

Unity Bank Digest

March 04, 2020



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The Highlights

Purchasing Managers' Index (PMI) fell by 3.54% to 51.7 points

The FBN PMI fell by 3.54% to a four-month low of 51.7 points in February. All five sub-sectors – output, employment, new orders, delivery times and stock purchases declined sharply in the month.

In the same vein, the CBN composite PMI reading also declined by 1.52% to 58.3 points from 59.2 points in January. All five sub-indices – production, new orders, supply delivery time and raw materials contracted during the period. The decline in PMI reading for the month was partly due to the lingering effect of the border closure and implementation of the VAT hike that reduced consumers demand. However, in the coming month, we expect a pickup in inventory level as manufacturers prepare for increased demand as a result of the Easter celebration

The first case of COVID-19 confirmed in Nigeria

On February 27th, the Lagos State Ministry of Health confirmed the first case of the COVID-19 virus in Nigeria. This is also the first case of the virus in Sub-Saharan Africa. The patient is an Italian citizen who flew into Lagos from Milan. Since news of the patient broke, approximately 100 people who had contact with the individual in Lagos and Ogun state have been quarantined. There has also been increased demand for hand sanitizers and face masks (panic buying) which caused a price hike of these items by some pharmacies and stores. Although the state government has warned against the artificial scarcity of the items, it is also battling with the panicking populace.

In the event of an outbreak in the country, the economic impact could be a further depletion of the external reserves given the sharp fall in Brent oil, possible disruptions of the Nigerian seaport activities as well as a bearish performance of the stock market (2.21% decline since the news of the virus). In addition, labor productivity could decline as some companies may shut down operations. This could pose a threat to national output.

Harmattan haze disrupts air travel in golden triangle

In February, most local and international flights were either delayed, diverted or cancelled amidst foggy weather conditions. The hazy atmosphere coupled with poor instrumental landing systems (ILS) was very unconducive for flights to take off or land in major airports, especially in Lagos state. International airlines –including Qatar airways, British airways and Delta airline experienced these delays and cancellations that resulted in huge revenue loss. The NCAA, in a statement calmed all parties involved and emphasized the need to put safety first. However, the event amplified the need for the government and air travel agencies to address the ILS problems and pump resources into the aviation sector so that local and international airports meet global standards.

Nigeria's Q4'19 Gross Domestic Product up 27bps to 2.55%

Nigeria's real Gross Domestic Product (GDP) grew at a faster pace of 0.27% to 2.55% in Q4'19 from 2.28% in Q3'19. This represents the strongest quarterly growth since Q3'15 and brings the 2019 full-year growth to 2.27%.

The oil sector's real growth slowed by 13bps to 6.36% within the review quarter compared to the non-oil sector's real growth of 2.26% from 1.84% in Q3'19. The non-oil sector's growth was supported by growth in Agriculture (2.31%), Manufacturing (1.24%), Information and Communication (10.16%) and Financial & Insurance (20.18%) sectors.

IMF revises Nigeria's 2020 growth forecast downwards to 2%

At its just-concluded Article IV Consultation, the IMF revised Nigeria's 2020 GDP growth outlook downwards to 2% from an earlier forecast of 2.5%. The downward revision by the IMF was driven by Nigeria's slow growth recovery since the 2016 economic recession, rising inflation and external imbalances. Recommendations by the IMF include further monetary policy tightening using more conventional methods, adoption of a uniform and more flexible exchange rate and removal of forex restrictions among others.

January headline inflation jumps to 12.13%

According to the National Bureau of Statistics, Nigeria's inflation rate jumped by 15 basis points (bps) to 12.13% in January from 11.98% in December. This represents the fifth consecutive monthly increase and a 21-month high. The consistent increase in inflation is partly due to a rise in food prices, evident in the food inflation sub-index recording the

highest percentage change in January (from 14.67% to 14.85%). Month-on-month inflation, which is a better reflection of market realities, bucked its two-month declining trend (increasing from 0.85% to 0.87%).

Federal Accounts Allocation Committee down by 9.6% to N647.3bn

Total Federal Accounts Allocation Committee (FAAC) disbursements in February declined by 9.6% to N647.3bn from N716.3bn in January. The drop in revenue shared was partly attributable to lower statutory and value-added tax (VAT) revenues. A breakdown of the total amount disbursed shows that the federal government received N243.7bn, state governments received N123.6bn and local councils received N95.3bn. The balance in Nigeria's excess crude account declined sharply to \$71.81mn as of February 19 from \$324.96mn as of January 16. The depletion in Nigeria's external reserves and savings highlights the country's weak fiscal buffers.

