

# *PMS Hike, Electricity Hike and Squeezed Incomes*



Economic News

Social

Lifestyle

# Unity Bank Digest

*September 17, 2020*

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# *PMS Hike, Electricity Hike and Squeezed Incomes*



*The average Nigerian is struggling under the burden of the simultaneous increase in PMS price, electricity tariffs and commodity prices. The 7.76% increase in the PMS pump price to N162/litre would inevitably translate to higher logistics costs and domestic commodity prices. Nigerian households are also facing higher electricity tariffs and a weaker naira. A commodity that will most likely see a price increase is rice, after the floods washed away at least a quarter of the harvests. The exchange rate will also likely remain under pressure as forex supply is not enough offset demand, and this could translate to higher prices of imported items.*

*However, as more sectors reopen, we should see a boost in economic activities and gradual economic recovery towards the pre-COVID levels.*

# The Highlights

## Nigeria's debt rose by 8.31% to N31trn in Q2'2020

Nigeria's public debt stock has grown exponentially in recent years. In Q2'2020, the country's total debt rose sharply to N31trn (\$85.90bn), approximately 8.31% compared to N28.63trn (\$79.30bn) in Q1. Of the total debt, 63% (N19.65trn/\$54.42bn) is domestic debt while about 37% (N11.36trn/\$31.48bn) is external debt. The overall debt stock, as at June 30, represents about 18.07% of Nigeria's total GDP.



The N2.38trn (\$6.59bn) increase in debt stock was attributed to the budget support loan of \$3.36bn from the International Monetary Fund (IMF) and other domestic borrowing to finance the revised 2020 Appropriation Act. The Federal Government accounts for 81.52% of total public debt while states and local governments account for 18.48%.

Government spending is expected to continue in the near term to stimulate the economy. If revenues remain subdued due to the impact of lower oil prices, the need for borrowing will continue to arise. This coupled with the additional loan support of \$1.5bn from the World Bank will push up Nigeria's debt stock. While this debt build-up appears to be a ticking time bomb, an effective debt management strategy could support economic growth and raise government revenues in the long term.

## Nigeria loses at least 25% of its rice harvests due to flooding

Nigeria's journey to self-sufficiency in rice production is facing another setback as floods have washed away more than 25% of the commodity's harvest this year. Rice producing states such as Kebbi, Kano, Nasarawa, Jigawa and Enugu are experiencing heavy rainfalls that threaten approximately 2 million tons of the estimated national output of 8million tons. Supply shortfalls in rice output could push up the price of a 50kg bag of rice which is currently at a 1-year high of N29,000. If this happens, we might see consumers switch to close substitutes such as Spaghetti. To bridge the shortfall in supply, the CBN could grant some companies access to forex to import rice into the country, albeit temporarily as this is contrary to the government's import substitution strategy.

However, tongues are wagging and eye brows are being raised as some farmers continue to make flooding the excuse for the default in lending agreements, most especially farmers that are not directly affected by the flood.

### Capital importation falls to \$1.30bn in Q2'20

Gross capital imports to Nigeria declined by 77.78% to \$1.30bn in Q2'20 from \$5.85bn in the preceding quarter. This is also a 78.51% decline from \$6.05bn recorded in the corresponding quarter in 2019. The decline can be attributed to the contraction in global economic activities induced by the COVID-19 pandemic, which has affected international trade and capital flows. Portfolio investment recorded the sharpest decline quarter-on-quarter (-91.06%) and other investments (trade credits, loans, currency deposits and other claims) accounted for the largest share of total capital imported (58.77%). The most attractive destination for capital inflows remains Lagos, which accounted for 87.30% (\$1.13bn) of total inflows. Abuja (\$145.30mn) and Ogun (\$11.0mn) were other top destinations within the review quarter.



### Nigeria's trade deficit widens further by 328.03% to N1.8trn in Q2'20

Nigeria's total merchandise trade in Q2'20 fell sharply by 27.30% to N6.24trn from N8.59trn in Q1'20. A breakdown of the report showed that the value of exports declined by 45.64% to N2.22trn and the value of imports fell by 10.69% to N4.02trn. This resulted in a widening of Nigeria's trade deficit to N1.8trn from N421.30bn in the previous quarter. The contraction in foreign trade was primarily driven by the disruption in global supply chains amidst closed airports and closed borders to contain the spread of the virus. We expect a pickup in global trade in subsequent quarters as several countries relax restrictions on travel and gradually reopen their economies.





