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FDC MONTHLY ECONOMIC UPDATE

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In This Issue

FGN to covert CBN loans to Tradable Securities as debt soars

The Federal government has revealed plans to convert its loans from the CBN in 2020 (over N11trn) into formal borrowings by designing "special instruments" that could be repackaged and sold as bonds. The FG had partly financed the N6.1trn deficit for 2020 by "Ways and Means" and is also likely to do so again in 2021.

The impact of this is will be a huge injection of over N11trn into the fixed income market in 2021 which would trigger a rise in fixed income yields. This supports the forecast of a shift to a higher interest rate environment in 2021. This could also have negative consequences for liquidity in the equities markets which has been one of the biggest beneficiaries of the lack of fixed income securities.

The Federal government, will also increase its total borrowings, now at $73.57bn, but will not take any new facilities from the International Monetary Fund (IMF). The Federal Minister of Finance disclosed this. This is after it obtained non-conditional multilateral financing from the IMF ($3.4bn) in 2020. A higher fiscal deficit of N5.7trn is projected in the 2021 budget – 14.46% higher than the deficit of N6.91trn in 2020. The government is also concluding negotiations with the

World Bank on the $1.5bn loan, which will provide support in bridging the fiscal gap. The government's decision to not give in to floating the naira is also limiting its ability to access significant funding from concessionary loans from the World Bank.

However, it is now emphasizing on domestic borrowing above external debt and has stated that there would be no Eurobond at current rates of interest. In 2020, Vice President Yemi Osinbajo had hinted at the Federal government's intentions to extend what is now a two-year hiatus from the Eurobond market. This is in spite of low interest rates globally, as central banks in advanced economies have reduced benchmark interest rates to near-zero to stimulate their economies in the wake of the negative effects of the COVID-19 pandemic.

The Federal government's decision will ease the pressure on mounting external debt and exchange rate volatility. Domestic debt issuances will increase as a result, crowding out private sector borrowing. With inflation skyrocketing, the switch to a higher interest rate environment is now almost inevitable in the near term and this will exacerbate the governments financing pressures as the cost of servicing domestic debt would rise.

Oil Demand Recovery to Fall short

Oil prices may have surged to $56pb (highest levels in 11 months) following OPEC+'s decision to increase oil output by 75,000bpd in February over January levels and the surprise cuts by the Saudi's (1mbpd in February and March above its current quota). However, global appetite for crude will remain subdued in Q1'21 due to rising COVID-19 infection rates and lockdown measures

In its January monthly oil market report, OPEC maintained its forecast that world oil demand in 2021 won't recover to Pre-pandemic levels. This is after it lowered projections for global oil demand in the first quarter of 2021 by 1mbpd as "Uncertainties remain high, mainly surrounding the development of the Covid-19 pandemic and rollout of vaccines, as well as the structural impact of Covid-19 on consumer behaviors, predominantly in transportation sector".

In spite of the emergence and deployment of vaccines, rising infection rates in many advanced economies is holding back the economic recovery, triggering revisions to economic growth forecasts for Q1'21.

OPEC expects global oil demand in 2021 to rise to 95.9mbpd after taking a 10% hit in 2020. One of the key drivers of global oil demand is Asian (China and India) demand. OPEC expects demand in these non-OECD countries to rise by 3.3mbpd in 2021.

With crude prices now steady above the $50pb mark, which is the break-even price for many shale producers, OPEC will be wary of the growing incentive of their competitors to increase output and this could lead to not just a loss in market share but to another glut in the market.

A weaker US dollar is also boosting the appeal of dollar-denominated commodities. The emergence and rollout of COVID-19 vaccines is fueling investor confidence in the commodities market, with oil in particular, emerging as a favoured trade to hedge against inflation.


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Reduction of import levy on cars – fall out of AfCFTA

One of the key changes in the new Finance Act 2020 is the reduction in the import levy on cars from 30% to 5%. This is in addition to a reduction of import duty on Tractors from 35% to 5%, and on mass transit vehicles for transport of more than 10 persons and trucks from 35% to 10%.

This would mean a significant drop in the price of imported brand new cars. While this is good news for motorists and car dealers, the policy will weigh negatively on the domestic automobile manufacturing industry and on government revenue from duties and levies.

One of the major objectives of an import levy, besides raising revenues for the government, is to increase the price of imported goods to a level at least as high as the domestic price. This is supposed to make the domestic price more competitive and incentivize domestic production.

So while the government is set to earn less revenue from the reduced levy, the reduction in levy is in clear contradiction to the recommendation of the Bureau of Public Enterprises (BPE) led committee in August 2020, urging a sustained restriction by tariff on automobiles imports that are being assembled in Nigeria in line with the National Automotive Industry Development Plan.

It will undermine the progress made since the launch of the National Auto Policy six years ago, which had encouraged several firms to step up investments into local auto assembly plants. It will be a major disincentive to future investment while also putting current investment in the industry at risk of loan defaults and bankruptcy.

The African Continental Free Trade Agreement (AfCFTA) will lower the import cost of automobiles manufactured in Africa. South Africa exported 271,819 units of new vehicles in 2020 while Volkswagen's car assembly plant in Ghana has a capacity of 5000 units. The policy will trigger an influx of cheaper cars from these countries, which will further impede the fortunes of the domestic auto plants.

Exchange Rate Adjustment – IEFX rate devalued briefly before appreciating

The Central Bank of Nigeria (CBN) devalued the naira by 3.90% to N410.25/$ at the Investors and Exporters window (IEFX) on Thursday December 31st. This is the third exchange rate adjustment in 2020, triggered by the plunge in oil prices, which negatively affected Nigeria's forex receipts. Crude oil and gas exports account for over 90% of Nigeria's forex earnings. The rate has since appreciated to N393.83/$

The World Bank and the IMF have recently stepped up calls on Nigeria to accelerate currency reforms which include unifying multiple exchange rates around the IEFX window and gradually shifting to a market-determined exchange rate mechanism. According to the IMF, a unified and flexible exchange rate should ease external imbalances and achieve economic growth. A change of foreign exchange policies was also a major conditionality for the World Bank to approve a $1.5bn loan to the Nigerian government.

The CBN also recently re-introduced some foreign exchange rules to prop up the naira. These include the payment of remittances in dollars to beneficiaries by international money transfer operators. This has boosted dollar liquidity and eased forex pressures in the parallel market.

The adjustment will mop up liquidity from the system and push up interbank interest rates as a significant part of forex transactions are carried out at the IEFX window. Import costs are also expected to rise, further fuelling imported inflation.

In view of the adjustment, we expect to see a further convergence of the multiple exchange rates towards the IEFX window. Given that the premium between the IEFX and the parallel market rates is currently at about N60, it is also likely that another devaluation is on the cards in the coming months.

Implications of social unrest for the Nigerian insurance industry

The Nigerian economy has become increasingly prone to violence and social unrest due to a growing public resentment against the government. Insurgency groups such as Boko Haram, and the killings by the Fulani herdsmen, have also contributed to the vulnerable security condition in Nigeria. A more recent crisis was the destruction and looting of numerous public and private organizations after hoodlums hijacked the #ENDSARS protest against police brutality. Many business owners were left with huge losses, prompting renewed attention on the role and capacity of the Nigerian insurance industry.

The Nigerian Insurance Industry

Globally, the insurance industry has been one of the hardest hit by the economic fallout of COIVD-19 due to a spike in insurance claims as many businesses have come under severe financial pressure. Although insurance companies have claimed that pandemic-induced business disruptions are not covered, business owners have insisted that the insurance industry bare some of the financial losses on their businesses.

On the domestic front, the Nigerian insurance industry has not been spared the devastating impact of the pandemic. The sector slid into a recession in Q3'20 after it contracted by 18.67%, following a 29.5% contraction in Q2'20. The Nigerian insurance industry is embattled with a list of challenges such as the prevailing low interest rate environment in Nigeria, which is weighing on the profit margins of many sector players, lower premium income and increased insurance claims amid the fallout of the pandemic.

