12 61.69%	63.02 59.02%	1.93

Outlook

We expect the bearish momentum to persist in the near term due to weak investor appetite towards the domestic equities market.

Equity Report: Okomu Oil Palm Company Plc

Analyst's note

Analyst Recommendation: BUY
Market Capitalization:N52.42 billion
Recommendation Period: 365 days
Current Price: N54.95
Industry: Agriculture
Target Price: N72.35

The domestic economy has seen some notable improvement since it exited recession in 2016. However, the growth is still lackluster and non-inclusive. The exchange rate has been stable and the inflation rate though not yet single digit, has been below 12% for 16 months. The Nigerian government in its effort to diversify the revenue base of the country has adopted a protectionist strategy. The FGN protectionist stance is primarily targeted towards the agricultural sector in order for the country to be self-sufficient in food production. Import substitution policies include the inclusion of oil palm on the 43 items restricted from accessing foreign exchange on the official market as well as access to concessionary loans from the CBN and Bank of Industry. Okomu is well positioned to benefit from these government policies because oil palm accounts for more than 80% of its revenue. In addition to this, the country's palm oil production is 1.02million metric tons, which is 31% lower than the consumption of 1.34million metric tons. The demand gap of 320,000 metric tons creates room for expansion.

In determining Okomu's intrinsic valuation, we considered current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. We believe that Okomu plc is undervalued and that its current share price is below its potential value. Accordingly, we place a BUY rating on the company's stock.

H1'19 revenue plunges on lower crude palm oil prices

The global price of crude palm oil has been highly volatile lately due to the trade war between the world's two largest economies (the United States and China) and a change in India's importation taxes. The ongoing trade war between the US and China recently escalated when the US implemented fresh tariffs on China's imports and China responded by suspending purchases of US farm products. This has resulted in a decline in the price of soybeans, which in turn has triggered a decline in the demand for crude palm oil; crude palm oil and soybeans are close substitute. In addition, the Indian government (the world's largest palm oil importer) increased its importation tax on the commodity by 5% from 45% to 50% effective March 2020. This has resulted in a global supply glut and a fall in crude palm oil prices.

Okomu's revenue has reacted accordingly. It dropped 33.8% from N12.94 billion in H1'18 to N8.57 billion in H1'19.Net operating profit also declined by 5.09% to N3.96 billion in H1'19 from N4.17 billion in H1'18. The company has had some success with reducing costs. The cost of sales declined by 5.9% from N1.14 billion in H1'18 to N853.53 million in H1'19. However, this drop was not enough to offset revenue decline. The net operating expenses increased by 26.49% from N1.51 billion in H1'19 to N1.91 billion in H1'19.

Fall in finance costs fails to drive H1'19 earnings

Profit before tax declined sharply by 59.18% to N2.84 billion in H1'19 from N6.94 billion in H1'18. This was despite a decline in the company's finance cost by 60.15% to N101.11 million from N253.72 million. Similarly, profit after tax declined by 57.45% to N2.53 billion in H1'19 from N5.94 billion in H1'18. This decline was as a result of the low turnover recorded during the period.

Industry & Company Overview

In the last three decades, Nigeria's palm oil output has largely lagged its potential. This was mainly due to the lack of improved seedlings, outdated and inefficient machinery, poor milling infrastructure, and inaccessibility of land.

However, the Nigerian government's intervention in the space has enabled the oil palm industry to gain traction. The government identified agriculture as one of the low hanging fruits poised to kick start growth through export revenue diversification and self-sufficiency. Oil palm has been one of the commodities key to the revitalization of the agricultural sector, partly due to the series of by-products obtained from the milling and processing value chain and the

export potential of a mature oil palm industry.

Furthermore, the oil palm business is a scaleable enterprise; players in the sector cater to the industrial needs of a variety of customers such as consumer goods, cosmetics and pharmaceutical companies. Oil palm is also a major retail commodity used to garnish meals and a good source of essential vitamins.

Key Nigerian companies that use oil palm as inputs include Nestle, Cadbury, Indomie (owned by Dufil) and Unilever.

The two major players in the market include Presco and Okomu. Both companies are listed on the Nigerian Stock Exchange. Other players include PZ Wilmar and DUFIL Prima Foods. However, Presco and Okomu remain the most recognized brands in crude oil palm production in Nigeria. Players in the sector cater to the industrial needs of a range of customers (consumer goods, cosmetics and pharmaceutical companies). Okomu is Nigeria's second-largest producer of palm oil.