### **CBN makes exemptions for maize importation**



Just a month after the restriction of access to forex for maize importation, the Central Bank of Nigeria has lifted the ban to permit only four companies to import the commodity into the country. The companies (Wacot Limited, Chi Farms Limited, Crown Flour Mills Limited, and Premier Feeds Company Limited) will be allowed to import a total of 262,000 tons only between August and October. The apex bank's initial decision

was made in a bid to increase the country's self sufficiency in maize production, but it was forced to revert following the spike in domestic maize price and increasing costs for poultry farmers and other users of maize.

The decision to grant access to some companies is expected to reduce the domestic price of the maize. However, the increased importation will also likely weigh on the country's external reserves and the exchange rate as well as widen the balance of trade deficit.



### **Petrol price increases to N162/litre**

For the fourth time within the last eight months, the pump price of petrol has been reviewed upwards to N162/litre from N148.7/litre, following the ex depot price increase to N151.56/litre by the Federal Government. This is the highest pump price of fuel ever in Nigeria and the 7.76% increase in PMS is reflective of the 4.17% increase in the average Brent price to \$45.02pb in August. The hike will have a negative impact on consumer disposable income



given the ripple effect on transportation and logistics costs. These coupled with other inflation stoking factors (higher electricity tariffs) will push up headline inflation above 13% in the coming months.

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# Social Corner

## Chadwick Boseman passes at 43

- Hollywood actor Chadwick Aaron Boseman has died after a four-year battle with colon cancer.
- Boseman is best known for his roles in the movies "42", "Marshall", "Da 5 Bloods" as well as the Marvel blockbuster "Black Panther".
- He is survived by his wife, Taylor Simone Ledward, and his family who were at his side at the time of his passing in his home in Los Angeles, California.



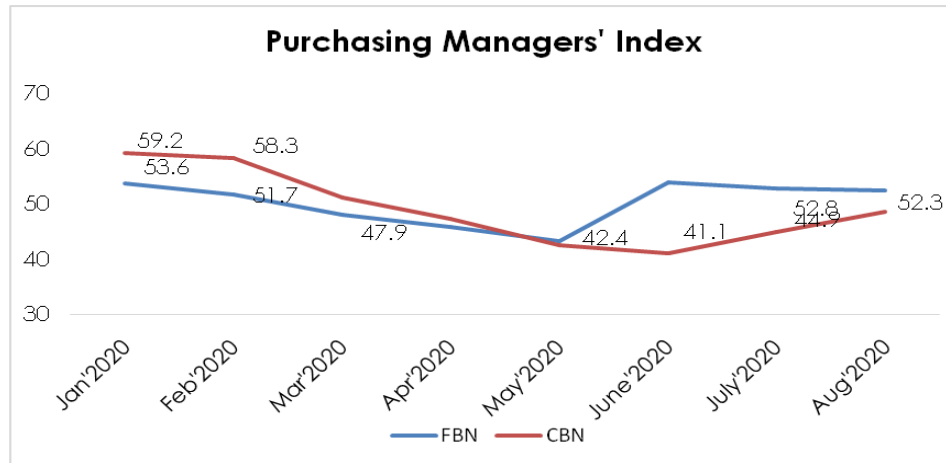
## Prince Harry & Meghan Markle sign Netflix deal

- Prince Harry and Megan Markle have signed a multi-year deal with American streaming company, Netflix, to produce films, series, documentaries, and children's programs. They have also founded a production company, whose name remains undisclosed.
- The deal closely resembles the 2018 Netflix agreement with Barack and Michelle Obama, and is intended to portray inspirational and informative stories as well as encourage change.
- The couple's involvement in the entertainment industry comes six months after they stepped back from their royal duties and moved to Los Angeles, California.



