

THE SOCIAL CONTRACT UNDER PRESSURE



TRUST DEFICIT



TAX



WELLBEING



Presented by Bismarck Rewane

CEO, Financial Derivatives Company Ltd.

April 4th, 2018

OUTLINE-*TALKING ECONOMICS BUT THINKING POLITICS*

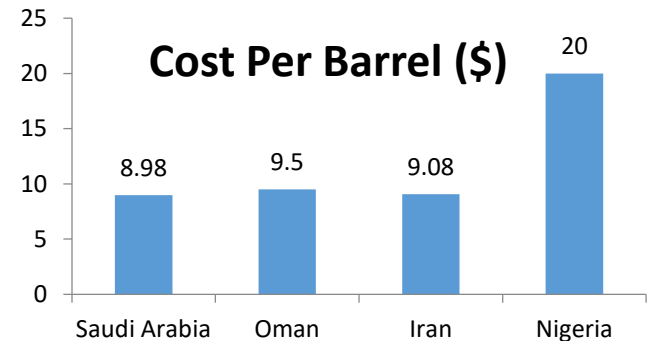
- Beware the Ides of March
- Global perspective: The rise of selective protectionism
- Key economic indicators and market developments
- Equities and sector performance
- Policy initiatives & outlook
- Political climate
- Summary & projections for April/May



BEWARE THE IDES OF MARCH
TALK IS CHEAP

BEWARE THE IDES OF MARCH

- Less than 12 months to the general elections
- Politics is taking precedence over policy
- National Assembly passes the PIGB, first submitted in 2012
- Oil production 1.7% higher to 1.81mbpd in February
- Nigerian National Petroleum Corporation (NNPC) gloats of a 13% drop in cost per barrel to \$20pb
- Nigeria's cost per barrel is still very high



BEWARE THE IDES OF MARCH

- Average price of oil in Q1 was \$67.18 vs \$54.68pb (2017)
- Oil revenue in Q1 2017= \$2.38bn
- Terms of trade improved from 9.5 to 10.7 (International Monetary Fund-IMF)
- Invisible flows decreased sharply by 51% to \$147mn (N44.89bn) in February from \$300mn (N91.75bn) in January
- Total dollar inflow in March (IE) = \$5.15bn/ Feb = \$4.09bn
- Naira traded flat in all markets: N362 – 363/\$
- The dollar depreciated against a basket of currencies by 0.7% in March

NAIRA DID NOT STRENGTHEN, DOLLAR WEAKENED

- Effectively the naira did not strengthen, it was the dollar that weakened
- Against the GBP, the naira depreciated to N508/£ from N502/£ in February
- External reserves at a five-year high of \$46bn; Eurobond drawdown
- External reserves/external debt ratio deteriorated to 1:1 in 2018
- Average opening position of banks oscillated between N27bn and N628bn
- Interbank interest rates swung in tandem between 3.08%-40.33%

BANKS IN THE RED ≈ N24BN

- Banks borrowed N24trn in 2017 (CBN Standard Lending Facility)
- Broad Money (M2) increased by 0.08% to N24.02trn in February (N22.21trn-2017)
- Headline inflation dropped sharply to 14.33% (22-month low)
- Core inflation is now 11.7%, 230bps below the monetary policy rate (MPR), and 130bps below T/bills
- Lagos Diesel retail price down to N194/liter (N209.89/ltr average)
- Premium Motor Spirit (PMS) also declined nationwide by 9.64% to N172.5/liter from N190.9/liter

FEDERAL GOVERNMENT EMPHASIZES DEBT SERVICE

- Nigerian total debt stock increased by 79% to N21.73trn in 2017
- External debt \$18.9bn
- Domestic debt N15.94trn (*source* National Bureau of Statistics-NBS)
- Fiscal deficit in 2017 N2.17trn (*source* CBN)
- Gross debt now estimated at 25.3% of gross domestic product (GDP), up from 22.3% in 2017
- FGN debt is 20.8% of GDP- total state debt (4.5%)

FGN EMPHASIZES DEBT SERVICE

- FGN interest payments as a percentage of FGN revenue were 71.9% in 2017
- Estimated to decline to 59.7% in 2018
- Debt Management Office (DMO) has retired N1.37trn of T/bill stock in Q1, 2018
- Total new issuance of T/bills in Q1 now N1.24trn- net issue of N130bn
- Average coupon rate in Q1 2018, is 378bps lower than 2017
- External debt is now \$45.4bn (\$40bn 2017)

MARCH HIGHLIGHTS-MPC MEETS IN APRIL

- Senate confirmed five members of the Monetary Policy Committee (MPC), rejected one
- MPC meets, maintains status quo on all parameters
- Telephone subscribers in Nigeria up 1.54% in January to 147.3mn
- Internet penetration up 0.9% to 100.2m in January
- First Bank of Nigeria Purchasing Manager's Index (FBN PMI) increased by 8.6% to 59.4, on stronger inventory demand
- Average on-grid power transmitted in March was 4,029MWh/h (Feb 3,937mn)

MARCH HIGHLIGHTS- HOT & HUMID IN LAGOS

- Average temperatures in Lagos 87F, 84% humidity
- Kano 98F, humidity 25%
- High demand for air conditioning
- Total power sector indebtedness now estimated at N1trn
- Banking sector forbearance and support from the CBN now imperative and inevitable
- A de-bottlenecking of the 2000MW of stranded power to the DisCos could increase GDP by 2% (equals to \$8.7bn/N2.73trn)

MARCH HIGHLIGHTS-AFRICA FREE TRADE AGREEMENT BUNGLED

- The beneficiaries of improved power at the retail level are the Small & Medium Enterprises (SMEs) and the labor market
- Retail traffic to supermarkets higher in March, pushed by Easter sales
- Average supermarket inventory held increased to four weeks
- Nigeria backs out of Africa free trade agreement for now
- A black eye for economic diplomacy

MARCH HIGHLIGHTS- EXCISE DUTY UP IN JUNE

- Excise duties on total beverages and alcohol increased
- Average price of beer will increase by N18 per bottle, and spirits by N1.50/cl
- Inflationary impact will be a function of the relative price elasticity of demand
- Leading to possible pull back on investments by manufacturers
- Nigeria ranks 57th on the Lowest Living Standards index (*source* Economist Intelligence Unit - EIU)
 - GDP per person: \$2,710
- Lagos is fourth cheapest cities in the world dollars- (*source* EIU)



THE GLOBAL PERSPECTIVE

THE RISE OF SELECTIVE PROTECTIONISM

US – TRUMP TWEETS INTO A TRADE WAR

- *Nobody Wins in a Trade War* – IMF's Lagarde (global trade: N21trn)
- The US imposed tariffs on imported steel (25%) and aluminium (10%)
- Exempting neighbours and allies – Canada, Mexico, the EU, Australia, Argentina, Brazil and South Korea
- Followed by sweeping tariffs on \$50bn in Chinese imports
- Plans to impose new investment restrictions on China in response to apparent intellectual property theft

US – TRUMP TWEETS INTO A TRADE WAR

- China has responded with tariffs on \$3bn worth of US imports (128 goods)
- 15% on 120 products including fruits, nuts, wine and steel pipes; 25% on 8 other products including pork and recycled aluminium
- China is third largest export market for US pork; sold \$1.1bn in 2017
- The stock market plunged on news of China's retaliatory steps
- The Dow Jones was down 2% and the S&P 500 lost 2.2%; now in correction

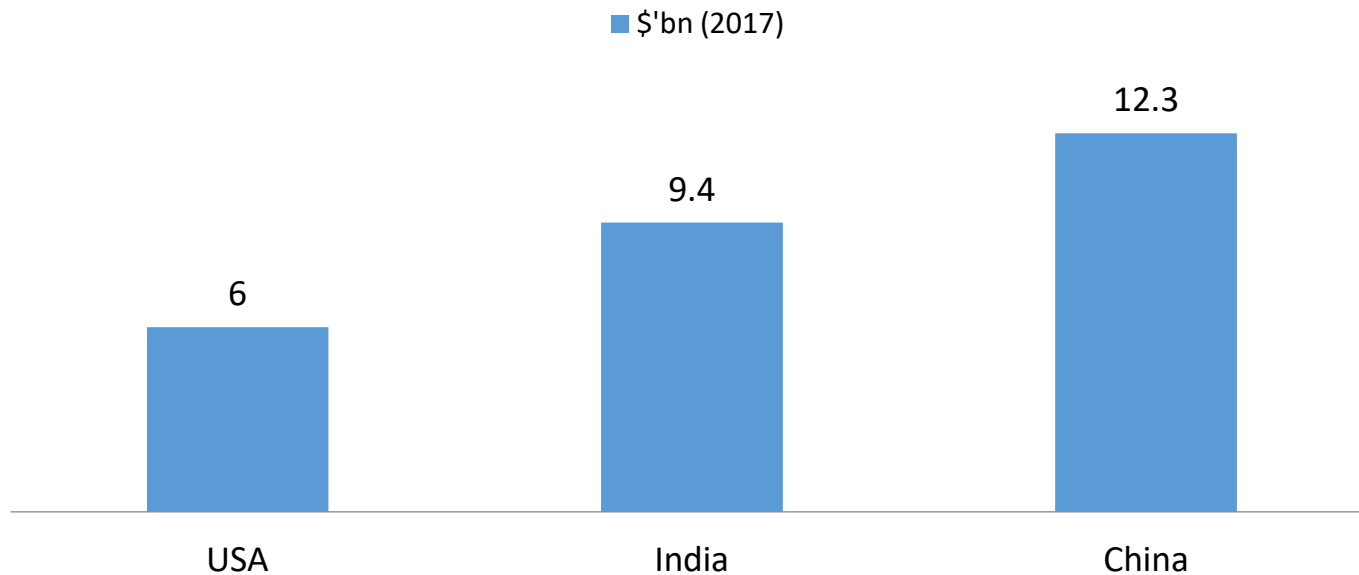
US – TRUMP TWEETS INTO A TRADE WAR

- Asia traded generally lower, amid trade war fears
- The US stock market had its first quarterly decline since 2015
- Tariffs could raise prices for consumers and hurt business investment
- US and China already tussling at World Trade Organization (WTO) over legality of Trump's tariffs
- Bloomberg Economics estimates a global trade conflagration could wipe \$470bn off the world economy by 2020