Social unrest and the Nigerian insurance industry

For a sector still recovering from the effects of COVID-19 and struggling with low interest income on its assets, the frequent occurrence of social unrest across the country will impact negatively on the financial position of many insurance firms and the overall performance of the industry. On the other hand, the crisis has increased awareness about the importance of insurance and is capable of resulting in increased insurance penetration in the country. The Nigerian insurance sector is still quite underdeveloped with a penetration rate of 0.7%, significantly below regional peers like South Africa's 12.89%.

Furthermore, proper responses to insurance claims could pass a message to business owners who have not subscribed to an insurance premium. The crisis has also created more knowledge of required insurance offerings and the need for more specific insurance premiums. This should help insurance companies expand their products thereby increasing the chances of participation among individuals, households and businesses.

Conclusion

As much as the recent civil unrest poses a risk to the profitability and recovery of the Nigerian insurance industry, it has a potential to reposition the industry for growth and development, if sector players adopt the right strategies. The possibility of mergers and acquisitions within the industry will also help to promote market consolidation and empower sector players to strive for growth. The National Insurance Commission, the regulatory body overseeing the affairs of the Nigerian insurance industry had issued a guideline for the recapitalization of the industry last year but the deadline for this has been extended to Q3'21 due to the pandemic.

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African countries not ready to implement free trade from January

AfCFTA's secretariat says adoption will be slow as many nations lack border facilities. In 2019, 14.4% of official African exports went to other African countries, a small proportion compared with the 52% in intra-Asian trade, according to Afreximbank.

Most African countries are not ready to implement the terms of the African Continental Free Trade Area when the new zone comes into effect on January 1, according to the head of the trade bloc's secretariat.

Fifty-four African nations have committed to join AfCFTA but of the 33 countries to have ratified the agreement so far, many lack the customs procedures and infrastructure to facilitate tariff-free trade, said Wamkele Mene, secretary-general of the AfCFTA secretariat.

"It's going to take us a very long time," said Mr Mene, a South African trade expert elected by the African Union last February. "If you don't have the roads, if you don't have the right equipment for customs authorities at the border to facilitate the fast and efficient transit of goods. . . if you don't have the infrastructure, both hard and soft, it reduces the meaningfulness of this agreement."

Mr Mene insisted that the free trade area, which covers a population of 1.2bn and countries with combined output of $2.6tn, could still be transformative. "We want to move Africa away from this colonial economic model of perpetually being an exporter of primary commodities for processing elsewhere," he said. "We want to stop approaching tariffs as a tool for revenue. We want tariffs to be a tool for industrial development."

In 2019, 14.4% of official African exports went to other African countries, a small proportion compared with the 52% in intra-Asian trade and 73% between European nations in the same year, according to Afreximbank, a Cairo-based multilateral trade finance institution.

"We want to stop approaching tariffs as a tool for revenue. We want tariffs to be a tool for industrial development"- Wamkele Mene, secretary-general of the AfCFTA secretariat

David Luke, who co-ordinates trade policy at the UN Economic Commission for Africa, said that goods traded within Africa were more processed than the raw materials exported from the continent to China, India, Europe and other major trading partners.

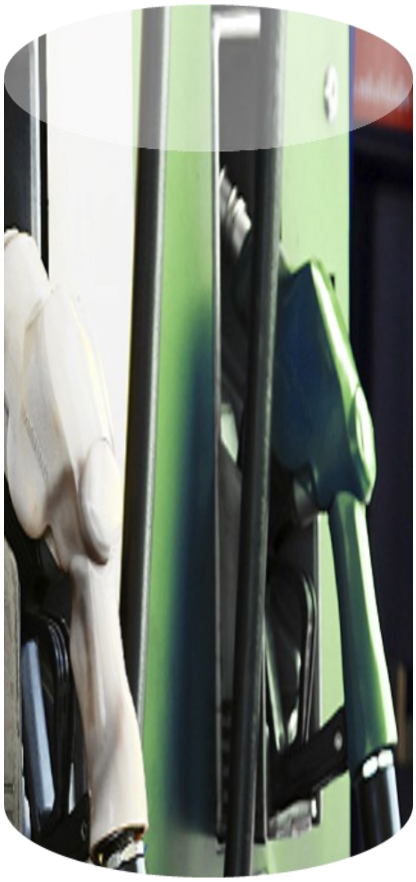
"Policymakers have understood that, although trade on the continent is limited, this is value-added trade," he said. "This is where the jobs are coming from, as opposed to trade with the rest of the world, which is mostly commodities."

Trade experts said the single market also offered investors potential economies of scale, enabling them, in theory, to manufacture goods in one country and export them tariff-free to the whole continent. Jeffrey Peprah, chief executive of Volkswagen, Ghana, said he hoped eventually to export cars assembled in Accra to other West African countries.

Mr Mene warned it might take years to bring countries' laws into line with new requirements. Ethiopia, for example, prohibited foreign investment in its financial sector, a potential breach of AfCFTA rules, he said. As a result, the secretariat could see a flurry of legal challenges from countries on behalf of their corporations, he said. "I'm not saying countries must rush to dispute settlement. All I'm saying is that, if they do, the jurisprudence will bring clarity to the body of trade law that we've developed in the form of this agreement."

For the agreement to work, one western diplomat said the free trade zone must benefit producers in smaller, poorer countries as well as those in more industrialized parts of the continent. Many countries saw the free trade area as a way of boosting their exports but few had embraced the corollary that they would need to import more, the diplomat said. Mr Mene said the secretariat was working with Afreximbank to establish a pan-African trading platform to allow smaller enterprises to trade effectively across borders and in different currencies. "Often in trade agreements the big winners are the already industrialized countries and the big corporations who can access the new markets literally overnight," he said. If AfCFTA created too many losers and not enough winners, Mr Mene said, there could be a similar backlash against free trade as had occurred in the US and parts of Europe. Then Africans too would conclude, he said, "these trade agreements don't work".

Impact of the new Petroleum Industry Bill on Nigeria's oil



Since the introduction of the PIB, there have been various amendments of it and deliberations about it. In 2017, four new pieces of legislation were created, namely: the Petroleum Industry Governance Bill (PIGB), the Petroleum Industry Administration Bill (PIAB), the Petroleum Industry Fiscal Bill (PIFB) and the Petroleum Host Society Bill (PHCB).

In Nigeria, the oil and gas industry is highly regulated by the government, with the National Petroleum Commission (NNPC) acting as the sole regulator. This is similar to what was practiced in the United States and Britain during the 1970s and 1980s. Regulators were seen to be working in the public interest under this legislative system.[1] With a government agency as the sole regulator, private sector investment is discouraged - a negative impact on the development of the upstream and downstream sector. Despite being one of the largest crude oil producers in Africa, Nigeria has been unable to convert its abundant oil into financial wealth to drive growth. To address the limited private investment in the Nigerian oil industry, the Petroleum Industry Bill (PIB) was created and first introduced in the National Assembly in 2008.

[1]Ekhator, Eghosa Osa (2016) "Public Regulation of the Oil and Gas Industry in Nigeria: An Evaluation," Annual Survey of International & Comparative Law: Vol. 21: Issue. 1, Article 6. Available at: https://digitalcommons.law.ggu.edu/annlsurvey/vol21/iss1/6

The PIB has now been submitted to the legislature and seeks to:

- Convert the NNPC to a private limited liability company (NNPC Limited) and scrap the Petroleum Product Pricing Regulatory Agency (PPPRA);
- Establish separate regulatory authorities for the operations of the upstream, midstream and downstream sectors;
- Decrease the royalty rate for offshore fields producing a maximum of 15,000 barrels per day to 7.5% from the current10%;
- Raise the royalty threshold of crude oil price to $50 per barrel from $35 per barrel;
- Reduce petroleum profit tax for onshore fields to 72.5% from 85% and decrease royalty payments to 18% from 20%; and
- Disincentivize gas flaring by making its penalties non-tax deductible.[2]

Implications for the oil sector and the Nigerian economy

Make oil sector more competitive

When passed, the revised PIB will make the oil sector more competitive and help attract more domestic and foreign investors. The bill proposes that the NNPC become a separate limited liability company to encourage the inflow of both foreign and domestic investors. With an increase in the number of investors, the oil industry will become more competitive and effective.