Bankers' Committee Meeting – Bridging the infrastructure gap

At the recently concluded Bankers' Committee meeting, a number of topical issues were addressed – including funding infrastructure. The committee agreed to partner with the federal government to bridge the country's huge infrastructure deficit. Also, the success of the CBN's loan to deposit ratio was reviewed and public-private partnership was encouraged.

Social Corner

De Grisogono filed for bankruptcy

- De Grisogono, a jewelry brand favored by Naomi Campbell, Salma Hayek, and other celebrities for red carpet outings worldwide, filed for bankruptcy in Switzerland.
- The company, which was founded in the 1990s, had spent months looking for a buyer, following allegations that it was caught up in a complex financial scandal.



The BRIT Awards 2020

- The 2020 BRIT awards were held on February 18 at the London O2 Arena. British comedian, Jack Whitehall, hosted this year's edition, marking the 40th anniversary of the awards ceremony.
- It was well attended by British music stars. Billie Eilish, Lizzo, Harry Styles and Lewis Capaldi graced the stage with their performances.
- Nigerian international music star, Burna boy lost the Best International Male Artist award to Tyler The Creator.
- Other award winners include:



Album of the year: Dave, "Psychodrama"

Female solo artist: Mabel

Male solo artist: Stormzy

Best British group: Foals

Best new artist: Lewis Capaldi

Song of the year: Lewis Capaldi, "Someone You Loved"

International female solo artist: Billie Eilish

International male solo artist: Tyler, The Creator

Rising star award: Celeste

Apple stocks chip away after the COVID-19 warning

- On February 17, Apple warned investors that COVID-19 outbreaks are expected to negatively affect its business and revenue in Q1'20. The multinational technology company noted that the slowdown of Chinese demand, as well as the closure of its stores in China, would likely disrupt its iPhone sales in the coming quarter.



China makes up approximately 15% of Apple's total sales and serves as a manufacturing hub for the company.

- Following Apple's warning, global stock markets fell as investors anticipate more revenue losses from companies associated with China.

Alibaba releases third-quarter earnings on February 13. Chinese retail is taking a hit, with shoppers reluctant to spend as the coronavirus outbreak spreads

Samsung unveils new Galaxy mobile products in San Francisco on February 11. It is set to showcase its S20 family of phones, which have improved cameras, and the foldable z Flip.



The YouTube video platform has more than

20m

paying subscribers, according to parent company Alphabet, which broke out detailed numbers for the unit for the first time. YouTube made \$15.1 billion in 2019, less than some analysts had estimated



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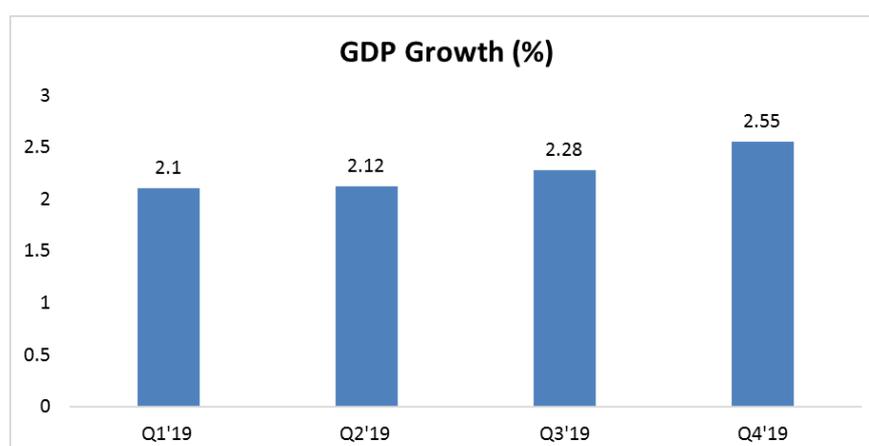
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Main Report