US – TRUMP KICKS OFF A TRADE WAR

No direct impact on Nigerian international trade

Nigeria's trade with US & China



US – BARCLAYS TO PAY \$2BN IN FRAUD CASE

- Barclays accused of causing billions of dollars in losses to investors by fraudulently selling mortgage-backed securities in lead-up to 2008 financial crisis
- The alleged scheme involved 36 residential mortgage-backed security deals covering more than \$31 billion of mortgage loans
- The Department of Justice was seeking a bigger fine – close to \$7.2bn agreed by Deutsche Bank or \$5.3bn by Credit Suisse
- Paying the fine will affect Barclays core capital ratio by 0.45ppts
- Barclays shares edged down after the announcement
- Still intends to pay a dividend of 6.5pence for 2018
- Barclays office in Nigeria was closed down March 15, 2018

US-FED HIKES RATES, RAISES GDP FORECAST

- In its first meeting with Jerome Powell as Chair, US Fed raised rates by 25bps to 1.75%
- Signalled two more 2018 rate hikes while raising the forecast for rate hikes in 2019
- Fed upgraded the 2018 GDP forecast to 2.7% from 2.5% projected in 2018
- Fed worried about possibility of trade war, views it as a risk to the outlook
- Fed now faced with balancing low unemployment with potentially higher inflation
- Unemployment is at an 18-year low of 4.1% while tax cuts and plans to increase infrastructure spending will boost inflation

EUROPEAN UNION

- European Central Bank (ECB) stirs uncertainty with hints at policy normalization
- Weighing the possibility of rolling out the first interest rate hike in 2019 due to accelerating growth and firming inflation
- Such a bold policy move after years of slow recovery is fuelling anxiety among investors

UK- STATUS QUO AT BANK OF ENGLAND

- Bank of England (BOE) holds key policy rate at 0.5%
- Amid lower-than-expected inflation and modest improvements to wage increases
- Hawkish tone of policy statement setting the stage for a rate hike in May
- Enough to underline investor expectation for another rate hike by November
- Many Britons rush to lock in on cheap home loans
- Ongoing tightening probably necessary to bring inflation back to BOE's 2% target
- Rate hikes in the coming years likely tied to progress of Brexit negotiations

IMPACT ON NIGERIA

- US consumers to bear the brunt of the damage in the event of a trade war
- Made-in-China US products will become more expensive – e.g. Apple products
- Higher prices of China-sourced consumer products will stoke inflation in US
- The impact of this, in addition to tax cuts and infrastructure plan, could push inflation over Fed's target and accelerate its plans to raise rates through 2018
- China also owns over \$1trn in US debt – the largest foreign holder
- Interest rates may need to rise significantly to boost demand for US debt as China could stop buying

IMPACT ON NIGERIA

- A possible acceleration of the Fed's tightening plan may mean even sharper reversal of capital flows and currency pressures in Nigeria
- A stronger dollar as a result of interest rate hikes will impact commodity prices negatively and dampen Nigeria's oil revenue
- Some US and Chinese producers may lower prices of some exports to stay competitive



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SUB-SAHARAN AFRICA

SSA – DEBT CREEPING BACK UP

- In 2005, rich lenders forgave “heavily indebted poor countries” – 30 were in Africa
- Many of these countries turned their fortunes around with better policies and sound management
- Median debt level in SSA fell to 30% of GDP by 2012
- This has grown to over 50% today – low by international standards but distressing because of their relatively low tax collection and high interest rates
- Lower commodity prices have hurt revenues and economic growth in the region

SSA – DEBT CREEPING BACK UP

- Governments have had to borrow to fill the gap left by lower commodity prices
- Five SSA countries already in “debt distress”; nine more teetering on the edge (*source* IMF)
- Sudden spending cuts could result in half-finished infrastructure projects
- This could potentially heighten the debt debacle by tipping economies into recession
- IMF recommends raising the tax/GDP ratio as the least expensive way to deal with fiscal imbalances
- Tax/GDP ratio has only crept up by just a couple of percentage points this century

SSA – MACROECONOMIC HEALTH

Inflation is declining across SSA

Country	GDP Growth	Inflation	Annual Change in Inflation	Monetary Policy Rate	Annual Change in Monetary Policy Rate	Real Rate of Return (%)
Nigeria	1.92%	14.33%	3.45%	14%	0.0%	-0.33%
Ghana	9.30%	10.60%	2.6%	18%	-5.5%	7.40%
Ivory Coast	7.80%	-0.60%	2.1%	4.50%	0.0%	5.10%
Kenya	4.40%	4.18%	6.1%	9.5%	-0.5%	5.04%
Angola	0.94%	21.47%	16.85%	18%	2.0%	7.40%
South Africa	1.50%	4.00%	2.3%	6.5%	-0.5%	2.75%

KEY ECONOMIC INDICATORS



ECONOMIC INDICATORS

Leading Economic Indicator	Feb'18	Mar'18	% Change	Apr'18*
GDP Growth (%)	1.92(Q4'2017)	2.1(Q1'2018)	0.18	2.15(Q2'2018)
Oil Price (\$pb; avg)	65.8	69.29	5.30	65-70
Oil Production (mbpd)	1.78(Jan'18)	1.81(Feb'18)	1.68	1.82 (Mar)
Natural Gas (\$/MMBtu; end)	2.67	2.74	2.62	2.80
Power (MW; avg)	3,937	4,029	2.34	3,900
Inflation (%)	15.13(Jan'18)	14.33(Feb'18)	-0.80	13.5 (Mar)
PMI	FBN:54.7 CBN:56.3	FBN:59.4 CBN:56.7	FBN:8.59 CBN:0.71	FBN: 59.8 CBN: 59.4
FAAC (N'bn)	635.55	647.39	1.86	650

ECONOMIC INDICATORS

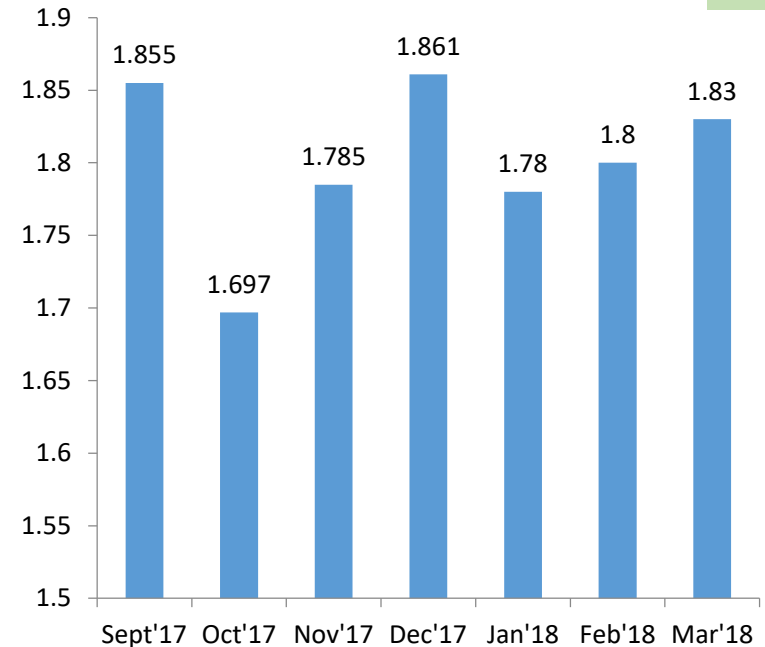
Leading Economic Indicator	Feb'18	Mar'18	% Change	Apr'18*
T Bills (91 days) – Primary	11.85	11.95	+0.10	11.50
T Bills (182 days) - Primary	13.49	13.00	-0.49	12.90
Average NIBOR (%) (O/N, OBB)	19.13	14.61	-4.52	10-15
Average Lending Rate (pa)	25	25	-	25
Average Opening Position(N'bn)	173.78	244.51	40.70	240-245
Money Supply (N'bn)	23.8 (Jan)	24.02 (Feb)	0.08	24.2
External Reserves (\$bn) (end)	42.35	46.21	9.11	48.00
Exchange rate (N/\$; month-end)	Parallel Market: 363 IFEM:305.9 IEFX:360.4	Parallel Market: 362 IFEM:305.65 IEFX:360.20	0.28 0.08 0.06	Parallel Market: 364 IFEM: 305.5 IEFX: 360.5
Stock Market Cap (N'trn)	15.55	14.99	-3.60	15

LEADING ECONOMIC INDICATORS

- Most indicators maintain positive trend
 - Only stock market cap in the red
- Economic activity supported by oil proceeds, foreign exchange (forex) liquidity, and government spending
- External reserves gained 18.7% year-to-date (YTD)
- Money supply back to December levels
- Movement in T/Bills confirms declining interest rate environment

OIL PRODUCTION OUTLOOK: 1.8MBPD-1.85MBPD

- Average oil output increased by 1.7% to 1.81mbpd in February from 1.78mbpd in January
- Output to remain above 1.8mbpd
- PIGB passed
- Final phase in July 2018
- OPEC meeting in June