Supports the deregulation of the oil sector

PIB will also aid the deregulation of the oil sector to help attract more investors to the downstream sub-sector. This allows potential private investors the opportunity to participate in oil production in the downstream sector thereby raising aggregate oil output.

[2] Nairametrics, 2020. President Buhari to scrap NNPC, PPPRA as he submits new PIB to the National Assembly. Accessed from https://nairametrics.com/2020/09/28/president-buhari-to-scrap-nnpc-pppra-as-he-submits-new-pib-to-national-assembly/

Development of oil infrastructure

PIB will help with the development of oil infrastructure, which will boost Nigeria's oil production and export revenue. Private investors will help in the rehabilitation and development of the new oil refineries increasing aggregate oil output. Their investment will also reduce Nigeria's reliance on imported refined oil.

Attract FDI inflows

The deregulation of the oil sector will help attract foreign direct investment into Nigeria thereby expanding the contribution of this sector to the country's economy. In addition, more FDI inflows will help in external reserves accretion thereby supporting the exchange rate.

Beneficial to the host communities

PIB proposes that the host communities receive a 2.5% fund based on the actual operating expenditure of the oil companies for the preceding year. The bill also seeks to end the flaring of gas, a major source of waste and environmental pollution, particularly at oil exploration areas. The fund will be used to support the development of healthcare facilities in the host communities, and enhance environmental protection and local initiatives, which are favorable for the overall socio-economic development of the host communities.

What's next for the PIB?

The National Assembly has postponed its deliberations on the PIB to Q1'21, in order to focus on the 2021 budget discussion, which it intends to pass before January 2021. About $20 billion is lost annually owing to the delay in the passage of the bill.[3] The further delay in the implementation of the PIB and the oil sector reforms will continue to cost Nigeria capital flight and the lack of new investment. It is now very important to develop the domestic oil sector to reduce the country's fuel import bill, increase oil output and improve refining capacity. The quick passage of PIB will also facilitate the government's objective to stop the exchange of crude for fuel by 2023. To achieve the desired outcome of the PIB, there is need for strong political will and commitment of the government. The question remains – does it have the resolve to move forward?

[3]Business Day, 2020. "At least $20bn investments lost annually on delayed oil sector reforms-NNRC". Accessed from https://businessday.ng/energy/oilandgas/article/at-least-20bn-investments-lost-annually-on-delayed-oil-sector-reforms-nnrc/

Corruption: The moral monster in the political space

Corruption is one of Nigeria's pressing yet unresolved challenges. It is so pervasive that it has turned public service into a criminal enterprise. President Muhammadu Buhari, after assuming office in May 2015, launched an anti-corruption drive that has since been watered down, as daylight political robbery seems to be the order of the day.

The Economic and Financial Crimes Commission (EFCC) was established in December 2002 and charged with clamping down on corruption and holding perpetrators to account. Instead, it has been lackluster in its pursuit of corruption cases while Nigeria's corrupt political elites seem to be enjoying impunity and living an extravagant life.

Since its inception, the EFCC has arraigned over 30 political figures on corruption charges and has recovered about $11 bn through its efforts.[4] However, a number of the cases have made little or no progress in court; some are thrown out for lack of evidence, while the few that are prosecuted receive minimal sentences.

The most shocking and perhaps the biggest corruption case in Nigeria is the $10bn case between the government and Process and Industrial Developments (P&ID), where a gas project agreement was signed in 2010 through bribes paid to insiders in an effort to defraud the country. The amount is about a third of Nigeria's external reserves and the case is still ongoing.

[4]Human Rights Watch, August 2011. "Corruption on Trial? The Record of Nigeria's Economic and Financial Crimes Commission." https://www.hrw.org/report/2011/08/25/corruption-trial/record-nigerias-economic-and-financial-crimes-commission

There are also recent occurrences, such as the hoarding and diversion (for personal use) of COVID-19 palliatives that were meant to be distributed during the lockdown in several states such as Lagos. There is also the case of the acting MD of the Niger Delta Development Commission (NDDC), who fainted during his public interrogation before a legislative committee probing allegations of contracting fraud under his watch to the tune of N81bn. The case has since died down after the scene.

The impact of corruption on the economy cannot be over emphasized. Corruption is a menace that affects public finances, weakens business investment, and reduces human capital and the standard of living of the people.

Poor governance and corruption, if not tackled, could hinder Nigeria's economic progress and hamper efforts to tackle unemployment, which was at a record high of 27.1% in Q2'2020.

The corruption perception index says it all

The corruption perception index (CPI) measures the perception of corruption across businesses, citizens, country experts, local media and international organizations. According to the CPI, Nigeria has continuously ranked as one of the bottom countries in the index. The country fell four spots to 146 out of 180 countries on transparency in the latest annual corruption index, its lowest ever ranking. As a result, President Buhari's regime has come under extreme scrutiny, painting a bleak picture of inaction against corruption.

Impact of corruption on the Nigerian economy

The impact of corruption is mostly felt by the poor, vulnerable and striving businesses with a long term ripple effect on the economy.[5] It results in:

- Lower labor productivity;
- Reduced human capital;
- Lower standard of living and education;
- Increased income inequality and poverty;
- Higher leakages through money laundering;
- Weak investment;

[5]Nnenna Joy Eboh, , "Judicial corruption as a clog on economic development in Nigeria"

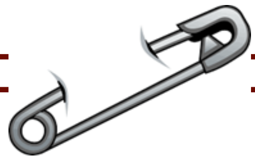
- Poor fiscal revenue and expenditure;
- Poor institutions;
- Poor public finance management; and
- An increase in barriers to doing business – lower levels of investment, especially foreign direct investment which accounts for about 0.8% of GDP.

Three essential ways to tackle corruption:

- Demand accountability;
- Focus ; and
- Establish a culture of integrity.

Conclusion

Corruption is certainly not a new phenomenon in Nigeria, but it has long been a fundamental problem especially in the political space. Over the years, government revenues from the oil and gas industry were significant enough to solve most of Nigeria's development problem, if not mismanaged and diverted.



Decades of clientelism, cronyism, nepotism, weak institutions and opaque practices supported by the ruling elite have created an environment in which corruption is rife[6]. This is slowly bleeding out the already weak fiscal environment.

To clamp down on corruption, all political candidates should be held accountable for their actions – there should be a system where all disbursed funds should be accounted for especially funds meant for public contracts such as roads, rails and other infrastructure.

The long list of political candidates that were investigated but yet to be charged and convicted for corruption due to bribery or instructions from the political elites should be uncovered. This will send a strong signal to other political candidates who intend to divert funds or defraud the nation.

Finally, putting an end to corruption in Nigeria might seem like an impossible task but it is essential to how foreign investors and countries perceive Nigeria. An improved transparency index and low corruption perception is positive for foreign investments. Investors will invest as long as they think their monies are safe and returns are guaranteed.

[6]2019. Nigeria's Hopeless Fight against Corruption. https://www.kas.de/en/web/auslandsinformationen/artikel/detail/-/content/nigeria-s-hopeless-fight-against-corruption

Global Perspective (II): Culled from the FT

Nigeria is at risk of becoming a failed state

With kidnapping and insecurity rife, the government needs to restore trust

More than 300 Nigerian schoolboys were reunited with their families last weekend, days after they had been abducted by kidnappers from their dormitory in the country's north-west. The kidnapping revived memories of the 276 Chibok schoolgirls abducted in Borno state in 2014. Just as then, Boko Haram, the militant Islamist group, claimed responsibility.

The government insists no ransom was paid. Skepticism is warranted. In a country going backwards economically, carjacking, kidnapping and banditry are among Nigeria's rare growth industries. Just as the boys were going home, Nigerian pirates abducted six Ukrainian sailors off the coast.

The definition of a failed state is one where the government is no longer in control. By this yardstick, Africa's most populous country is teetering on the brink.