Q4'19 Gross Domestic Product up to 2.55%

- According to the National Bureau of Statistics, Nigeria's real Gross Domestic Product (GDP) growth increased to 2.55% in Q4'19 from 2.28% in the preceding quarter. This brings the average GDP growth in 2019 to 2.27%, which is 0.36% higher than the average growth of 1.91% in 2018.
- Within the review quarter, interest rate sensitive sectors such as Finance & Insurance (20.18%), ICT (10.16%), Agriculture (2.31%) and Manufacturing (1.24%) were amongst the fastest growing sectors. Slowing sectors include Mining (6.07%) and Construction (1.31%) while Real Estate (-3.45%), Trade (-0.58%) and Transport (-0.8%) were amongst the contracting sectors in Q4'19. The Trade sector remains a victim of Nigeria's closed land borders.



Analysis & Outlook

Historically, the fourth quarter is characterized by increased economic activities owing to the Christmas festivities. The boost in Nigeria's real GDP growth at a time of rising inflation increases the probability of further monetary tightening at the MPC's next meeting scheduled for March 23/24.

January headline inflation jumps to 12.13%

- Nigeria's headline inflation increased by 15bps to 12.13% in January from 11.98% in December. This is the fifth consecutive monthly increase and the highest rate since April 2018.
- A further breakdown of the report showed that all sub-indices moved in tandem with headline inflation. Month-on-month inflation increased by 0.02% to 0.87% from 0.85% in the previous month. Food inflation also increased to 14.85% from 14.67% with commodities like yam, potatoes, bread, cereals, fish, meat, oils and fats recording the highest prices in the food basket.
- Core inflation sub-index rose marginally by 0.02% to 9.35% while year-on-year rural and urban indices rose from 11.41% and 12.62% to 11.54% and 12.78% in January respectively.
- A state-by-state breakdown of the report showed that Sokoto (15.20%), Kebbi (14.37%) and Niger (14.23%) recorded the highest rate of inflation. On the other hand, Kwara (9.49%), Benue (9.61%) and Delta (9.95%) recorded the lowest rates.

Analysis & Outlook

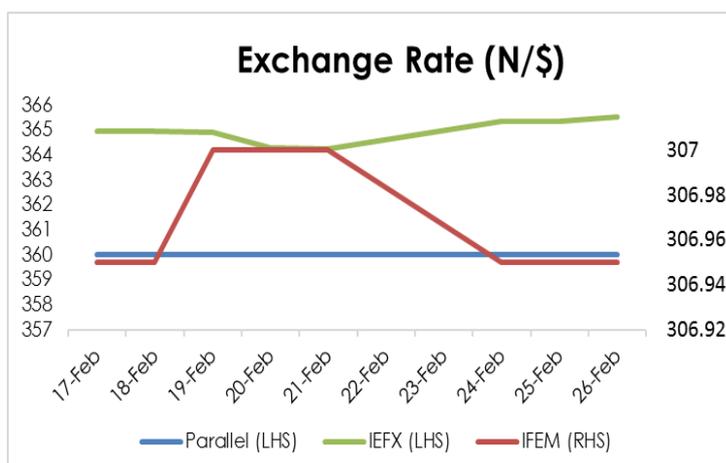
The upward trend in inflation is reflective of money supply shocks, higher logistics cost (diesel prices) and the lingering effect of the border closure. We expect the rise in the general price level to persist in the coming months. This is mainly due to the CBN's heterodox policies, implementation of the new VAT rate, and commencement of other cost-reflective tariffs. If this happens, consumer disposable income will dwindle further leading to a fall in aggregate demand.

Business Update

(Review Period: February 17-26, 2020)

The Foreign Exchange Market

At the parallel market, the naira traded flat at N360/\$. The stability in the naira was in spite of a 29.41% reduction in the total forex intervention by the CBN - \$315.14million in the second half of February compared to \$446.41million in the first half. The currency appreciated by 0.63% and 1.02% against the pound and euro to close at N471/£ and N390/€ respectively.



SOURCE: FDC Think Tank, CBN, FMDQ

At the interbank market, the naira started the period at N306.95/\$, depreciated to N307/\$, before appreciating to close the period at N306.95/\$. However, it depreciated at the IEFX window by 0.15% to close at N365.50/\$ from N364.95/\$ on February 17. During the review period, the total forex traded at the IEFX window fell sharply by 45.83% to \$1.95bn from \$3.60bn in the first half of February.