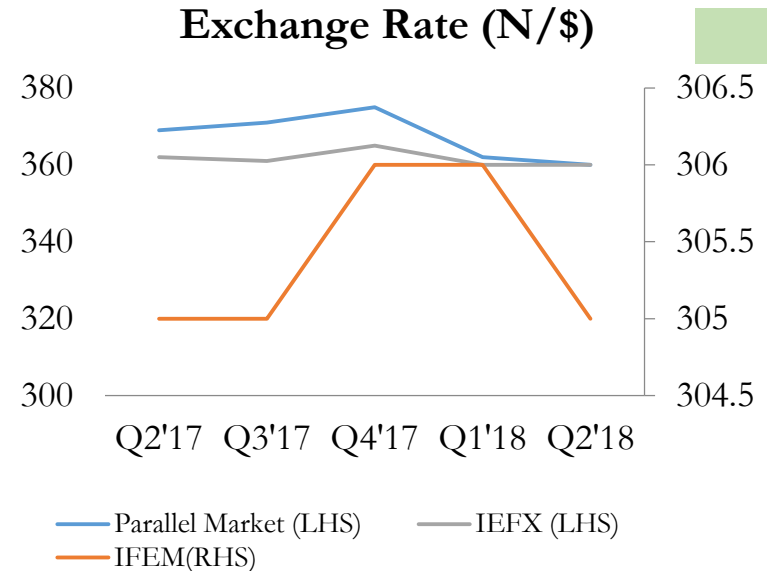


EXCHANGE MARKET REVIEW

- Total forex intervention by the CBN was \$1.305bn in March
 - SME: \$165mn
 - Invisibles: \$165mn
 - Wholesale: \$300mn
 - Retail SMIS: \$675.32mn
- In March 2017, total intervention was \$1.04bn
- Naira volatility was 98.6% lower in Q1 2018 than Q1 2017
- Meaning confidence in the currency is much higher today despite lower dollar supply

NAIRA TO TRADE FLAT

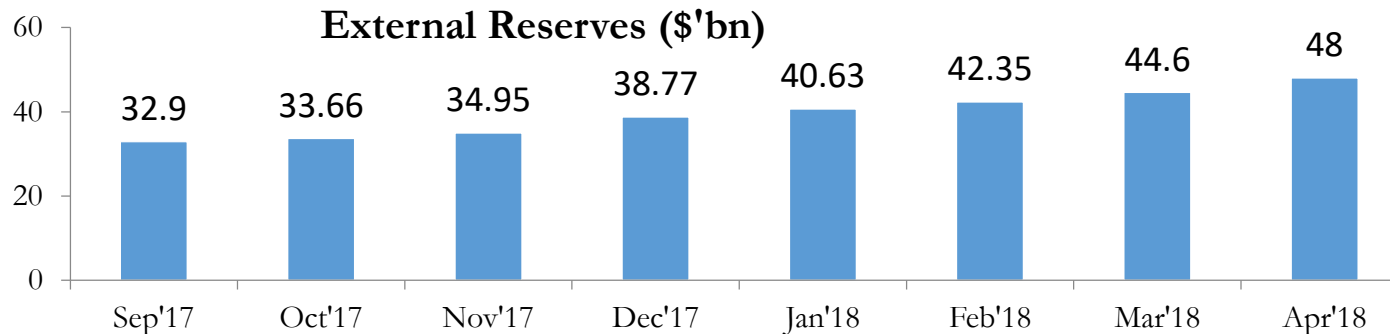
- Naira expected to remain within the N362-363/\$ band
 - Supported by CBN interventions
- Likely demand pressures:
 - Accommodative stance at MPC meeting
- States' exchange rate now N325/\$ from N305/\$
- Weighted average exchange rate now N340/\$



Country	Inflation (%)	Interest rates (%)
Nigeria	14.33	14
USA	0.2	1.5-1.75
Differential	14.13	12.5-12.75

EXTERNAL RESERVES OUTLOOK - \$48.0BN

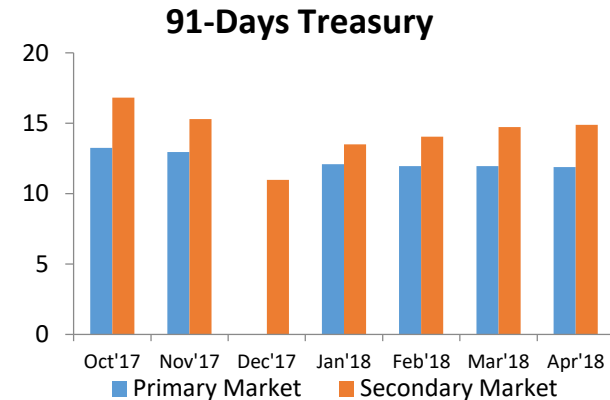
- Gross external reserves increased by 8.3% in March to \$46.04bn
 - Compared to an increase of 4.4% in February
 - Import cover estimated at 12.79 months
- Reserves to continue its upward trend supported by stronger oil proceeds
- CBN is targeting reserves of \$54bn by year-end



T/BILL RATES TO SLIDE FURTHER

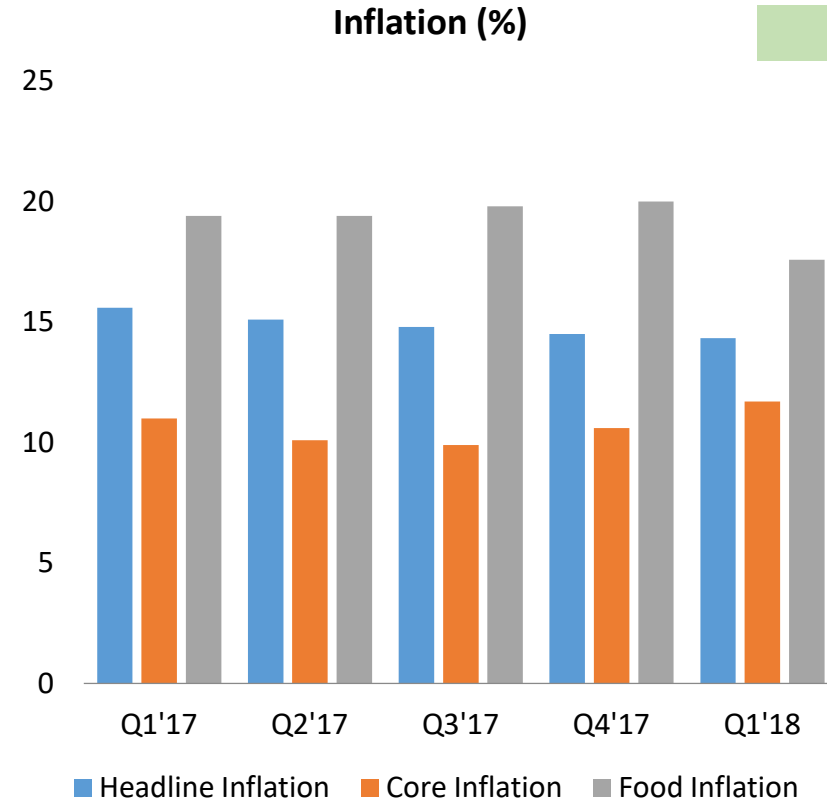
- 91-day T/Bills advanced by 10bps
- 184-day and 364-day lost 49bps and 35bps respectively
- All bills continue downward trend in April-May
- Driven by a likely accommodative stance at the next MPC meeting

Tenor (Primary market auction)	Stop rates as at February 28 th , 2018 (%)	Stop rates as at March 21 st , 2018 (%)
91-day	11.85	11.95
182-day	13.49	13.00
364-day	13.5	13.15



INFLATION TO DIP—13.8%

- Inflation expected to decline to 13.8%
- Demand side:
 - Increased private consumption - Easter celebrations
 - Expected increase in government spending
- Supply side:
 - Higher food output
 - Y-o-Y base effects



COST OF LIVING SURVEY 2018- EIU

- Singapore is world's most expensive city for the fifth consecutive year
 - Most expensive place to buy and maintain a car
- Widespread exchange rate movements and the consequent change in domestic prices were major influencers of this year's rankings
- New York fell to 13th most expensive due to dollar depreciation
- Non-euro area cities remain the most expensive

Most expensive cities to live in

Rank	
1	Singapore,
2	Paris, France
3	Zurich, Switzerland
4	Hong Kong, (China)
5	Oslo, Norway

CHEAP, BUT NOT ALWAYS CHEERFUL- EIU

- Damascus, Syria cheapest city in the world
- Lagos, Nigeria fourth cheapest city in the world
- Cheaper cities are riskier and also less liveable
- Usually face economic, social and political challenges

Cheapest cities to live in

Rank	
1	Syria, Damascus
2	Caracas, Venezuela
3	Almaty, Kazakhstan
4	Lagos, Nigeria
5	Bangalore, India
28	Johannesburg, South Africa

PRICES: NOW AND THEN- EIU (IN US DOLLARS)

	City	Lagos	New Delhi
Average price 1kg loaf of bread	Current Year	\$1.16	\$1.07
	Last Year	\$1.27	\$0.97
	5 years	\$2.64	\$1.11
	10 years	\$3.41	\$0.88
Average price 1 bottle table wine (750ml)	Current Year	\$6.79	\$19.03
	Last Year	\$7.10	\$18.20
	5 years	\$11.48	\$21.38
	10 years	\$10.81	\$41.78
Average price 20 branded cigarettes	Current Year	\$1.26	\$5.11
	Last Year	\$0.95	\$3.94
	5 years	\$1.58	\$2.08
	10 years	\$1.84	\$2.05
Average price 1 liter unleaded petrol	Current Year	\$0.40	\$1.07
	Last Year	\$0.46	\$0.95
	5 years	\$0.61	\$1.24
	10 years	\$0.55	\$1.07