President Muhammadu Buhari in 2015 pronounced Boko Haram "technically defeated". That has proved fanciful. Boko Haram has remained an ever-present threat. If the latest kidnapping turns out to be its work, it would mark the spread of the terrorist group from its north-eastern base. Even if the mass abduction was carried out by "ordinary" bandits — as now looks possible — it underlines the fact of chronic criminality and violence. Deadly clashes between herders and settled farmers have spread to most parts of Nigeria. In the oil-rich, but impoverished, Delta region, extortion through the sabotage of pipelines is legendary.

Extortion is a potent symbol for a state whose modus operandi is the extraction of oil revenue from central coffers to pay for a bloated, ruinously inefficient, political elite. Security is not the only area where the state is failing. Nigeria has more poor people, defined as those living on less than $1.90 a day, than any other country, including India. In non-Covid-19 years, one of every five children in the world out of school lives in Nigeria, many of them girls.

The population, already above 200m, is growing at a breakneck 3.2 per cent a year. The economy has stalled since 2015 and real living standards are declining. This year, the economy will shrink 4 per cent after Covid-19 dealt a further blow to oil prices. In any case, as the world turns greener, the elite's scramble for oil revenue will become a game of diminishing returns. The country desperately needs to put its finances, propped up by foreign borrowing, on a sounder footing.

In its three remaining years, the government of Mr Buhari must seek to draw a line in the sand. It must redouble efforts to get a grip on security. It also needs to restore trust in key institutions, among them the judiciary, the security services and the electoral commission, which will preside over the 2023 elections.

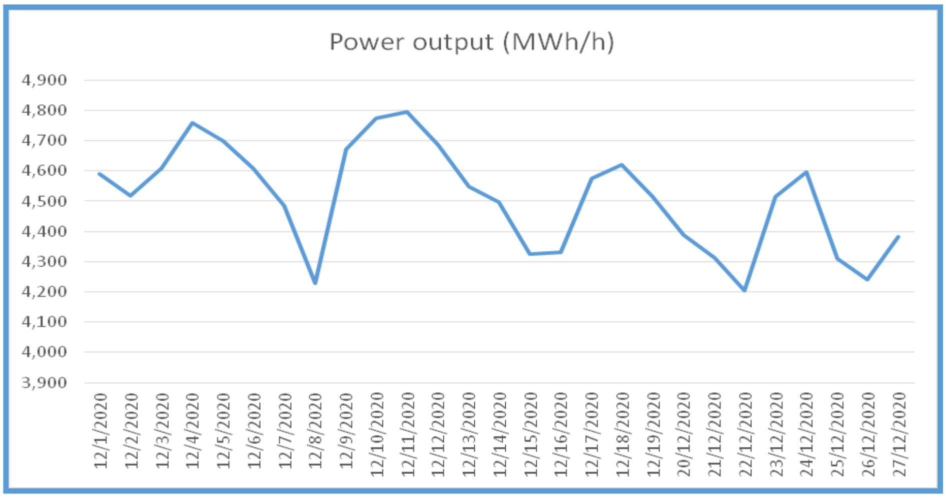
More than that, Nigeria needs a generational shift. The broad coalition that found political expression this year in the EndSARS movement against police brutality provides a shard of optimism. At least Nigeria has a relatively stable democracy. Now Nigeria's youth — creative, entrepreneurial and less tainted by the politics of extraction — should use that system to reset the country's narrative.

A new, slimmed-down state — ideally, one with fewer, bankrupt regional assemblies — must concentrate on the basics: security, health, education, power and roads. With those public goods in place, Nigeria's young people are more than capable of turning the country round. At the present trajectory, the population will double to 400m by 2050. If nothing is done, long before then, Nigeria will become a problem far too big for the world to ignore.

Macroeconomic Indicators(Dec 1- 29)

Power Sector

During the review period, the average power output stood at 4,510MWh/h, 2.94% higher than the average output in the corresponding period in November (4,381MWh/h). Gas (29,686.8MWh/h) and grid (8,616.4MWh/h) were the major constraints to power output during the period, accounting for 77.5% and 22.49% respectively of total constraints (38,303MWh/h). The resulting revenue shortfall amounted to approximately N18.31 billion (N219.72bn annualized) during the period.



[7]

Outlook

Power output is largely dependent on gas availability, which continues to be insufficient and is the major threat to power supply. We expect the average power output to increase in the coming months as the higher electricity tariffs incentivize output and the Federal government considers a transition to a market-led price regime for gas.

Impact

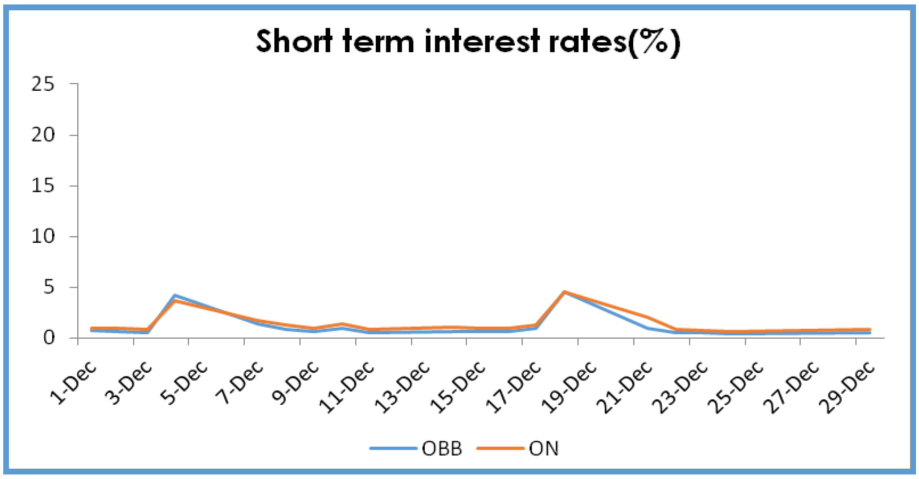
An increase in power supply implies that companies will source less for alternative energy, pushing down their operating costs, increasing productivity and profit margins.

[7]FG, FDC Think Tank

Money Markets

Average liquidity within the banking system rose by 5.69% to N495.37billion during the period compared to N468.67 billion recorded in November. Total OMO sales during the period was N190billion while total OMO maturities stood at N1.15 trillion.

The NIBOR (OBB/ON) rates averaged 1.25%p.a. in the review period, down 14bps from 1.39%p.a. in the corresponding period in November. While, the OBB reached a period-low of 0.5%p.a. on four occasions (December 3rd, 11th, 22nd and 23rd), the ON rates reached a period-low of 0.75%p.a. on December 23rd.



[8]

At the primary market, there were two Treasury Bills auctions of N50 billion and N7 billion on December 9th and 16th respectively. The auctions were oversubscribed by 101.6% and 1636.14% respectively. When compared to the previous month's auction on November 26th, T/bill yields increased at the 91-day tenor while it declined across the 182-day and 364-day tenors. Yields increased by an average of 34bps across all tenors at the secondary market

T/bills Tenor	Primary market rates as at Nov. 25th (%pa)	Primary market rates as at Dec. 16th (%pa)	Direction	Secondary market rates as at Nov. 26th (%pa)	Secondary market rates as at Dec. 17th (%pa)	Direction
91	0.02	0.05	⬆	0.07	0.37	⬆
182	0.09	0.50	⬇	0.10	0.32	⬆
364	0.15	1.14	⬇	0.15	0.65	⬆

[9]

[8]CBN
[9]FDC Think Tank

Outlook

We expect a decline in naira liquidity in January as a result of funding for the CBN's forex sales to banks and BDCs. This is expected to push up short-term interbank rates.