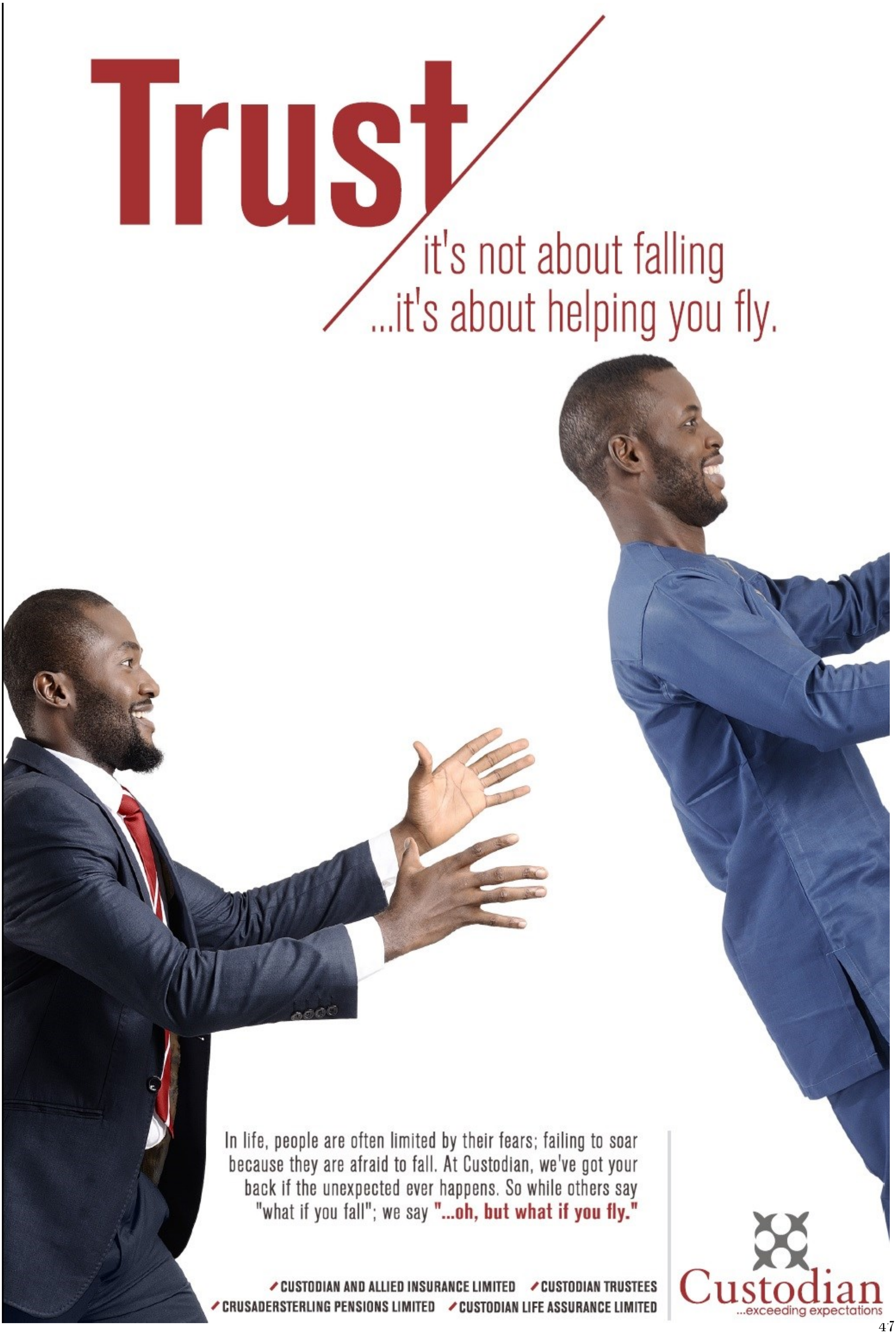
Okomu was incorporated on December 3, 1979, as a private limited liability company. It was subsequently converted into a public limited liability company on September 19, 1997. Ownership is largely concentrated with foreign investors, through the Socfinal Group of Luxembourg. The group owns 62.6% of Okomu's shares with Nigerian investors accounting for the rest (37.4%).