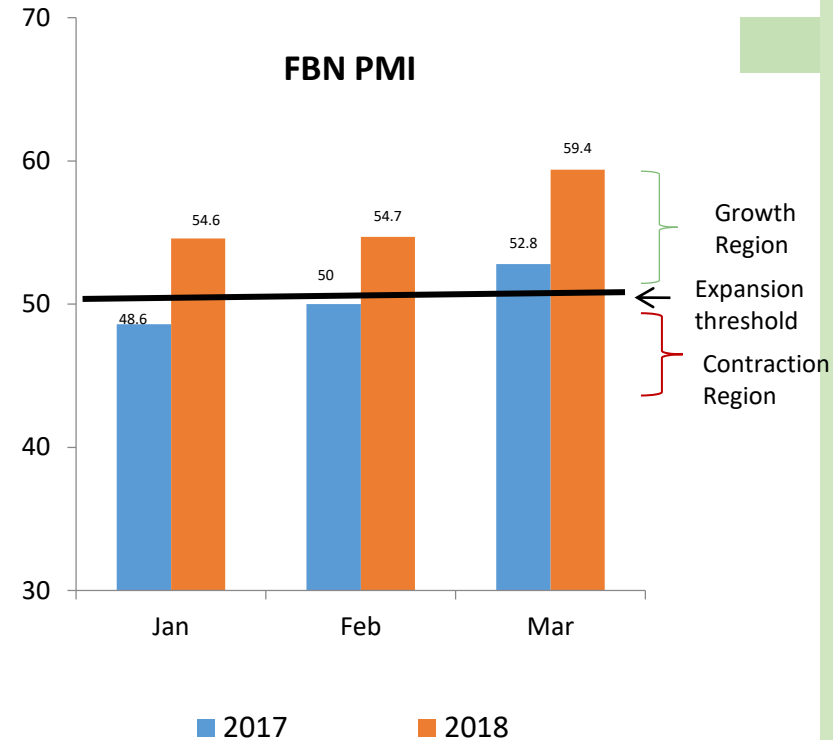
- Rebound in oil prices has implication for domestic prices



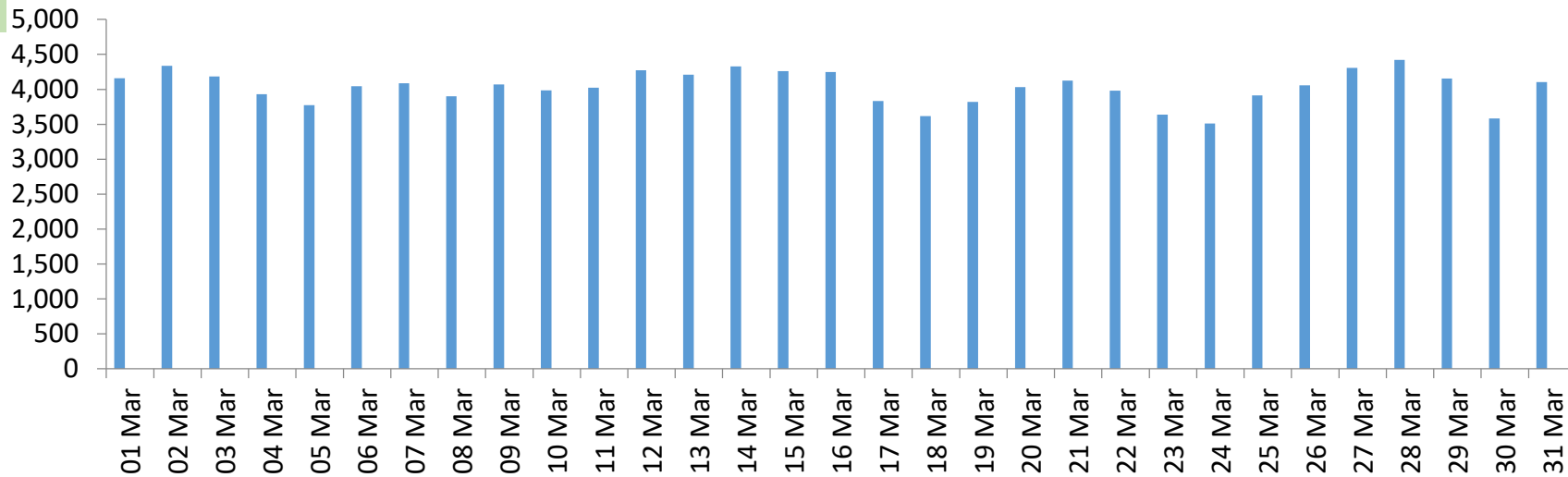
MARKET PROXIES

MARCH PMI

- FBN PMI up sharply to 59.4 in March from 54.7 in February
- CBN PMI up to 56.7 in March from 56.3 in February
- Upward trend to continue in April
- Driven by robust trading activity, consumer confidence and demand, and improved forex liquidity



POWER UPDATE



- Average power generated: 4,029MWh/h

- Compared to 3,937MWh/H in February

- Generation companies and FG at loggerhead over preference of certain power plants

POWER UPDATE



5035 MW

Peak Energy
Generated



4029 MWH/H

Average Energy
Generated



756 MMSCF/D

Average Gas
Delivered to Plants



0

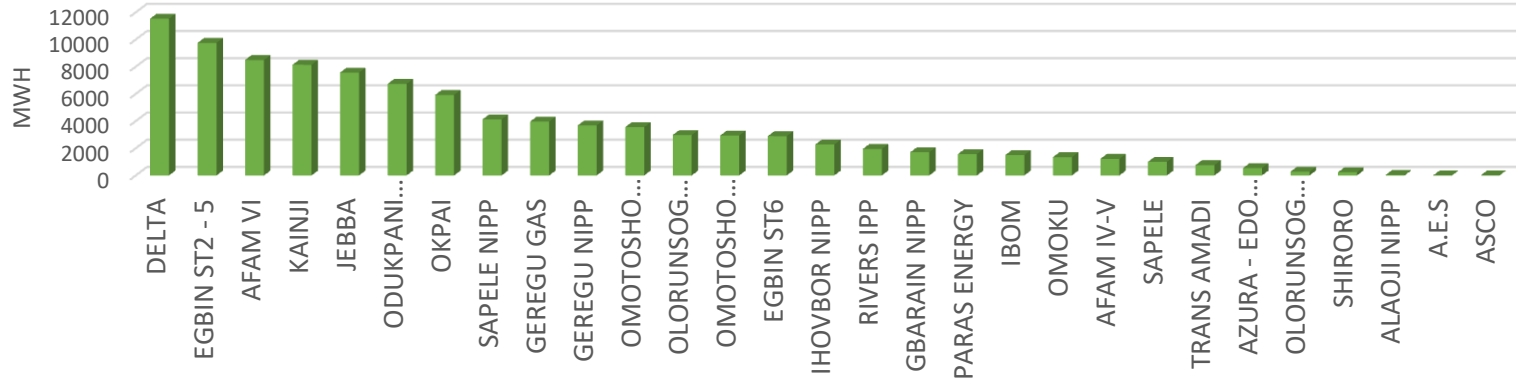
Total Grid
Collapses



2446 MW

Average
Constrained
Energy

Average Daily Generation per Plant



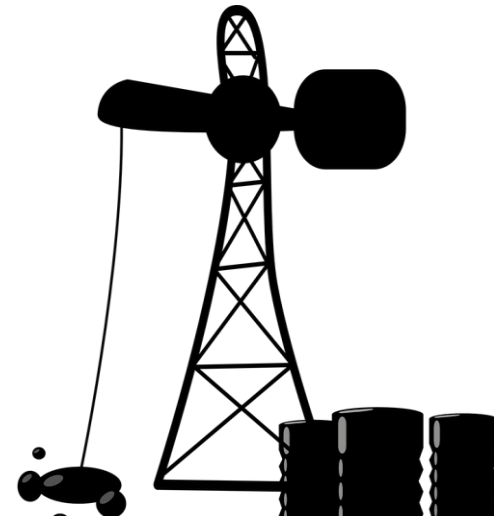
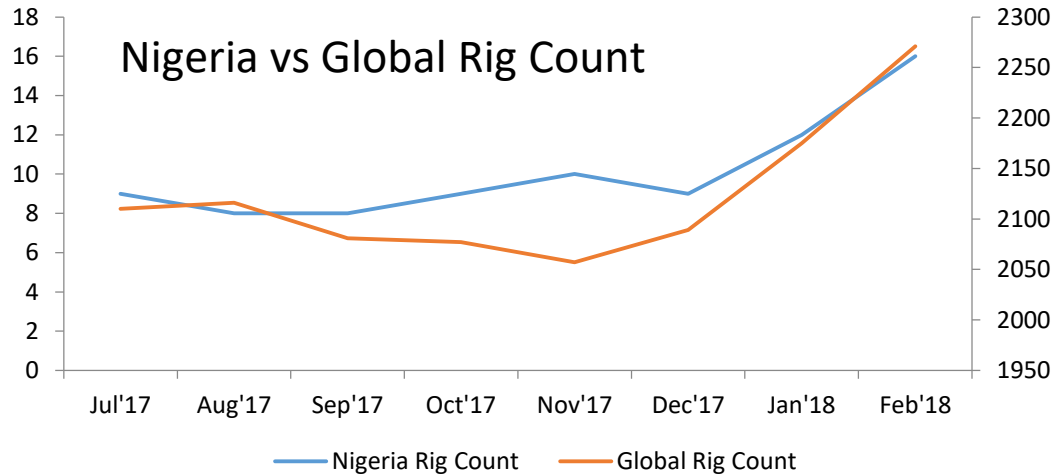
POWER UPDATE- NEWS

- Payment guarantees for Azura Independent Power Producer (IPP) causing rift between other generation companies (Gencos) and Nigerian Bulk Electricity Trading (NBET)/FGN
- Lagos State spent N12bn (\$34.2mn) on powering street lights in 2017
- World Bank to fund \$500mn electricity distribution improvement project
- Ministry of Finance clarifies that Power Purchase Agreements (PPA) between FGN and Gencos has not been cancelled

POWER UPDATE - NEWS

- Nigerian Electricity Regulatory Commission (NERC) rolls out new service/maintenance charge for customers with meters
- January invoices: 23 GenCos received N6.1bn from NBET, out of N48.2bn (12.6%) invoices
- NERC proposes to usurp meter installation services from (Distribution companies) DisCos
- World Bank ranks Nigeria second in the world for population without electricity

NIGERIA OIL RIG COUNT



- The number of operational rigs up 33% to 16 in February from 12 in January
- In tandem with global trend
- Global rig count up 4.41% to 2,271

PAYMENTS AND SETTLEMENTS

Volume Up but Value Down !!!