Impact

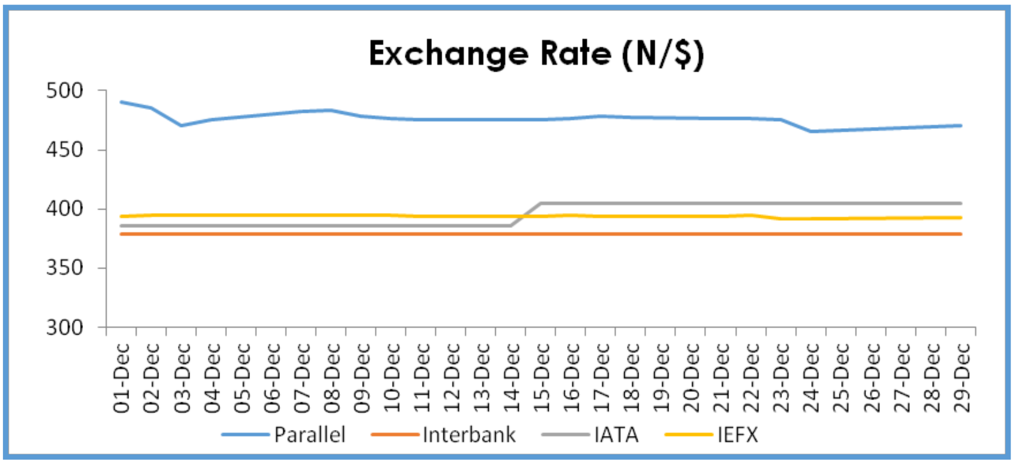
An increase in interbank interest rates will push up borrowing cost in the money market.

Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves as not only a source of price discovery but also a barometer for measuring potential and actual CBN interventions in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

At the parallel market, the naira opened the review period at N490/$ (December 1) and gradually appreciated by 4.08% to N470/$ on December 29th. The strengthening of the currency was as a result of the increased dollar sale by the CBN and forex inflows from visiting family and friends from overseas. Between December 1st and 29th, the naira remained flat at N379/$ at the interbank market according to FMDQ. At the IEFX window, the naira the naira appreciated by 0.38% to close at N392.5/$ during the review period from N394.00/$ on December 1st. It also traded within a tight band of N392-N395/$ during the review period. Total turnover at the IEFX window increased by 12.08% to $2.75bn from $2.46bn in November.



[10]

[10]FMDQ, CBN, FDC Think Tank

Outlook

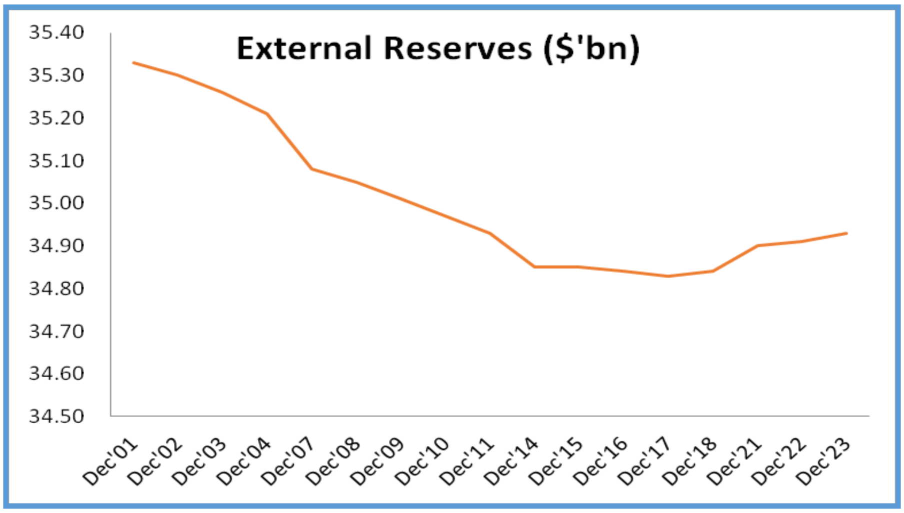
We expect the exchange rate to remain relatively stable due to improved forex inflows from visiting relatives. Also, January is typically a slow month and economic activity level will be low in the first few weeks. As businesses resume in the new year, barring a reimposition of a lockdown to curb the spread of covid, the demand for dollars will increase, leading to currency pressures.

Impact

The lingering forex illiquidity and CBN's rationing will continue to force manufacturers to use a blended exchange rate (parallel & IEFX market rates), which will keep prices of consumer goods elevated.

External Reserves

Between December 1 and 23, gross external reserves declined, losing 1.13% (40mn) to $34.93bn on December 23rd from the opening value of $35.33bn in the review period. It bucked its declining trend on December 17th at $34.83bn and has been on a steady rise ostensibly due to the uptick in oil prices and dollar inflows from visting family and friends. This brings the country's payment and import cover to 8.69 months from 8.82 months at the start of the period.



[11]

Outlook

The external reserves accretion is expected to be shortlived as demand pressures resurface with the resumption of buisnesses and companies in the New Year.

Impact

External reserves accretion would positively affect the CBN's ability to intervene in the forex market, which will ease pressure on the naira while also boosting investor confidence.

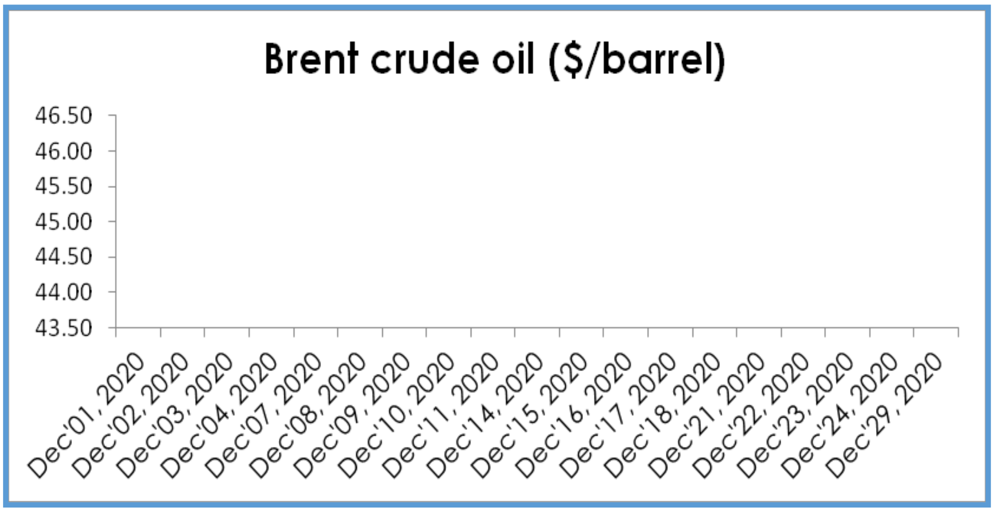
[11] CBN

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

Brent price averaged $51.16pb in the review period, 17.15% higher than the average of $43.67pb in November. Oil prices crossed the $50pb threshold on December 10 as the major breakthrough in the development of a COVID-19 vaccine boosted the global oil market's outlook for 2021. News of a post-Brexit trade deal between the EU and the UK also lent support to oil prices amid a second wave of COVID-19 cases globally.



[12]

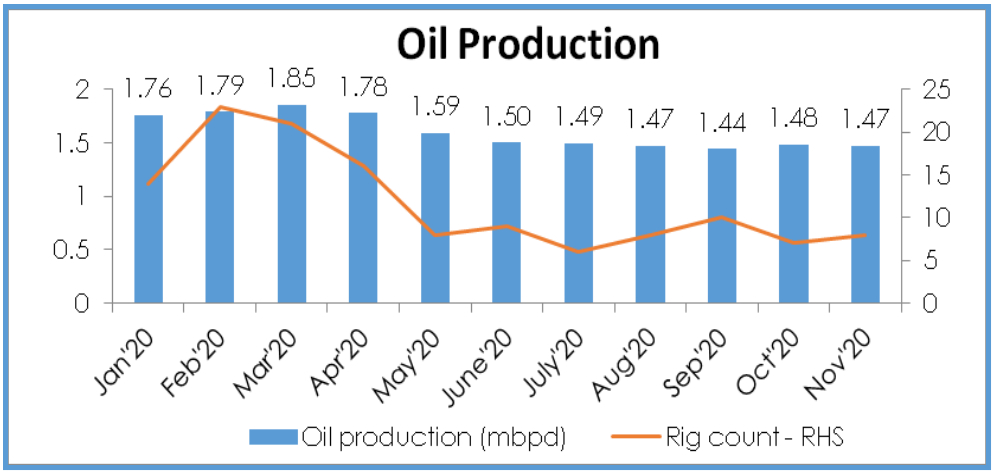
Outlook

Crude oil prices are likely to be volatile in the short term as the spike in coronavirus infections due to the new covid-19 mutation and renewed lockdown measures weigh on the outlook on global oil demand.