# Main Report

## August purchasing managers' index (PMI) reading moves in opposite directions



Source: FDC's Think Tank, CBN, FBN Quest

- The FBN PMI reading highlighted a decline to 52.3 points in August from 52.8 points in July. On the other hand, the CBN reading increased by 8.02% to 48.5 points in August but remained in the contraction territory (below 50 points) for the fourth consecutive month.
- Of the five sub-indices, only supplier delivery time recorded an expansion while production levels, new orders, employment levels, and raw material inventories contracted, according to the CBN.
- However, the FBN PMI report reveals that there was a slight pickup in production levels, new orders, and raw material inventories following the relaxation of lockdown measures and the resultant uptick in consumer demand.

### Outlook and Implications

In the coming months, we expect the PMI reading to increase as economic activities continue to pick up and forex becomes more available to manufacturers. However, dwindling consumer disposable income and weak demand will taper the rate of increase.





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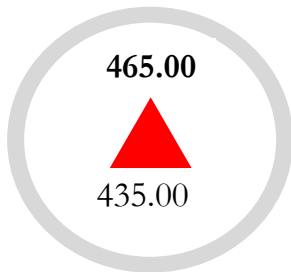
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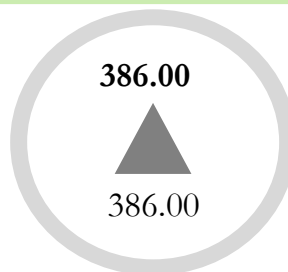
# Business Update

(Review Period : September 1st-16th, 2020)

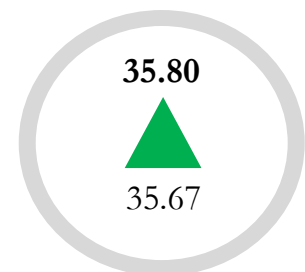
## The Foreign Exchange Market



Forex: Parallel (N/ \$)



Forex: IEFX (N/ \$)



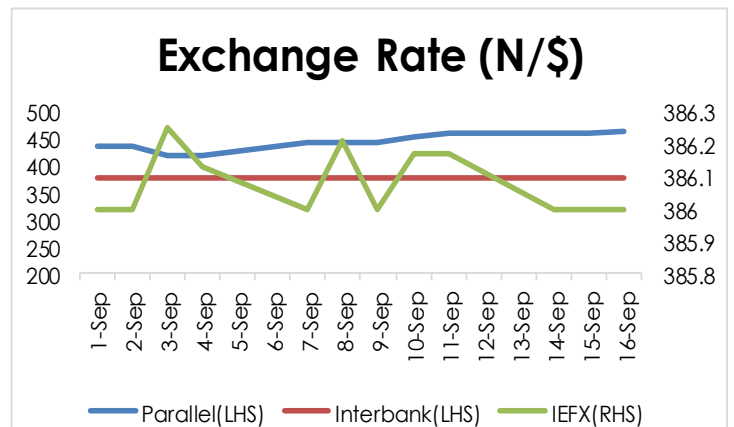
External Reserves (\$/bn)

At the parallel market, the naira recorded some aberrations. It started the period at N435/\$, appreciated to N420/\$ before depreciating sharply by 6.45% to close at N465/\$ on September 16. The aberrational movement was driven by increased demand following the resumption of international flights. At the I&E window, the Naira traded tightly between N386/\$ and N386.25/\$.

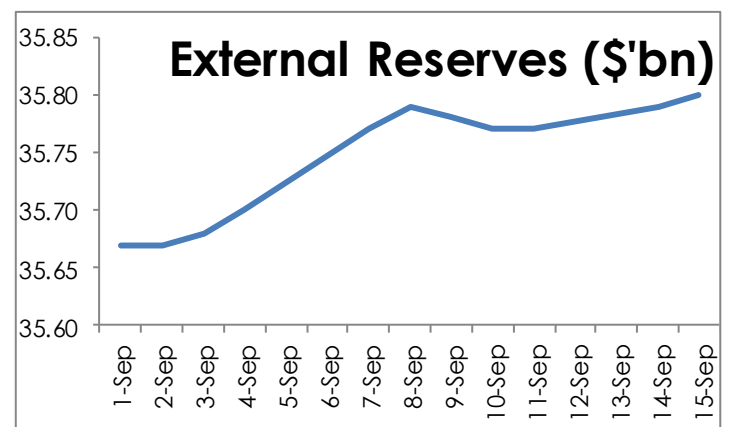
External reserves gained by 0.36% to close at \$35.80bn on September 15. The reserves level can only cover 8.91 months of import.