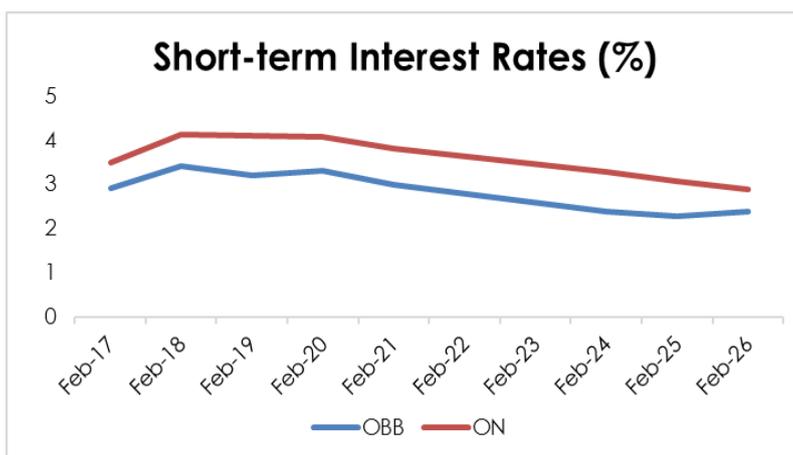
Nigeria's external reserves balance fell below \$37bn during the review period. By the end of the period, external reserves stood at \$36.47bn (February 24), 1.25% lower than the balance of \$36.93bn on February 17th. The current level of external reserves is now equivalent to an import cover of 9.08 months compared to a cover of 9.19months at the start of the review period.

Outlook and Implications

The depreciation of the currency at the IEFX window indicates that currency pressures are beginning to manifest. However, we expect the CBN to continue its interventionist stance to keep the currency stable at N360/\$.

The Money Markets

Average liquidity within the banking system increased sharply by 126.52% to N465.33bn in the period from N205.43bn recorded in the first half in February. The increased naira liquidity in the system can be primarily attributed to total OMO repayments (N627.22bn) outweighing total OMO sales (N300bn). This resulted in a net inflow of N327.22bn.



SOURCE: FDC Think Tank, CBN, FMDQ

Short term interest rates (OB & O/N) averaged 3.24%pa in the period, 800bps lower than the average of 11.24%pa in the first half of February.

There was a primary market auction of approximately N104.12bn on February 26. The 91-day and 182-day tenors remained flat at 3.00%pa and 4.00%pa respectively while the 364-day tenor declined by 84bps to close at 5.70%pa. There was also a bond sale of N100bn on February 20, which was oversubscribed by 184.43%. The yields declined across board by 194bps.

In the secondary market, the 91-day and 364-day tenors increased by an average of 58bps while the 182-day tenor declined by 12bps to close at 3.59%pa.

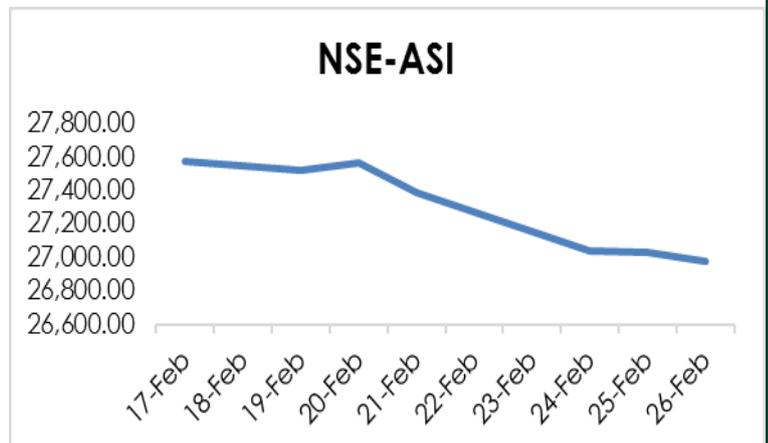
The Nigerian Interbank Treasury Bill True Yield (NITTY) yields across the 30-day and 180-day tenors declined by an average of 31bps while the 90-day tenor increased to 3.46%pa from 3.30%pa on February 3rd.