Oil Production

Nigeria's oil production declined marginally by 0.67% to 1.47mbpd in November from 1.48mbpd in October. This was in spite of the rise in the country's rig count to 8 in November from 7 in October. Total OPEC oil production in November averaged 25.11mbpd compared to 24.39mbpd in the previous month. Oil output increased mainly in Iran, Libya and the UAE, Kuwait and Iraq, while production decreased in Iraq, Gabon and Nigeria.

[12] **Bloomberg**



[13]

Outlook

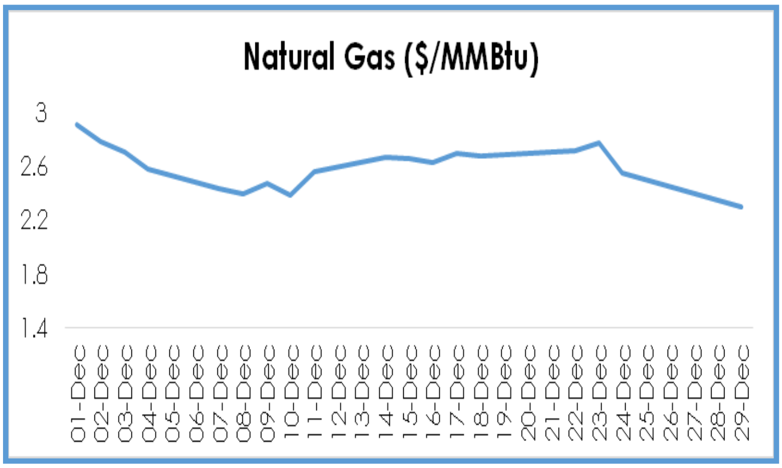
Nigeria's oil production is expected to trend lower as it complies with compensatory cuts in the coming months, which will see its oil output fall below 1.41mbpd. However, with OPEC + starting its easing of output cuts by 500,000bpd in January, this could lead to a relaxation of countries' quotas. The alliance will be meeting on January 4 and there is the possibility of a further increase in output, amid expectations of a recovery in global oil demand. If this happens, Nigeria will be able to produce more.

Impact

Crude oil accounts for approximately 90% of Nigeria's total export. A possible increase in oil output would increase the country's export earnings, fiscal and external buffers. This would have a positive trickle-down effect on revenues, external reserves and exchange rate stability.

Natural Gas

The average price of natural gas fell by 9.69% to \$2.61/mmbtu during the review period from an average price of \$2.89mmbtu in November. This was due to expectation of higher LNG stockpile in the US and expectations of a warmer winter season.



[14]

[13]OPEC and Baker Hughes
[14]Bloomberg

Outlook

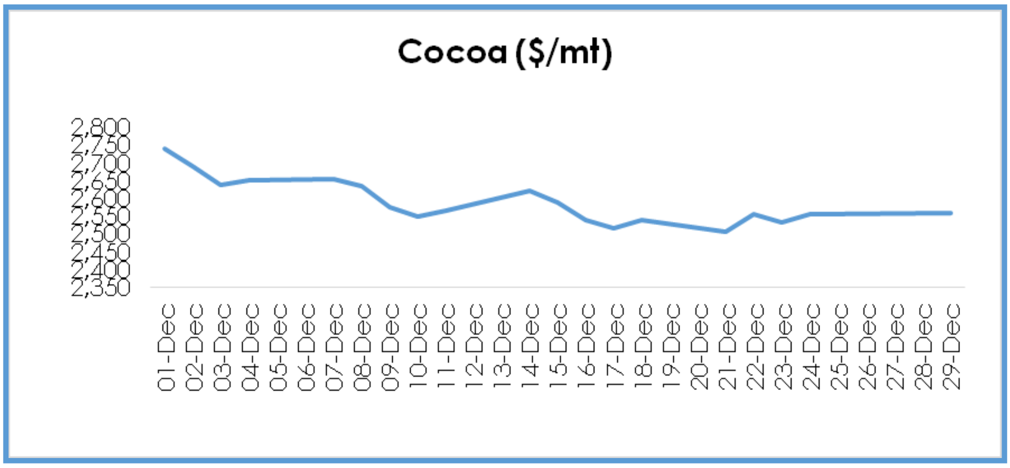
We expect LNG prices to rise in the near term due to the cold spell, which has hit large parts of Asia and altered the forecast of a warmer winter season. Demand for the winter heating fuel is expected to rise and prop up prices.

Impact

A rise in the global price of LNG will impact positively on Nigeria's export revenue and fiscal balances, as the commodity is one of the country's main exports (13%[15] of total exports).

Cocoa

Cocoa prices averaged $2,591/mt during the review period, 3.85% higher than an average of $2,495/mt recorded in November. The increase in price was driven by U.S. based chocolate maker, Hershey's, agreeing to pay a cocoa premium aimed at combating poverty among farmers in Ivory Coast and Ghana. However, this was tapered by news of the new COVID-19 strain, which led to new lockdowns in some European countries.



[16]

Outlook

Cocoa prices are expected to edge higher on growing supply concerns due to unfavourable weather conditions in Ivory Coast.

Impact

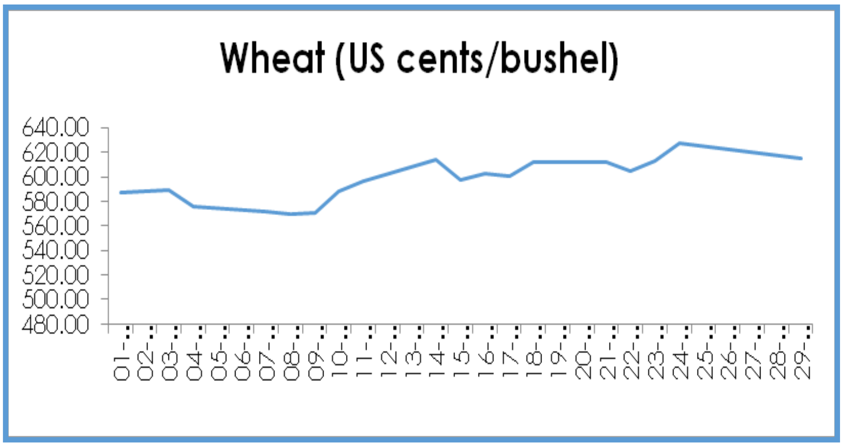
Nigeria is a major producer of cocoa globally and an uptick in the global price of cocoa bodes well for the country's non-oil export earnings.

[15]EIU
[16]Bloomberg

Imports

Wheat

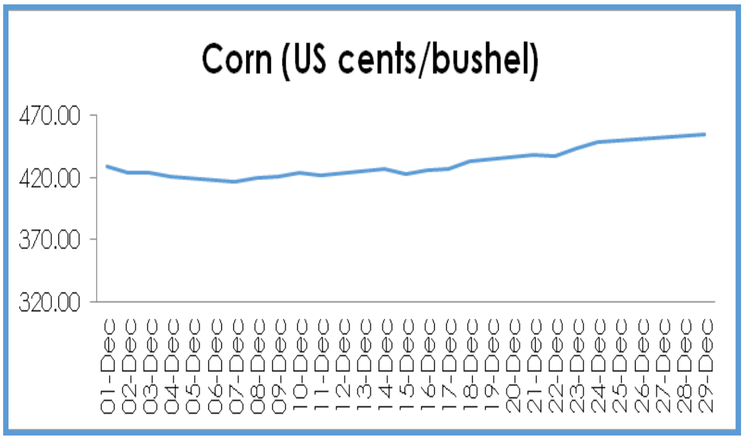
The average wheat price in the review period fell by 1.19% to $596.57/bushel from an average of $603.77/bushel recorded in November amid higher supply of wheat from Russia. In spite of supply concerns in Argentina caused by ongoing labor strikes.