Okomu operates through two segments: palm oil products and rubber products. (The rubber business segment comprises about 20% of Okomu's total revenue.) The company is primarily focused on the production and development of oil palm plantation, oil milling, palm kernel oil, palm kernel cake, Banga red palm oil and rubber cup lumps.

The company's growth can be seen through increases in its total assets and revenue during the years.

Income Statement for Okomu Plc					
N'000	2014	2015	2016	2017	2018
Revenue	8,655,718	9,738,015	14,364,736	20,261,918	20,257,669
Other work performed by the entity capitalized	656,858	1,448,193	2,293,062	3,752,431	3,446,502
Changes in inventories of the finshed goods and WIP	100,328	(41,170)	145,543	721,028	185,360
Raw materials and consumables used	(2,071,942)	(1,803,659)	(3,305,572)	(4,841,153)	(4,415,829)
Other external charges	(2,244,939)	(2,885,254)	(2,658,798)	(3,701,166)	(3,988,470)
Employee expenses	(899,865)	(728,909)	(790,476)	(832,799)	(973,127)
Depreciation on property, plant & equipment	(734,977)	(916,786)	(960,333)	(1,022,701)	(1,178,556)
Depreciation on bearer biological assets	(223,500)	(228,288)	(234,786)	(253,560)	(327,814)
Other expenses	(1,477,914)	(1,490,374)	(2,016,548)	(3,109,342)	(2,929,317)
Other income	192,070	186,413	114,734	153,530	183,506
Operating profit	1,951,837	3,278,181	6,951,562	11,128,186	10,259,924
Finance income	85,701	43,111	291,273	490,894	353,685
Gain on disposal of assets	8,534	6,534	4,206	5,444	16,170
Finance cost	(141,576)	(429,181)	(1,340,588)	(484,382)	(292,608)
Profit before tax	1,904,496	2,898,645	5,906,453	11,140,142	10,337,171
Income tax expense	(344,541)	(239,038)	(996,180)	(1,992,292)	(1,835,322)
Deferred tax charge	(230,000)	-	-		
Profit for the year	1,329,955	2,659,607	4,910,273	9,147,850	8,501,849

Balance Sheet for Okomu Plc					
N'000	2014	2015	2016	2017	2018
Property, plant & equipment	10,255,455	9,848,681	9,217,423	11,216,535	13,392,195
Bearer biological assets	5,111,060	7,395,989	9,399,803	12,898,674	16,017,362
Non-current assets	15,366,515	17,244,670	18,617,226	24,115,209	29,409,557
Inventories	1,415,552	1,490,595	1,719,080	2,687,196	3,148,880
Trade receivables	105,304	62,856	121,086	465,222	744,313
Intercompany receivables			467,379	497,822	447,522
Other receiveables	626,875	296,592	384,643	512,911	538,247
Cash and bank balances	358,082	905,527	3,198,251	3,093,792	4,129,434
Current assets	2,505,813	2,755,570	5,890,439	7,256,943	9,008,396
Total assets	**17,872,328**	**20,000,240**	**24,507,665**	**31,372,152**	**38,417,953**
Share capital	476,956	476,955	476,955	476,955	476,955
Share premium	1,867,095	1,867,096	1,867,096	1,867,096	1,867,096
Revenue reserves	7,260,471	9,801,309	14,667,990	22,162,839	26,411,611
Other reserves					(241,508)
Equity attributable to equity holders	9,604,522	12,145,360	17,012,041	24,506,890	28,514,154
Non controlling interests	-	-	-	-	-
Total equity	9,604,522	12,145,360	17,012,041	24,506,890	28,514,154
Deferred tax liabilities	1,704,811	1,733,273	1,755,473	1,660,273	1,548,010
Provisions					-
Post-employment benefits obligatio	496,256	352,650	315,965	671,133	1,165,774
Borrowings	1,477,305	3,386,168	2,416,252	765,458	2,267,286
Non-current liabilities	3,678,372	5,472,091	4,487,690	3,096,864	4,981,070
Trade payables	772,216	888,636	641,148	487,695	1,548,070
Other payables	97,585	67,477	114,929	28,349	61,083
Provisions and accruals	359,329	483,085	429,810	439,679	319,924
Borrowings	2,285,896	340,417	372,351	486,047	464,433
Tax payable	1,003,014	530,201	1,386,231	2,263,163	2,529,219
Dividend payable	63,465	63,465	63,465	63,465	-
Intercompany payables	7,928	9,508	-	-	-
Current liabilities	4,589,433	2,382,789	3,007,934	3,768,398	4,922,729
Total liabilities	8,267,805	7,854,880	7,495,624	6,865,262	9,903,799
Total equity and liabilities	**17,872,327**	**20,000,240**	**24,507,665**	**31,372,152**	**38,417,953**