Tenor	Secondary market rates at February 17, 2020 (% pa)	Secondary market rates at February 26, 2020 (% pa)	% change	Primary market rates at February 12, 2020 (% pa)	Primary market rates at February 26, 2020 (% pa)	% change
91-day	2.55	2.85	0.30	3.00	3.00	-
182-day	3.71	3.59	-0.12	4.00	4.00	-
364-day	4.15	5.01	0.86	6.54	5.70	-0.84

Tenor	NITTY rates at February 03, 2020 (% pa)	NITTY rates as at February 26, 2020 (% pa)	Change
30-day	3.02	2.83	-19bps
90-day	3.30	3.46	16bps
180-day	3.97	3.55	-42bps

The Stock Market

The NSE ASI declined by 2.16% to close at 26,974.38 points on February 26 from 27,570.94 points on February 17. Similarly, market capitalization dipped by 2.16% to N14.05 trillion by the end of the review period from N14.36 trillion on February 17. The market's year-to-date return declined to 0.49%. The 52-week return is negative at 16.93%. The market recorded only one positive trading day and seven negative days within the review period. The Nigerian bourse lost 2.21% since the news of the virus. However, the stock market was not alone in the negative performance as other global stock markets also experienced a bearish trend due to heightened investor sell-off as the negative sentiment around the Coronavirus persists.



SOURCE: NSE

Outlook & Implications

The market is expected to maintain its bearish trend as investors remain cautious of volatile stock prices while anticipating the release of more FY'19 corporate earnings.

- **Brent prices** declined by 5.17% to \$54.69pb from \$57.67pb on February 17th. The decline in Brent price was primarily attributed to the lingering negative impact of the Covid-19 outbreak on the international oil market.

Outlook & Implications

- Demand concerns following the spread in the Covid-19 will continue to have an impact on Brent price. We expect Brent to remain at current levels, trading within a range of \$56-\$59pb in the coming weeks. At a time of falling external reserves and depleting balance on Nigeria's Excess Crude Account, oil price below \$60pb further weakens the country's fiscal buffers.

- **Natural gas prices** declined by 4.64% to close at \$1.85/mmbtu. This was partly due to a decline in household demand in Asia owing to the Covid-19.

Outlook & Implications

- We expect LNG prices to decline further in the coming weeks due to reduced demand from China and a surge in production in the US. Furthermore, the temperatures in the United States are about to start getting warmer, and therefore it's very likely that the demand is going to drop even further. LNG is a major export commodity in Nigeria, a decline in price will negatively affect the balance of trade.

- **Corn prices** fell by 2.97% to close at \$376/bushel from \$387.5/bushel at the start of the review period. This was partly due to an increase in US exports.

Outlook & Implications

- Reduced global demand is expected to push prices down further in the near term. If this happens, the production cost for domestic firms who depend on the importation of corn will decline.
- **Wheat prices** decreased by 5.58% to close the period at \$533.5/bushel. This was due to ample US supply.

Outlook & Implications

- Wheat prices are expected to continue the bearish trend owing to reduced Chinese demand. Lower wheat prices will reduce Nigeria's import bill as well as the import bill of domestic wheat-dependent companies.

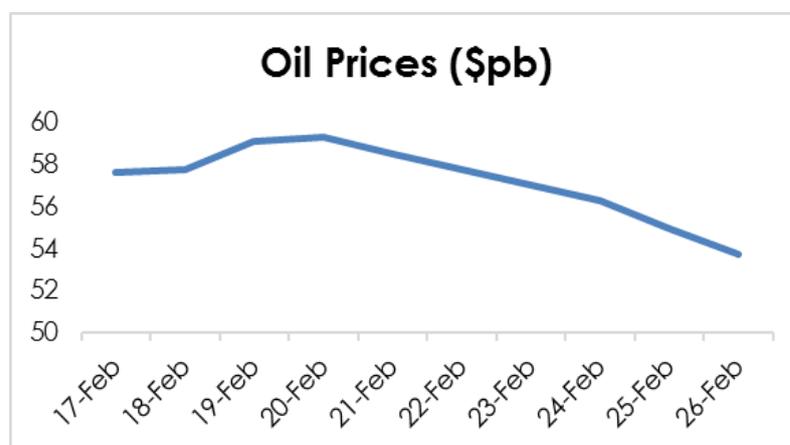
- **Sugar prices** rose by 1.41% to close the review period at \$14.66/pound from \$14.87/pound. This was partly due to unfavourable weather conditions in key producing countries- India and Thailand.