[17]

Corn

Corn prices averaged $426.87/bushel in the review period, up 1.45% from $420.75/bushel recorded in November. The increase in the price of corn was driven by robust global demand.



[18]

Outlook -

The bullish trend of grains prices is expected to be sustained in the near term due to supply concerns.

The implementation of a wheat export tax will slowdown Russian wheat exports and support wheat prices in the coming months while corn prices are likely to be bearish due to prospects of a higher global corn supply.

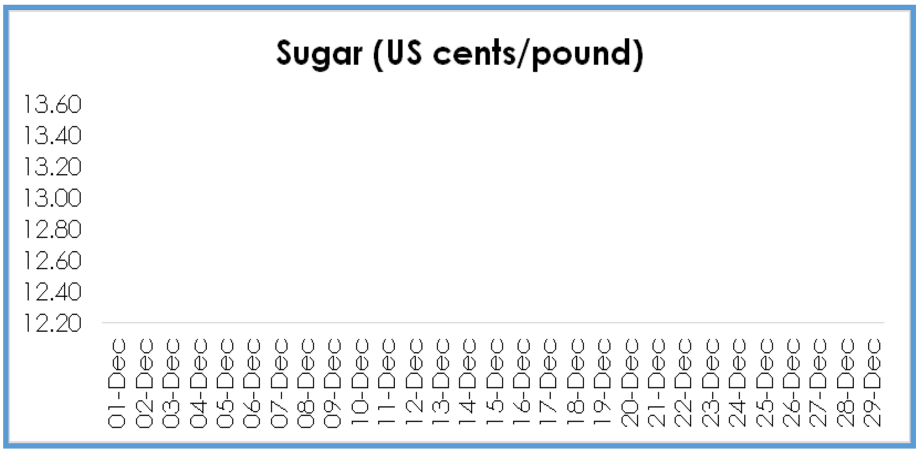
[17] Bloomberg
[18] Bloomberg

Impact

An increase in the global price of wheat would result in higher costs of production for companies in Nigeria that depend on wheat imports. Conversely, a fall in the price of corn will lower production costs for companies that depend on corn imports.

Sugar

The average price of sugar during the review period fell by 2.54% to $14.55/pound from $14.93/pound in November due to higher sugar production in India boosting global sugar supply amid prospects of increased supply from India.



[19]

Outlook

We expect sugar prices to decline further due to projections of a global supply surplus.

Impact

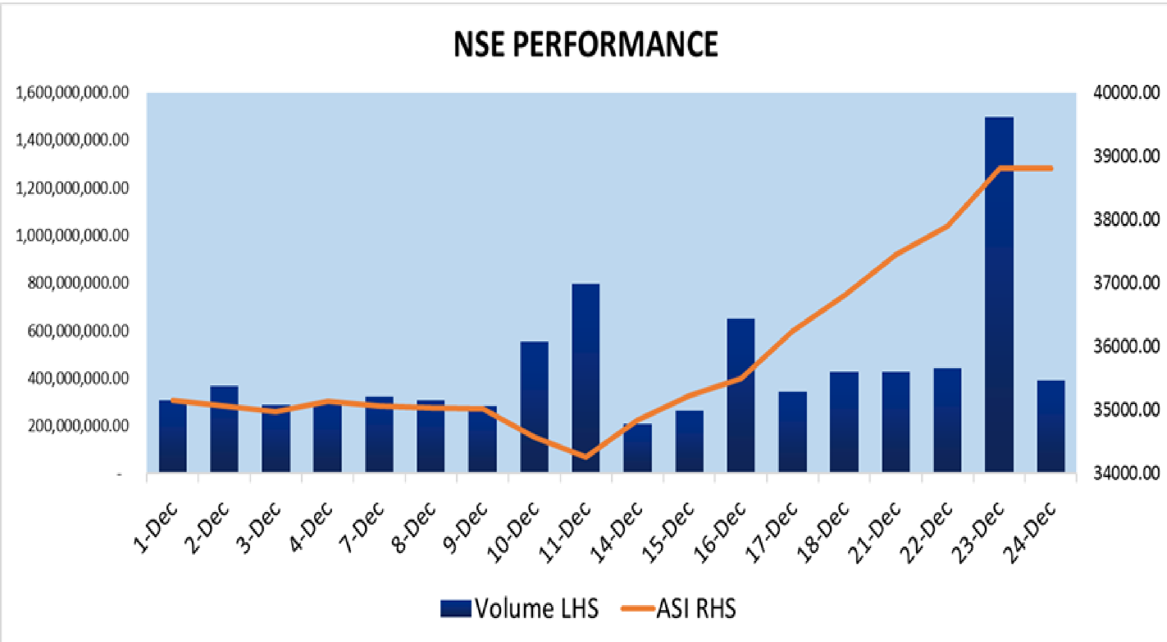
A decrease in global sugar prices is expected to lead to a fall in Nigeria's import bill, as the country is a huge importer of the commodity.

[19]Bloomberg

Stock Market Review

The Nigerian stock market closed on a positive note in December. It gained 10.72% to close at 38,800.01 points on December 24th relative to its close of 35,042.14 points on November 30th. In the same vein, market capitalization rose by 10.76% to N20.28trn from N18.31trn on November 30th. The market has gained 44.56% YTD. In the 18 trading days of the review period, the market gained in 10 days and lost in 8 days.

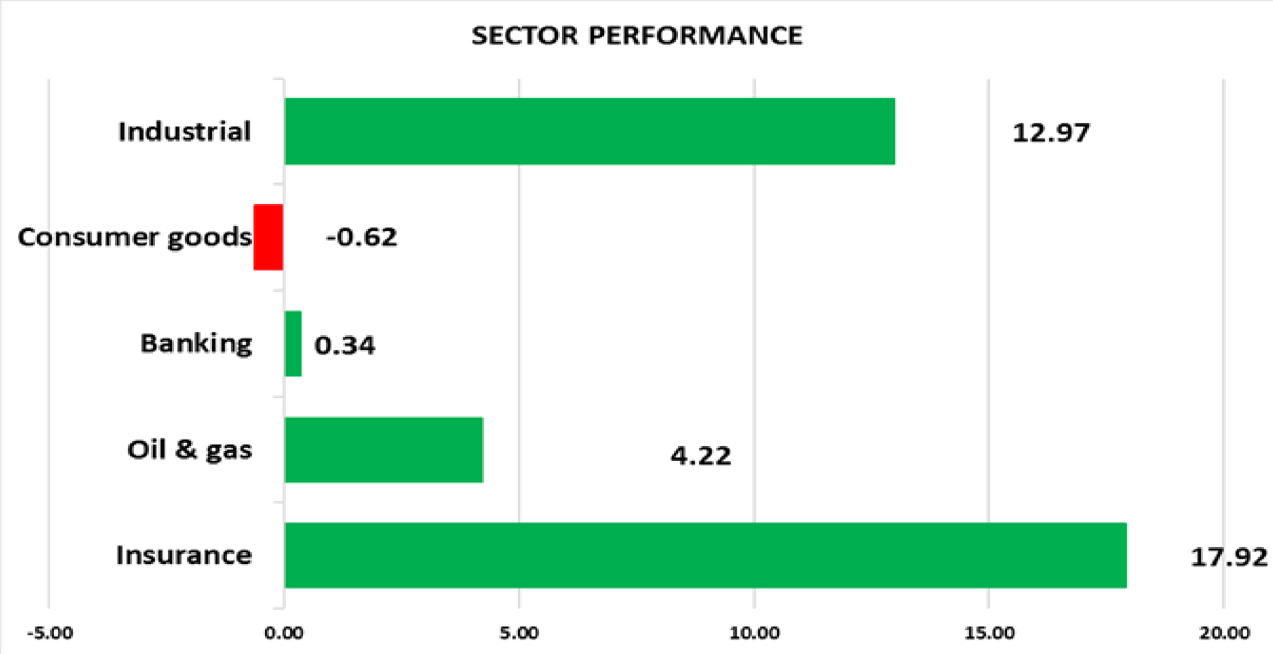
The NSE traded at a price to earnings (P/E) ratio of 14.66x on December 24th, 14.26% above the close on November 30th (12.83x). The market breadth was negative at 0.93x as 41 stocks gained, 76 stocks remained unchanged while 44 lost.