### Outlook & Implications

The naira is expected to depreciate further in the coming weeks due to increased forex demand as international flights resume and as more companies reopen. Increased forex sales will lead to a depletion of the external reserves, which just started accreting.



SOURCE: FDC Think Tank, FMDQ



SOURCE: FDC Think Tank, CBN

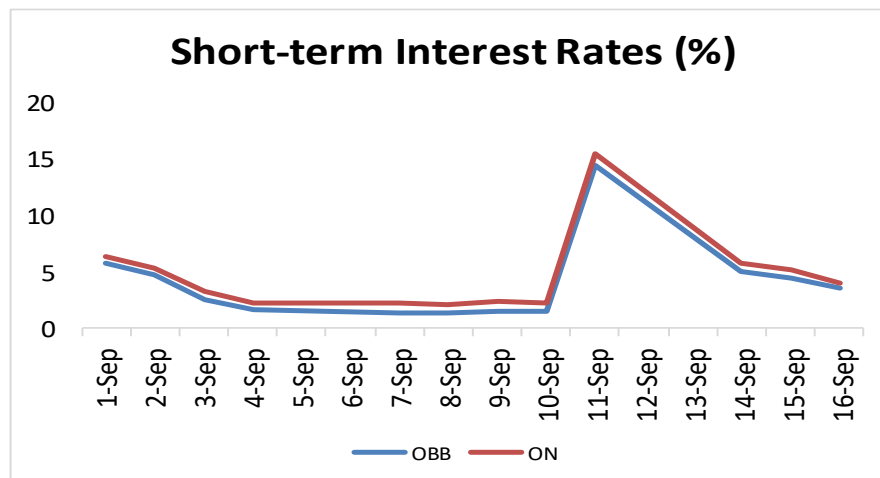
## The Money Markets



NIBOR: OBB (%p.a)



NIBOR: O/N (%p.a)



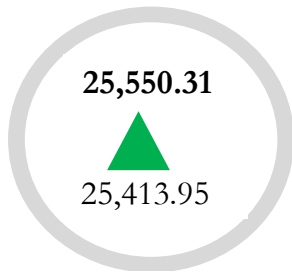
SOURCE: FDC Think Tank, FMDQ

verage liquidity within the banking system closed the review period in at N395.94bn compared to N303.55bn in the first half of August. During the period, liquidity spiked by 105.20% on September 11 following CBN's forex retail refund the previous day. Interbank interest rates (OBB/ON) rates decreased by an average of 231bps to close at 3.50%pa and 4.00%pa respectively.

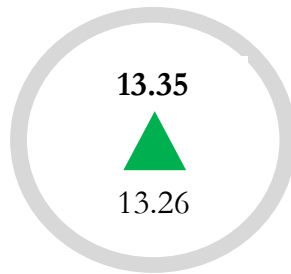
### Outlook & Implications

The CBN's allocation of forex to BDCs coupled with its retail SMIS sale to banks will continue to mop up market liquidity and increase short term interest rates in the coming weeks.

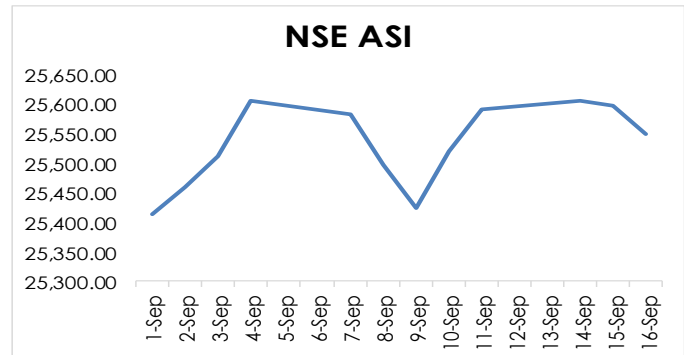
## The Stock Market



NSE ASI



Market Cap. (₹'trn)