Outlook & Implications

- Increasing exports from India to Thailand due to the drought may curb the rise in global prices in the coming weeks. Nigeria is a major importer of sugar, thus, lower prices will be positive for its import bill.
- **Cocoa prices** declined by 1.41% to close at \$2,806/mt despite the weather concerns in Ivory Coast and Ghana limiting the global supply of cocoa.

Outlook and implications

- We expect the unfavourable weather conditions in Ivory Coast and Ghana to continue to limit the global supply of cocoa and push prices up in the near term. Nigeria is the 4th largest producer of cocoa in the world. Therefore, an increase in the global price of the commodity could increase the country's export revenue.



SOURCE: Bloomberg, EIA, Newsnow

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Lifestyle



How to Get Banks to Say Yes to Your Small Business Loan

Culled from Entrepreneur¹

A thorough business plan is a crucial part of any application.

In my experience in banking, more than three-quarters of business plans that come with projection-based applications fall short in one or more key areas. Many of the plans I see consist of a few pages of hastily produced bullet points, falling well short of the detail and color about the business that banks need to make a credit decision.

Business plans are critically important for startups, high-growth companies or buyers seeking to finance the purchase of a business. In fact, they are a useful planning tool for any business, but especially for startups since they have no financial track record for a bank to examine.

¹<https://www.entrepreneur.com/article/332592>

Established companies that are planning for accelerated growth often need working capital, equipment or real estate financing to keep growing, and they need a solid business plan that identifies what will drive the planned growth and shows that their plan will result in adequate cash flow to assure repayment of the requested loan.

Businesses seeking loans to acquire other businesses (or individuals looking to buy a business) will need a thorough plan to describe the new ownership, and how they'll successfully manage the firm, and what they see as their market opportunities and key clients.

A business plan is for the bank and your team

Having a business plan is not just part of a bureaucratic check-list to secure a loan. Rather, the business plan can be a guiding document for the enterprise -- one that communicates critically important facts and ideas to management teams and employees. Writing the plan can be a crucial exercise in helping owners to think through the details as they plot their business' future.

There are several core elements that a strong business plan needs to have:

1. Detailed projections

To get a "yes" on a loan request, banks need enough detail to be assured that your business will have sufficient profit and cash flow to service the debt. The plan should state precisely how a company will attain its revenue goals and expense estimates,



and how it expects to succeed over the long term, not just the next couple of years. It's not enough to say "the total market for our service or product is \$100 million, and we expect to get 5% of it." Your banker needs to know exactly how you plan to achieve that revenue level by describing key relationships and how they will be converted into clients. The business plan should also provide a detailed analysis of the anticipated costs of operating and should consider the effects of economic and market trends. If your local job market is tight, for example, you should say so (your banker likely already knows), and say what your plan is for hiring employees and how that will affect labor costs as the company grows. The real point of the plan is to identify your key assumptions and provide the thought process behind them.

2. Marketing strategy

The plan should also outline the company's marketing strategy in as much detail as possible. Before committing capital, a bank wants to know how the business proposes to market its products or services and the specific opportunities that it is trying to fill. The plan should answer the questions: What is the need for the company's products or services in the area, and how will the company get its message out?

3. Management and ownership experience

To approve a loan, banks want to know that owners have the right background and experience to make the business work. That helps to assure banks that the projections have been thought through and can be successfully implemented. Different types of businesses call for different skills. An owner with a lengthy resume as a manager in a big firm may not have the ideal experience to start a restaurant. If the business is in a high-volume, low-margin industry, banks would feel more comfortable with an owner who has proven experience in managing costs. For business acquisitions, it is important to provide details on the plan for management transition.

4. Location, location, location

Depending on the type of business, small details about its physical location can be surprisingly important. If you are a breakfast café or coffee shop, you want to be located on the side of the street that people use for their morning commute. If the business is a road-side restaurant relying on passing drivers, it needs to be easily accessible for cars. Even for "destination" businesses that attract customers based on their reputation, location can be important. If you are a high-end hair salon, you don't want to set up in a down-market strip mall. The plan should identify the location and why you believe this location supports your business model.

Remember, unlike investors, the highest priority for banks when lending is to ensure a return of capital, not a return on capital. With the right plan and demonstrated financial capacity to repay the debt, the chances of obtaining needed financing will go way up.

Contact

Would you like to open an account with us?

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