Volume of transactions up for PoS and NEFT categories in Feb'18 relative to Jan'18

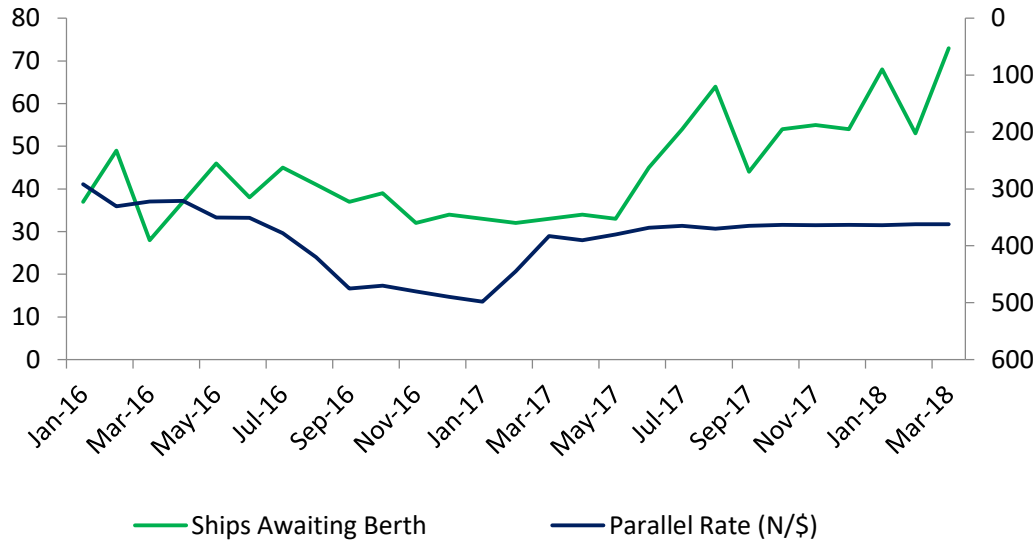
- Cheques ↓ 4.97%
- PoS ↑ 3.90%
- NEFT ↑ 8.43%
- NIP ↑ 6.93%

- Runs contrary to PMI reading
- Means that cost of borrowing is hurting activity

Value of transactions declined across all transactions in Feb'18 relative to Jan'18

- Cheques ↓ 4.97%
- PoS ↓ 4.75%
- NEFT ↓ 14.05%
- NIP ↓ 2.56%

SHIPS AWAITING BERTH

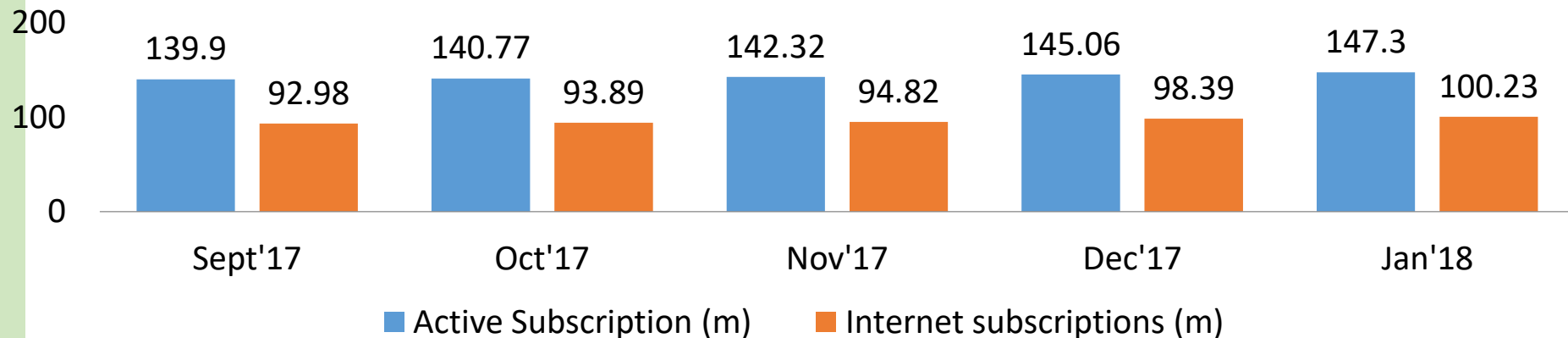


- Ships awaiting berth ↑ 37.7% to 73 in March from 53 in February
- Apapa to Ijora bridge closed for repairs
- Will increase Apapa traffic problem

TELCO- TELEDENSITY AND BROADBAND INCREASING

- Active lines increased by 1.54% from 145.06mn in December to 147.30mn in January
- Number of internet subscriptions up 0.9% to 100.23mn
- Tele-density rose to 105.21 in January from 103.61

Subscriber Data





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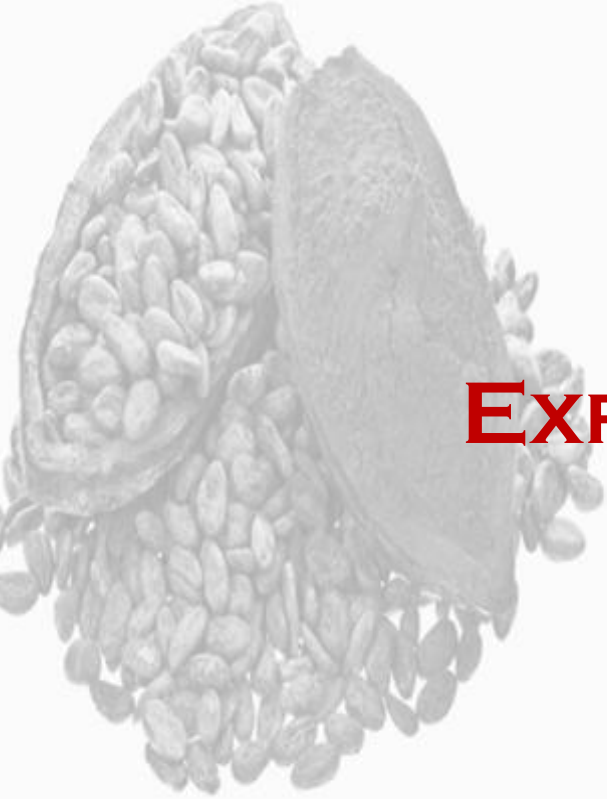


COMMODITIES UPDATE & OUTLOOK
TERMS OF TRADE IMPROVING

COMMODITY UPDATE

Export Commodities	March	%Change (Feb-Mar)	Import Commodities	March	%Change (Feb-Mar)
Oil (\$/b) 	66.72	1.50% ↑	Wheat (\$/bushel) 	4.81	3.67% ↑
Liquefied Natural Gas (\$/mmbtu) 	2.70	1.39% ↑	Sugar (\$/pounds) 	12.91	-4.30% ↓
Cocoa (\$/mt) 	2,499	18.36% ↑	Rice (\$/cwt) 	12.38	-0.09% ↓

EXPORT COMMODITIES



EXPORT COMMODITIES- EXPORT PRICES BULLISH

Oil – currently trading at \$68.13pb

- Oil consumption to expand by 1.7% to 99.68mbpd in 2018
- Oil supply to grow by 1.9% to 99.72mbpd in 2018
- Average price expected to advance by 15.8% to \$63pb

Liquefied Natural Gas – currently trading at \$2.70/mmbtu

- Consumption to grow by 7.1% in 2018
- Supply expected to grow by 6.9%
- Prices expected to fall by 3.4% to \$7.73mmBtu in 2018

Cocoa - currently trading at \$2,498/MT

- Demand expected to grow by an average of 1.4% to 4.06mn tonnes in 2018
- Global production projected to fall by 7% to 4.25mn tonnes in 2018



IMPORT COMMODITIES

IMPORT COMMODITIES - IMPORT PRICES DECLINE

Wheat

- Consumption for animal feed to fall by 3% due to availability of substitutes
- Production to increase to 760mn tonnes in 2018, prices to advance by 7.6%

SUGAR

- Growing health concerns will put pressure on demand and prices
- Nigeria to remain the largest importer of sugar in Africa
- Sugar production to grow by 7.6%, prices to fall by 2.7%

RICE

- Nigeria's imports to expand by 4% to 2.6mn tonnes
- Global rice production to rise by 0.4% to 490mn tonnes in 2018

DOMESTIC COMMODITY PRICE BASKET






Item		2015	2016	2017	Change (2017/2015)	
Cement (50kg)		N1,400	N2,300	N2,500	+79%	↑
Garri (50kg)		N3,900	N15,000	N10,500	+169%	↑
Flour (50kg)		N8,500	N11,000	N9,600	+12.9%	↑
Sugar (50kg)		N8,000	N19,000	N16,000	+100%	↑
Rice (50kg)		N9,500	N24,000	N17,000	+79%	↑
Palm Oil (25L)		N6,500	N16,500	N13,000	+100%	↑
Beans (50kg)		N20,000	N22,500	N27,500	+37.5	↑