SOURCE: FDC Think Tank, FMDQ

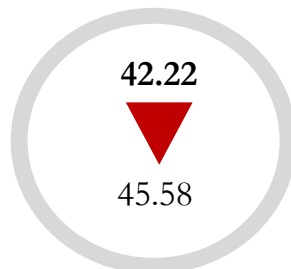
The NSE ASI gained 0.70% and closed the period at 25,591.95 points. During the review period, the market gained in six trading days and lost in three. The release of corporate earnings by banks such as Stanbic IBTC, UBA and Access influenced the positive performance of the market during the period. However, profit taking by investors weighed negatively on market performance at the end of the period. YTD return narrowed to -4.66%.

### Outlook & Implications

We expect the market's performance to be dragged down by profit taking activities by investors in the coming weeks.

## The Commodities Market

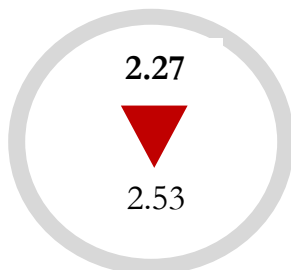
Brent prices (\$/b)



### Outlook & Implications

We expect Brent prices to remain around current levels due to reduced demand in Asia and a pickup in US crude inventories by 2 million barrels.

Natural gas (\$/mmbtu)

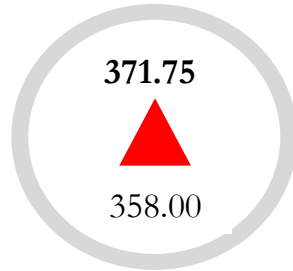


### Outlook & Implications

Energy demand growth and environmental concerns will drive demand in China in the coming weeks. This will push up the price of Natural gas



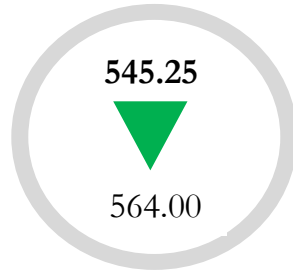
### Corn (\$/bushel)



#### Outlook & Implications

Growing demand from China and weak US corn outlook is likely to prop up prices in the coming weeks.

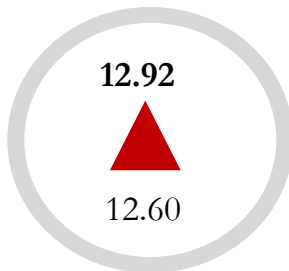
### Wheat (\$/bushel)



#### Outlook & Implications

We expect a price surge in the near term following poor output in the EU .

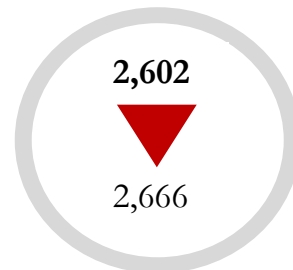
### Sugar (\$/pound)



#### Outlook & Implications

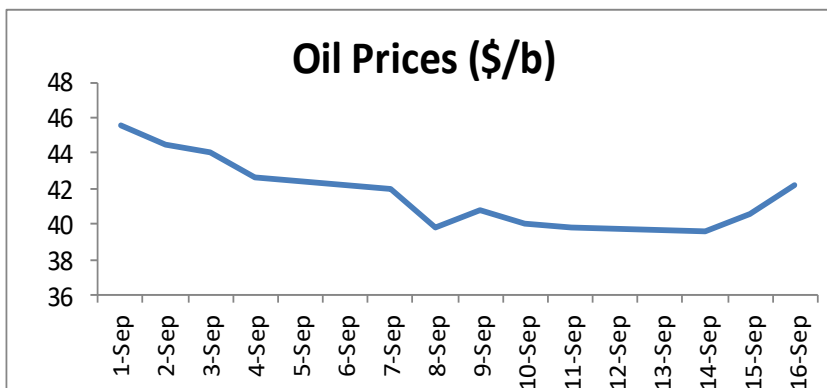
Increased production in Brazil coupled with subsidized exports in India will improve exports and lead to reduced prices in the near term.