Trust
it's not about falling
...it's about helping you fly.
In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "...oh, but what if you fly."
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CUSTODIAN TRUSTEES
CRUSADERSTERLING PENSIONS LIMITED
CUSTODIAN LIFE ASSURANCE LIMITED
Custodian
...exceeding expectations

Management

The ability of Okomu's management to sustain returns and drive growth in a period of weak economic growth can be attributed to its diversified business segments (oil palm and rubber).

To further drive growth and improve earnings, management has formally commissioned its Extension Two Estate at Ovia North East Local Government Area of Edo State. This enables the company to establish a second oil palm mill which will increase Okomu's production capacity and financial returns.

Okomu is led by a highly talented and experienced team that drives the company towards sustainable growth. Mr.Gbenga Oyebode is the Chairman of Okomu and has developed significant experience in project finance, corporate law, energy and natural resources, telecommunications and aviation law. He has served as a director of Nestle, Socfinaf SA, MTN Nigeria Ltd and Access Bank Plc. He has an LLB Honors from the University of Ife, Nigeria and an LLM Honors from the University of Pennsylvania, Philadelphia.

Mr. Graham Hefer is the Managing Director of Okomu Oil Palm Plc. He has served as an Executive Director since2007.He has an MSc and PhD in Agriculture. Mr. Hefer has held director positions at Tongaat Cotton Limited and Noordelike Sentrale Katoen. He has also held the position of Lecturer/ Research Fellow at the University of Natal. Under his visionary leadership, Okomu has expanded its plantation size and oil mill capacity to grow its revenue and production capacity.

Chairman

Mr. Gbenga Oyebode

Managing Director

Mr. Graham Hefer

What the Bulls and Bears Say

Bulls say

- Leading player in the Nigerian oil palm market
- Diversified revenue stream (Increased investment in the rubber market)
- The growing demand for crude palm oil and its derivative products
- Favorable government policies towards the agricultural sector
- Purchase of five milliwatts turbine
- Strong market presence
- Multiple entry points and appeal to the market – Okomu oil plays in both the retail and wholesale segment of the Nigerian oil palm market
- Land expansion initiatives to broaden the revenue base

Bears say

- Declining commodity prices particularly rubber
- High operating cost (epileptic power supply)
- High rate of smuggling
- Dilapidated infrastructure
- Intense competition from leading players such as Presco, PZ Wilmar, as well as international players like Olam
- Change in government policies could affect the competitiveness of companies in the agricultural sector, particularly the palm oil sector
- Persistent macroeconomic headwinds could dampen consumer demand for palm oil products

Risk and Outlook

The major risks that could prevent Okomu from achieving its goals of increasing production capacity, boosting earnings and managing costs include market risks (foreign exchange, interest rate), credit risks and liquidity risks.

Okomu is exposed to currency risks from some of its transactions. The company imports some of the raw materials used for production, most of which are denominated primarily in US dollars and euros. The company mitigates these risks by holding foreign currency bank accounts, which act as a natural hedge for such transactions. Interest rates are another risk. This arises from trade finance for financing its transactions. The company mitigates this risk through negotiations of favorable terms with the banks.

In relation to government policy, any change in policy towards agriculture and foreign exchange restrictions could affect Okomu's earning potential. A policy reversal on the ban of oil palm from accessing foreign exchange would prove to be quite detrimental to the competitiveness of Okomu as it would hurt its market share and earnings.

Our valuation

Using the discounted cash flow (DCF) methodology, we estimated a stock price of N72.35, which is a 31.67% upside on the current price of N54.95as of September 17th. The discount rate (weighted average cost of capital) of 18.8% was derived using a 14.55% risk-free rate, a beta of 0.62, an after-tax cost of debt of 9.4%, and a market risk premium of 7.64%. The long-term cash flow growth rate to perpetuity calculated is 7.50%.

We, therefore, place a **BUY** on the shares of the company at the current market price.