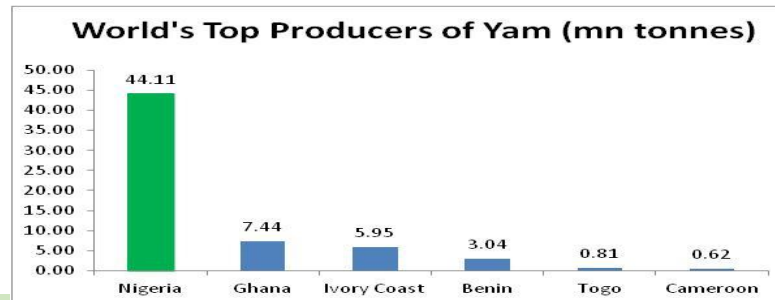


COMMODITY IN FOCUS

COMMODITY IN FOCUS - YAM



- **Total global production (2016):** 65.94mn tonnes
- **Planting/harvesting lag:** 3 to 4 months
- **World's top producers:**  Nigeria,  Ghana,  Ivory Coast
- **World's top consumers:**  Nigeria,  Ghana
- **Uses:** boiled, roasted, fried, pounded, yam flour



Source: FAOSTAT FDC Think Tank



YAM PRODUCTION IN NIGERIA

- **Total production (2016):** 44.11mn tonnes (67% of global)

 - 3.4% decline from 2015

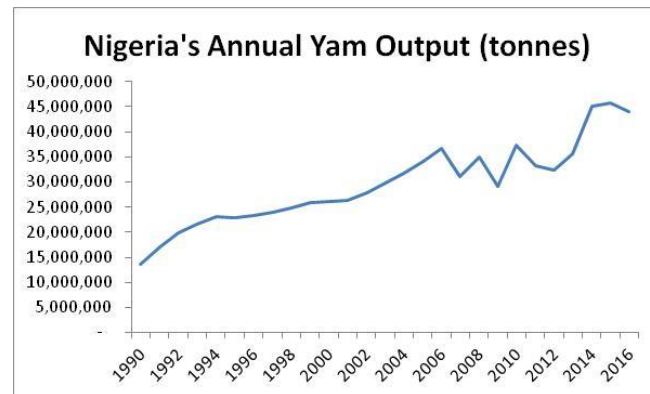
- **Global rank:** First

- **Potential output:** 65mn-200mn tonnes

- **To reach potential:** Improved seedlings (genetically modified), irrigation, fertilizer use

- **Major producing states:** Benue, Cross River, Delta, Ebonyi, Anambra

- **Threat to output:** Herdsmen /pastoral conflict and Boko Haram major



Source: FAOSTAT, FDC Think Tank

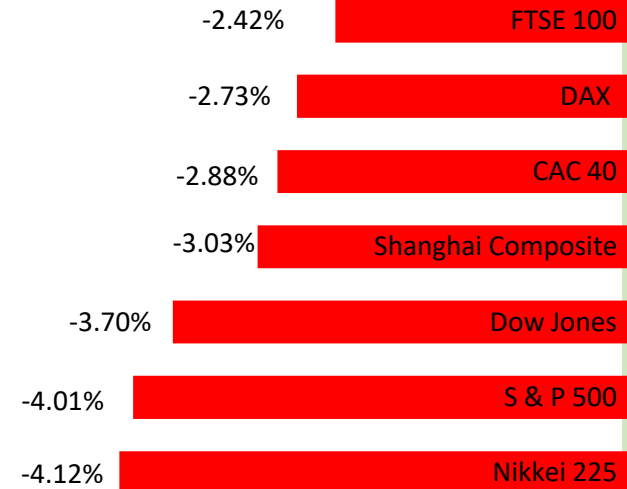
A polished, metallic sculpture of a bull and a bear. The bull is on the left, facing right, and the bear is on the right, facing left. They are positioned on a reflective surface. The background is a light, neutral gradient.

HEADING FOR A CORRECTION STOCK MARKET

STOCK MARKET CONTRACTS

- Stock market maintained its bearish trend
- Along with global stock markets
- Lost 4.21% in March
- Despite declining interest rate environment
- Average T/bill rate declined by 20bps
- Establishes negative investor sentiment
- Market capitalization declined by 3.6% to N14.99trn
- Closed at a P/E ratio of 11.01x

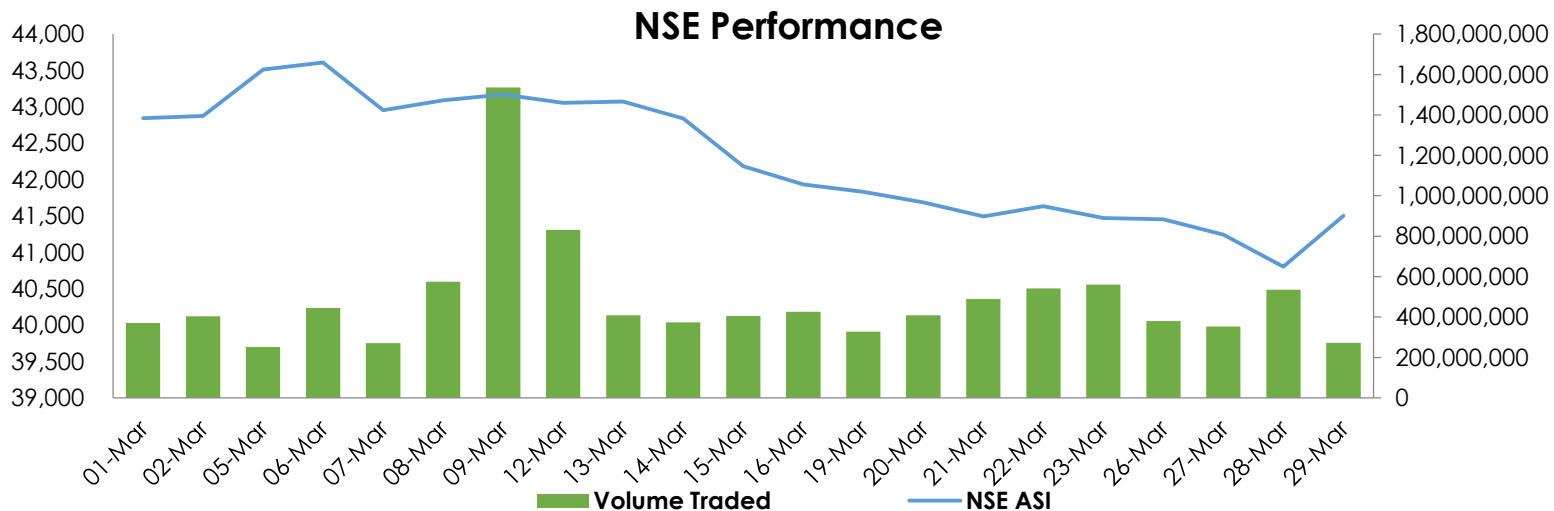
Global Stock Market Indices



SKEPTICAL INVESTORS

- Market breadth was negative at 0.51x
 - Marginal improvement over February: 0.33x)
 - 74 stocks lost (35% were priced below 50 kobo)
 - 38 stocks appreciated
- 8 days positive, 13 days negative
- Results released so far account for about 74% of market cap
- Profit taking undermining performance

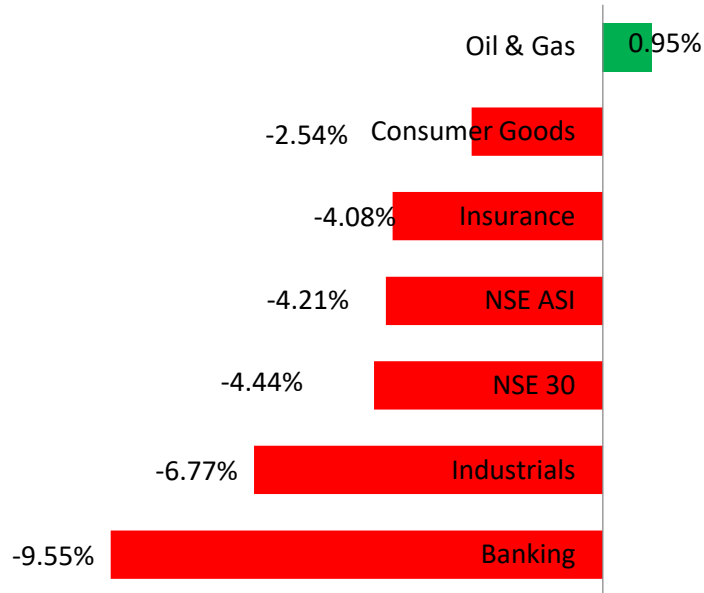
VOLUMES SHARPLY LOWER



- Trading activities also slowed
 - Average volume declined by 18.93% to 484 million units
 - Average value of transaction moved in the opposite direction – increased by 22.64% to N6.5bn

ONLY OIL & GAS SECTOR INDEX IN THE GREEN

Sector performance







- Oil and gas recorded a marginal gain of 0.95%
- Driven by the robust oil demand forecast
- Adherence to oil production cuts
- Banking sub-index performed the least
- As FY2017 results and dividend yield fell below expectations
- Resulting into a brief frenzy in the market
- Cost of risk inhibiting industry profitability

The background of the slide features a semi-transparent overlay of financial data. It includes several line graphs with multiple colored lines (green, blue, red, yellow) and a candlestick chart. Faint percentage values such as '+0.21%', '+0.44%', and '+0.21%' are visible, suggesting a focus on market performance and earnings. The overall aesthetic is professional and data-driven.