### Cocoa (\$/mt)



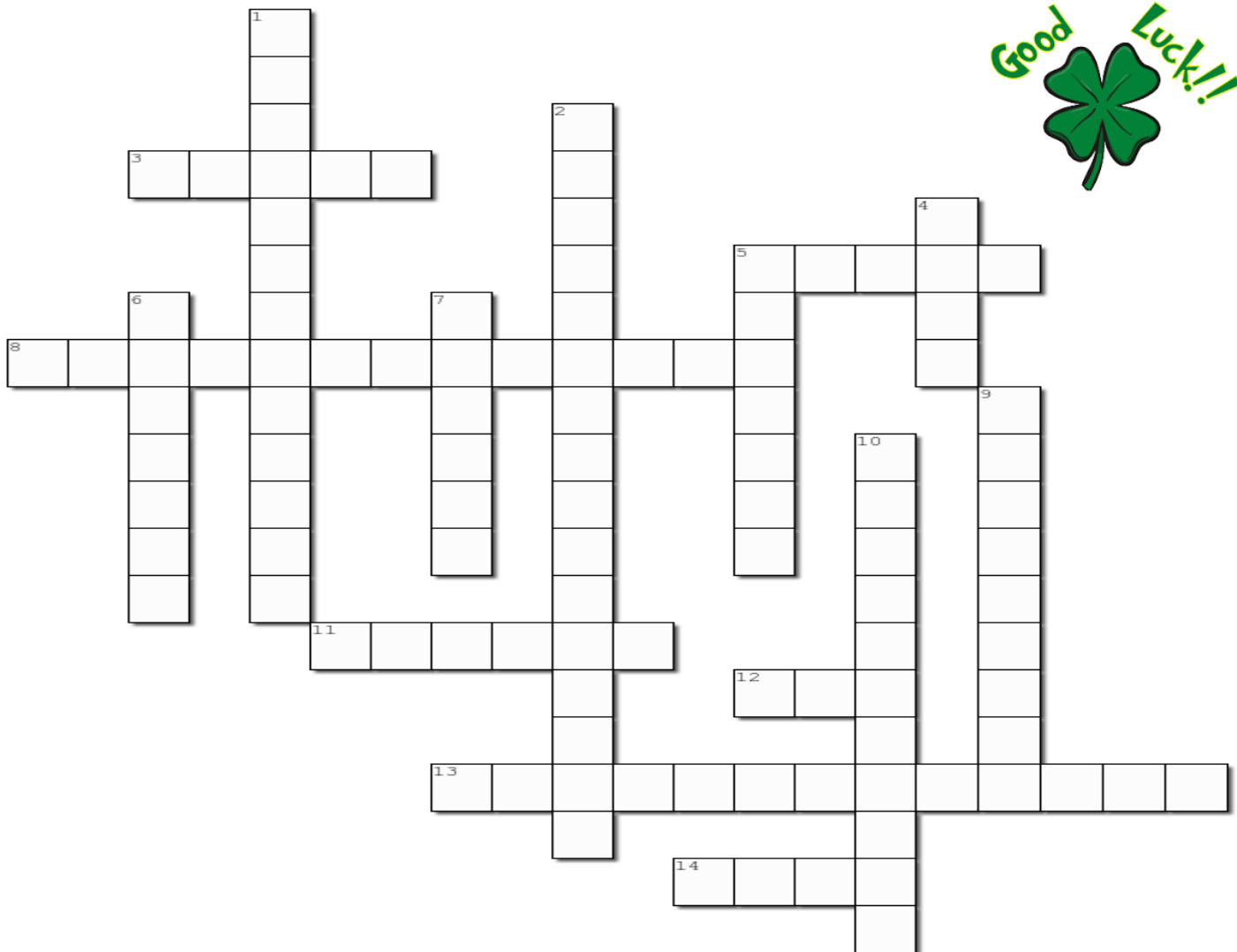
#### Outlook & Implications

We expect cocoa prices to fall in the near term in anticipation of increased production in Ghana.