BANKING SECTOR EARNINGS 2017

EARNINGS UP & SHARES PRICE DOWN



















- Six (6) banks have published 2017 results
 - Earnings of the 6 banks  22%
 - Net interest income  16%
 - Profit after tax  50%
 - Cost of risk up  22%
- Bank results have failed to impress stakeholders
- Restriction on dividend affecting bank share prices

EARNINGS UP & SHARE PRICES DOWN

- Banks' capital buffers dwindled in the past two years with capital adequacy ratio (CAR) marginally above Basel II requirements: 8%
- Loan restructuring masking deterioration in asset quality
- Recent credit appetite by banks cannot fill the gap left by capital market & alternate funding initiatives

EARNINGS AT A GLANCE—BANKING



 Gross earnings		46% - N745bn		15% - N767bn
 Net interest income		7.4% - N258bn		5% - N299bn
 Impairment charges		206% - N98bn		43% - N126bn
 Profit after tax		37% - N177bn		-13% - N61bn
 Dividend yield		9.2%		-
 Non performing loans		4.7%		10.7%
 Price to earnings ratio		5.2		7.6x
 Share price movement since release		-5%		-13%

Source: Company Financials, FDC Think Tank

BANKING OUTLOOK FOR 2018- CREDIT TO PRIVATE SECTOR TO INCREASE..

- A tough year ahead for banks
- IMF projecting 1% increased credit to the private sector in 2018
- Lower net interest margin (NIM) on government securities to decline
- We expect to see an uptick in banks' cost of risk



CONSUMER GOODS SECTOR EARNINGS 2017

DOING BETTER ON FOREX STABILITY

CONSUMER GOODS SECTOR

- Major player records a huge boost in both top line and bottom line
 - Driven by a combination of
 - upward price review
 - expansion of customer base
 - Local content sourcing has reduced production cost
- Logistics and distribution still a concern – Apapa gridlock
- Premium brands to recorded substantial improvement in performance

EARNINGS AT A GLANCE – CONSUMER GOODS



	Revenue		20% - N204bn		48% - N91bn
	Gross profit		122% - N51bn		43% - N29bn
	Profit before tax		173% - N54bn		173% - N11bn
	Free cash flow		50% - N16bn		22% - N1bn
	Price to earnings ratio		9.4x		31x
	Dividend yield		8.03%		0.18%
	Share price movement since release		1%		-

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OIL & GAS SECTOR EARNINGS 2017

A faded, grayscale background image of an oil pumpjack (jack-o'-lantern) in an industrial setting. The pumpjack is the central focus, with its long walking beam and counterweight visible. The background is a hazy, light gray, suggesting a misty or overcast day. The overall tone is professional and industrial.

OIL & GAS SECTOR

- Improvement largely driven by operating efficiency
 - coupled with lower taxes
- Top line on the decline
 - due to less autonomy over PMS importation
 - less room for arbitrage

EARNINGS AT A GLANCE – OIL & GAS

From AMCON with love!



	Revenue	↑	-13% - N129bn	↑	-2% - N107bn
	Gross profit	↑	17% - N24bn	↑	-12% - N8bn
	Profit before tax	↑	99% - N11bn	↑	144% - N-1bn
	Free cash flow	↓	10% - N2bn	↑	1228% - N5bn
	Price to earnings ratio		18x		5.2x
	Dividend yield		-		5.58%
	Share price movement since release		0%		5%

Source: Company Financials, FDC Think Tank

APRIL OUTLOOK

- Choppy stock trading to continue
- As market heads for a correction
- Global trade war to have a ripple effect on the market





RETAIL SECTOR

GLOBAL RETAIL SECTOR - EIU

- Asia will lead retail expansion, growing twice more than North America
- Increased prominence of Vietnam, Philippines, Indonesia and Malaysia
- Most successful retailers are taking a multi-channel approach
 - Offline and online stores
- Technology will cause further disruption
 - 3D printing, wearable technology, virtual reality, the internet of things (IOT)

DIGITIZATION & E-COMMERCE - EIU

- Rapid expansion of e-commerce and weaker shopping mall traffic
- Sales made through mobile phones and tablet devices
- Retail e-commerce sales to rise by 95% to \$4.48trn in 2021
- Increased information makes cross checking prices easy
- Bricks-and-mortar retailers are seeking to differentiate themselves
- By creating in-store experiences and products that cannot be matched online

RETAIL SECTOR SSA- EIU

- The underdevelopment of Africa's retail market remains both a challenge and opportunity
- Informal sector accounts for majority of growth
- Organized retail has strong potential, but only in the longer term
- Corruption, poverty, infrastructure deficits still present significant barriers to entry

Middle East & Africa % change in volume

2012	2013	2014	2015	2016	2017	2018	2019	2020
4.1	1.3	3.1	2.3	0.1	-0.9	0.8	1.9	3.4



AVIATION

AVIATION

- Robust profit margin of airlines due to falling oil prices
- Global airline shares rebounded to a greater extent in the past three months
- Passenger yields expected to rise moderately in 2018
- Alongside a robust global economic backdrop & increases in key input costs
- Number of available seats in global airlines increased by 0.3%

AVIATION

- International airlines are enjoying increasing demand
- Global load factors are at a record high of 83%
- Capacity in global fleets increased 0.3% in February
 - 5.4% higher than 2017
- Oil prices and jet fuel are 16% higher than a year ago
- Premium traffic in the Origin & Destination passengers category increased 5.3%

AVIATION

- Premium cabin revenues now represent 27.2% of international revenues
- Premium class demand is supported by broad based pick up in economic growth
- Industry wide free cash flows increased 3.3% of revenues in Q4'17
- Number of available seats in global airlines increased by 0.3%

AVIATION

- British Airways deploys biometric technology at four US airports
- Etihad Airways & Swiss International Airlines have launched a new code share partnership
- Etihad Airways will have its EY flight code on SWISS services
- New York debut full load
- Wakanow, largest travel agency, off the ropes

AVIATION

- National carriers are slowly becoming a thing of the past
 - Air India to become privatized; government plans to sell 76% stake, debt burden \$8bn
 - Kenya Airlines exploring partnerships and joint ventures with South African Airlines, loss of about \$60.3mn
 - Nigeria likely to reintroduce its national carrier

AVIATION

- Delta now offering three flights to JFK and four to Atlanta per week
- Single African Aviation Market: Fifth freedom rights being exploited by:
 - Asky
 - Rwanda
 - Air Peace
 - Arik Air
- Others doing origination destination

AVIATION

- CamAir to return to Nigeria by May 2018
- Air Namibia to return by June 2018
- Kenya Airways to increase frequency out of Lagos from 7 to 10 flights/week
- Plans are in place by the airline to add new destinations in Africa, Asia & Europe
- Qatar, Etihad, & Emirates back to daily flights
- Ethiopian Airline now operating five flights out of Nigeria per week

AVIATION

- Federal Airports Authority of Nigeria (FAAN) income on passenger service charge reaches N38bn
- Arik Airways now operating Lagos-Portharcourt from Murtala Muhammed Airport Terminal 2
- Attracting a lot of oil and gas business
- Benin airport now cargo and international

A silhouette of a man in a suit and hat running to the right, carrying a briefcase and wearing handcuffs. In the background, a large circular graphic contains the word 'TAX' in a bold, stylized font. The overall theme is related to taxation and financial freedom.

NIGERIA'S TAX ENVIRONMENT

NO TAXATION WITHOUT REPRESENTATION-1761

THE TAX BASKET

- Average income tax: 24%
- VAT: 5%
- One of the lowest VAT rates in the world
- Corporate tax: 30%
- 12th highest rate in the world

Country	Income Tax
UK	45%
South Africa	45%
Ghana	25%
Nigeria	24%

Country	VAT rate
UK	20%
Ghana	15%
South Africa	15%
Nigeria	5%

EXCISE DUTY ON SUBSTANCES

- In line with increased drive to boost non-oil revenue, FG raises excise duty on tobacco and alcoholic beverages effective June 4th
- To be implemented over three-year period to limit impact on manufacturers
- Incidence of tax will depend on demand elasticity of the products
- Regressive nature of the tax means value brands will be affected the most
- Brewers may have to downsize their operations to maintain profitability

VAIDS

- FG is set to embark on aggressive tax war
- Following Voluntary Assets and Income Declaration Scheme (VAIDS) deadline on March 31st
- Initiative was supported by the UK's Unexplained Wealth Order (UWO)
- Failure to provide information on source of income will lead to freezing of assets

LAGOS STATE- MULTIPLE PRESSURE POINTS

- Land use charge up 100 – 400%
- Toll fare up 40-70%

IS THERE AN ECONOMIC JUSTIFICATION?

Efficient tax system should satisfy the canons of taxation

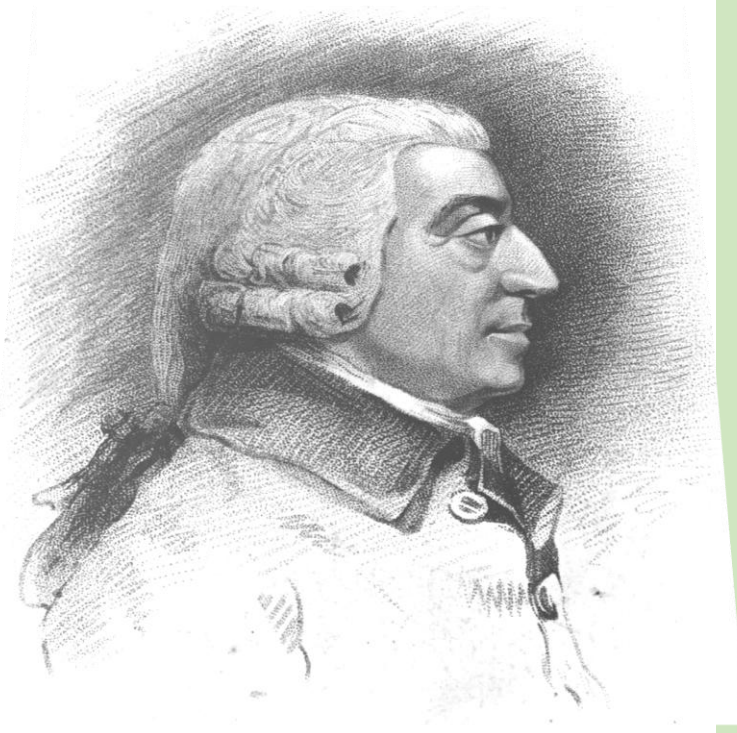
- *Canon of equality*
- *Canon of convenience*
- *Canon of certainty*
- *Canon of economy*



IS THERE AN ECONOMIC JUSTIFICATION?

Canons of Taxation

- Principle suggests cost of tax collection should be minimum
- Leakages should be avoided in every possible way



IS THERE AN ECONOMIC JUSTIFICATION?

*With the economy coming out of
recession...*

*should the government increase tax rate
or increase its collection?*



IS THERE AN ECONOMIC JUSTIFICATION?

Has tax collection in the past improved economic growth?

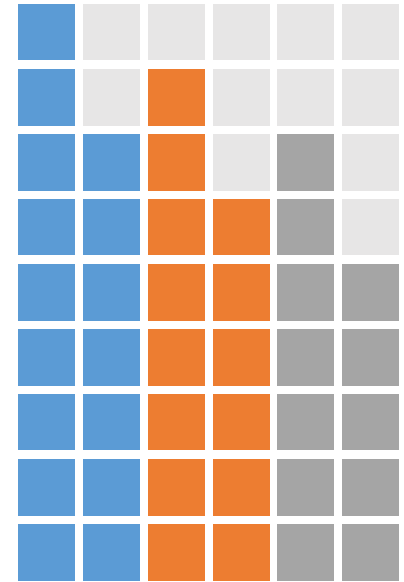
Year	Target (N)	Actual (N)
2007	1.8bn	1bn
2008	2.3bn	2.9bn
2009	1.9bn	2.2bn
2010	2.6bn	2.8bn
2011	3.6bn	4.6bn
2012	3.6bn	5bn
2013	4.5bn	4.8bn
2014	4.1bn	4.7bn
2015	4.6bn	3.7bn

Year	GDP Growth	Tax % GDP
2007	6.83	4
2008	6.27	5.5
2009	6.93	5.1
2010	7.84	2.3
2011	4.89	1.8
2012	4.28	1.6
2013	5.39	1.5
2014	6.31	-
2015	2.65	-
2016	-1.54	6

Source: FIRS, World Bank, FDC Think-tank

WAY FORWARD

- Efficiency in tax collection is paramount
- Businesses still need to recover from the recession
- Effect of increased tax revenue should trickle down to tax payers





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A 3D illustration of a meeting. Eight orange stick figures are seated around a long grey table. In the background, there is a bar chart with four bars of increasing height, colored from left to right: green, yellow, orange, and red. The text 'POLICY INITIATIVES & OUTLOOK' is overlaid in the center in a bold, red, sans-serif font.

POLICY INITIATIVES & OUTLOOK

9 WISE MEN- THE NEW MPC

Five (5) Buhari
Appointees



Four (4) Jonathan
Appointees

New members find their feet

DECISION - MAINTAINS STATUS QUO

- After 21 months and improving fundamentals
- MPC does nothing again- maintaining status quo on all parameters
- Silent on minimum wage
- Presumably allowing new members find their feet
- Nominal and effective interest rates are falling
- Inflationary pressures though abating are still potent
- A time to be cautious

RATIONALE FOR STATUS QUO

- Fear of re-igniting inflationary pressures
- Inflation above 12% is growth retarding
- Economic vulnerability to exogenous shocks
- Risk of capital flow reversals
- Election spending & fiscal risks



WHY MPC SHOULD HAVE DONE OTHERWISE

- Positive GDP growth (0.8%)
- Declining inflation Σ 4.22%
- High external reserves at \$46.21bn
- Import cover at 12months
- Exchange rate stable at N362-365/\$
- Credit to private sector up 1.7% to N22.62trn
- Average NPL ratio for Tier 1 banks at 15%
- Prohibitive lending rates average 25-28%p.a



IMPLICATIONS OF DECISION

- Higher cost of borrowing to linger
- Higher non-performing loans
- Unemployment + underemployment at 40% and rising
- Risk of corporate failures and bankruptcies



A stylized silhouette of a person in a suit and tie, standing at a podium with several microphones. The person's arms are raised in a gesture of emphasis or triumph. The background is a light, circular glow. The text "POLITICAL CLIMATE" is overlaid in the center in a bold, red, serif font.

POLITICAL CLIMATE

BUHARI - CONSOLIDATING BUT EMBATTLED

- Buhari tries to stitch together his 2014 winning alliance once again
- Core North plus South West and playing for the South East
- Lightning does not strike twice in the same place
- He has lost substantial ground and trust in the South West
- 2019 will be a referendum on Buhari's effectiveness & economic impact
- Economy is recovering but only limping slowly
- GDP & income per capita are diverging 0.8% & -9.5%

POLITICAL UPDATE

- Economic policy is not coherent
- APC is in malicious obedience on tenure elongation but could snap at anytime
- The carrots from the rush of board appointments “is coming too little, too late”
- Nobody is celebrating the spoils
- The narrative of PDP corruption is stale news, boring and is backfiring
- The PDP is pushing back by squealing on the PDP appointees left on the Buhari team
- Many of the Jonathan appointees are jittery

POLITICAL UPDATE

- PDP members are not going to drown alone
- Look out for startling revelations that will rope in current office holders with skeletons of 2014/2015 elections
- The PDP is definitely damaged goods
- Strategy of not electing a SouthWest Chairman extinguished the party's chances in 2019
- Huge swaths of the PDP are waiting to merge with the disgruntled APC defectors

POLITICAL UPDATE

- The party congress of the APC will be its moment of truth
- The tenure elongation struggle is not an Oyegun issue
- It is a struggle by the governors who want to control the party apparatus in their state
- They do not want a shift of control to a Tinubu agenda with him choosing the candidates and delegates
- It looks like a high wire gamble that could pay off but remains very risky
- Ward and state congresses will be very competitive and unpredictable

POLITICAL UPDATE

- Buhari is to take a short Time Out before going to the Commonwealth Heads of States meeting in London
- As soon as he returns, the congresses will be held and delegates elected
- A convention will follow which will endorse Buhari for 2019
- The governors forum and the APC machine will be reconciled
- Then the cracks in the party begin to emerge
- The North Central is not a slam dunk for the APC
- South East is wide open and is a political auction

POLITICAL UPDATE

- The South West is a toss up and is in play
- Ekiti election will be a litmus test for the politics of limited objectives of the APC
- The battle between the Executive and Legislature will go down to the wire
- The shakedown of recalcitrant legislators will intensify
- Buhari will refuse to sign the new electoral bill – sequence of elections
- The election is still Buhari's to lose today but is becoming more competitive



SUMMARY & OUTLOOK

OUTLOOK FOR APRIL

- MPC leaves parameters unchanged
- Headline inflation to fall to 13.8% in March
- Budget will be approved in late April and kick in huge spending
- Currency pressures will start again in May
- Stock market will not rally after MPC- an anti climax
- PIGB will be amended and get stuck

OUTLOOK FOR APRIL

- Buhari will take a short time out in the UK and attend Commonwealth meeting
- APC may elect former South/South governor as party chairman
- The third force will coagulate around high profile defectors from APC & PDP
- Difficult to organize nationwide but could pose a problem in 2019
- Positive economic data will be released on inflation, growth and external reserves
- The political connection of the MESSAGE will be lost and could be fractured, i.e. no cross over appeal

CORPORATE HUMOUR



A hopeful disposition is not the sole qualification to be a prophet
- Winston Churchill

Success consists of going from failure to failure without loss of enthusiasm - Churchill



CORPORATE HUMOUR



The words to describe pain are
inaccurate and imprecise
- *Tony Moore*

Strategy is buying a bottle of fine
wine when you take a lady out for
dinner. Tactics is getting her to
drink it - *Frank Muir*



CORPORATE HUMOUR



One man's wage rise is another man's price increase
- *Harold Wilson*

Teach a parrot to say Demand and Supply and you have got an economist - Thomas Carlyle



CORPORATE HUMOUR



Money enables us get what we want instead of what other people think we want
- *George Bernard Shaw*

Inland Revenue : We've got what it takes to take what you've got.
- *Bumper Sticker*



CORPORATE HUMOUR



The great tragedy of science is
the slaying of a beautiful
hypothesis by an ugly fact
- *Aldons Huxley*

A critic is a man who knows the
way but can't drive the car
- *Kenneth Tynan*



CORPORATE HUMOUR



An agent is a person who is sore
because an actor gets 90% of
what they make
- *Elton John*

If you like your passport photo you
are too ill to travel
- Joe Pasquale



CORPORATE HUMOUR



Everybody was saying we must have more leisure. Now they are complaining they are unemployed - Prince Phillip

For the first half of your life, people tell you what to do, for the second half, they tell you what you should have done - Richard Needham



CORPORATE HUMOUR



They say life begins at forty, but
I think it takes forty years to
realise its already started
- *Jeremy Hardy*

*Thank
you*



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