SOURCE: FDC Think Tank, NSE

# Cross word Puzzle—Unity Bank Digest Edition



Created using the Crossword Maker on TheTeachersCorner.net

## Across

3. A top destination for capital inflows in Nigeria
5. The most attractive destination for capital inflows in Nigeria
8. A company exempted from the maize import ban
11. The increased pump price is reflective of the average Brent price in which month?
12. PMI in August declined according to this source
13. The statistic that widened by 328.03%
14. The crop Nigeria lost much of to floods

## Down

1. Harry and Meghan intend to produce this in their Netflix deal
2. The actor that was best know for his role in Black Panther
4. The number of companies exempted for maize import
5. The last name of Chadwick Boseman's wife
6. Few companies will be allowed to import maize between August and what month?
7. A Nigerian rice-producing state
9. A rice substitute
10. Where the ex-royal couple live

11. August  
12. FBN  
13. Trade deficit  
14. Rice

Across  
3. Abuja  
5. Lagos  
8. Wacot Limited

Down  
1. Documentaries  
2. Chadwick Boseman  
4. Four  
5. Ledward  
6. October  
7. Jigawa  
9. Spaghetti  
10. Los Angeles

# Nothing Says Freedom More Than Options



## *Internships: Exploitation or Opportunity?*

Culled from Forbes



With huge numbers of workers finding themselves unexpectedly unemployed due to the pandemic and additional pressure on small businesses, alternate routes to career success have never been more needed. Neurominorities and disabled people will of course be disproportionately affected by these things, so let's talk about the do's and don'ts for leveraging the supported internship programs that are being constructed by governments internationally.

### **Both Parties Must Benefit**

Some businesses consider internships a kind of charitable act, assuming before the person even arrives that they will be lacking in usable skill or experience.

This is not necessarily the case and to start out with such a negative mindset is likely to become a self-fulfilling prophecy. Internships like this result in capable people being assigned to the most menial jobs and exploited as free labour. I've even seen companies that offered a paid job trial trying to backtrack and not pay after the time is up! Tax payer support for internships isn't generous, make sure you are not exploiting workers by topping up wages and having genuine job opportunities to transition into.

People come to internships for all kinds of reasons and the fact that they have sought out this opportunity to begin with shows drive and ambition. Internship candidates could be highly talented individuals who were unable to attend university due to social disadvantages. They may be fresh graduates who have studied on their own time while working in different sectors. They may be candidates with disabilities who are overwhelmingly qualified but have struggled to find work due to recruitment bias. Assuming they are a weak candidate for a permanent job is a mistake that could cost you their talent.



Instead, assume they are great potential employees and expect them to benefit your business just as you are benefiting their career trajectory. Mutual respect will win.

### How To Ensure A Positive Result

In a world where formal education is increasingly exclusive, internships are a perfect way to find the untapped talent that is being missed. We know that companies with increased diversity are likely to thrive and this won't be found when we are all hiring from the same small pool, using the same old formula. Getting involved in internships may help you find your next great hire, but be sure that you are presenting them with

a genuine opportunity and not just looking for a cheap temporary assistant.

Be willing to recruit

more flexibly e.g. look at life experience, struggles overcome, consider your bias when it comes to disabilities such as social anxiety or tics. Don't pass up on a brilliant candidate because your criteria are too narrow. I've said this before and I will say it until it sticks:

If we wait for a candidate to "fit" we are not hiring diversity. The entire point of hiring for diversity is that they do not "fit" and they can teach us something new that we don't have in-house.

We need to be flexible and adjust our expectations in order to do D&I systemically.

We can learn about the implicit barriers we've constructed from within our implicit bias by deliberately including people who challenge them.

A keen, hard-working intern who isn't moulded into a copycat employee yet will help us evolve and update our assumptions and processes.

### To summarise:

- (1) Pay interns properly for their time and work or you are exacerbating marginalization
- (2) Proactively ensure they have disability adjustments and accommodations if they need them
- (3) Provide professional mentoring and support from



specialist companies, in partnership with in house company HR and training re-

sources

- (4) Set up a feedback loop so that you can learn from their experience – what would have made them more likely to apply for an advertised job? How did they find induction? What would make it smoother and easier for them? How can they work at their best?

- (5) Listen and change to make it easier for the next intake so that you iteratively become more inclusive

Now is the time to take diversity and inclusion to the system level and use it to break down social injustice. Supported intern partnerships with experienced companies operating in intersectionally marginalized communities is how we do it.

# Contact

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