[20]

Market activity level was negative in the review period. The average volume traded was down 18.42% to 454.04mn units in the review period from 556.59mn units. Similarly, the average value of trades decreased by 18.20% to N5.53bn from N6.76bn in the review period.

[20]NSE and FDC Think tank



[21]

Four of the five sub-sector indices closed positive during the review period. The insurance sector (17.92%) gained the most, followed by industrial (12.97%), oil & gas (4.22%) and banking (0.34%). Only the consumer goods sector lost 0.62%.

FTN Cocoa Processors Plc topped the gainers' list with a 256% increase in its share price. This was followed by Japaul Gold and Ventures Plc (84.62%), Airtel Africa Plc (44.74%), Cutix Plc (40.52%) and BOC Gases Plc (28.51%).

TOP 5 GAINERS				
Company	Nov-30 (N)	Dec-24 (N)	Absolute Change	Change (%)
FTN Cocoa Processors Plc	0.25	0.89	0.64	256.00
Japaul Gold and Ventures Plc	0.26	0.48	0.22	84.62
Airtel Africa Plc	588.50	851.80	263.30	44.74
Cutix Plc	1.53	2.15	0.62	40.52
BOC Gases Plc	6.77	8.70	1.93	28.51

[21]NSE and FDC Think tank

The laggards this fortnight were AXA Mansard Insurance Plc (-56.25%), NEM Insurance Plc (-46.67%), International Breweries Plc (-17.83%), Omatek Ventures Plc (-16.67%) and Unity Bank Plc (-16.05%).

TOP 5 LOSERS				
Company	**Nov-30 (N)**	**Dec-24 (N)**	**Absolute Change**	**Change (%)**
AXA Mansard Insurance Plc	2.40	1.05	1.35	-56.25
NEM Insurance Plc	2.55	1.36	1.19	-46.67
International Breweries Plc	7.18	5.90	1.28	-17.83
Omatek Ventures Plc	0.24	0.20	0.04	-16.67
Unity Bank Plc	0.81	0.68	0.13	-16.05

Outlook

We expect that the positive performance of the market will be shortlived owing to lower market activity level and negative investor sentiment. Market breadth was negative at 0.93x in the review period.

Corporate Focus- Unilever Nigeria PLC

Analyst Note

Unilever Nigeria Plc, a subsidiary of British multinational consumer goods company, is engaged in the manufacture & marketing of food & food ingredients, and home & personal care products. The company has been around for years and has grown to be among the big players in the domestic consumer goods industry. However, the sector and companies operating in the industry are constrained and challenged. Domestic operational inefficiencies, coupled with weak consumer demand and forex illiquidity are some of the major issues encountered by companies operating in the industry.

However, in spite of the challenges and impact of Covid-19 on economic activities and consumer spending, Unilever Nigeria Plc's topline rose by 93.98% to N17.40bn in Q3'20 from N8.97bn in the same period in 2019. The company's gross margin also increased to 21.44% in Q3'20 from -19.06% in Q3'19 despite a higher cost of sales during the period. Prior to 2019, the company had maintained an average gross margin of 31%. While the Q3'20 report is a remarkable improvement, the company's cost of sales margin needs to return to an average of 68%, which will result in a higher gross margin and a reversal of the historical loss recorded for the 2019 financial year.

Market Capitalization: ₦79.86bn
Current Price: ₦13.90
Industry: Consumer Goods

Unilever's operating efficiency diminished drastically

Unilever's operating cost was significantly higher in Q3'20 compared to the same period in 2019, which is likely due to the fallout of the covid-induced containment measures. Selling and distribution expenses rose by 27.47% to N821.64mn in Q3'20 while marketing and administrative expenses was N3.91bn, 80.18% higher than N2.17bn in Q3'19. Unilever Nigeria Plc's high credit exposure has also made it a herculean task to translate revenue income into profit. Impairment loss on trade receivables spiked by over 300% in Q3'20. The company therefore recorded an operating loss of N1.45bn in Q3'20 despite a robust gross profit of N3.73bn during the period.

Unilever’s loss before tax stood at N2.03bn in Q3’20 an improvement from the N4.08bn recorded in Q3’19. In the same vein, the loss for the period fell to N1.54bn from N3bn in Q3’19.

Industry Overview

The consumer goods industry, a sub-sector of the manufacturing sector of the economy, plays a vital role in driving economic growth, because consumer spending is a key contributor to aggregate output, which drives growth in an economy. The Food, Beverages and Tobacco industry, which is a subset of the consumer goods industry recovered sharply in the third quarter, recording a growth of 5.57% from a contraction of 3.01% in Q2'20 and a positive growth of 2.98% in Q3'19. The manufacturing sector also recovered albeit still in a contraction of 1.51% from -8.78% in Q2'20. The sector grew at a rate of 1.1% a year ago (Q3'19). Consumer spending has been limited to more essential items like household supplies (food, groceries and personal care among others), rather than non-essential items (discretional spending) because of the covid-induced economic contraction and sharply lower consumer disposable income and demand. This has pushed non-essential traders down and out of the market.

The consumer goods industry in Nigeria is generally characterized by multinationals such as Unilever, Nestle, Cadbury, and PZ Cusson. The industry is also highly fragmented with little to no barrier to entry. Buyers' power continues to supersede suppliers' power, with the threat of substitution and the impact of regulatory policies on the industry significantly high. This year, most of the policy pronouncements have impacted negatively on the consumer goods industry. From higher petrol prices and electricity tariffs that led to higher operating costs, to the exchange rate adjustment, which led to a spike in imported goods. The weak consumer demand and disposable income made it difficult for manufacturers to pass the cost burden to consumers. In addition, a lot of manufacturing and trade companies were most affected by the fallout of the EndSARS protest, looting and destruction of properties with most without insurance. Therefore, the performance of the manufacturing, and wholesale and retail trade sectors in Q4 would be a deterioration from the previous quarter.

With the onset of the covid pandemic, e-commerce has grown significantly, although supply chain disruptions and logistics costs have pushed up prices and remain a challenge. The congestion of the Apapa and Tin Can ports, the major commercial ports of entry into Nigeria has also affected companies in the consumer goods industry. According to the FT, it can cost over $4,000 to truck a container 20km into Nigerian mainland, which is equivalent to the cost of shipping one 12,000 nautical miles from China. Ships awaiting berth at the Lagos ports have fallen sharply to 28 from 56 at the[22] start of the year, while several trucks are stuck in traffic for days or weeks waiting to enter and exit the ports.

Corporate profile

Unilever Nigeria is a member of Unilever Group, one of the world's leading consumer goods companies. It produces food, home and personal care brands used by 2.5 billion people globally. In line with the global strategic direction of the group company, the name Unilever Nigeria PLC was created in 2001, stemming from a series of mergers and acquisition that brought in Lipton Nigeria Limited in 1985, Cheesebrough Industries Limited in 1988 and Unilever Nigeria Limited in 1996. It is a multinational company with international and local brands in its portfolio. International brands include Close-Up, and Pepsodent toothpaste, LUX, and Lifebuoy soap, Rexona, Vaseline lotion and petroleum jelly in the personal care unit of the business. The foods unit includes Lipton Yellow Label Tea and Knorr bouillon cubes. The home care unit consists of OMO detergent, Sunlight washing powder, Sunlight washing bar soap and Sunlight dish washing liquid. Other regional and local products include the Pears baby products range, Radiant washing powder and Royco bouillon cubes. With manufacturing sites in Oregun, Lagos state and Agbara in Ogun state, the company believes in taking small everyday actions that can make a big difference for consumers and boost its unwavering confidence to remain a major player.

[22]**Nigeria Ports Authority**

The Board of Unilever Nigeria consists of seasoned professionals with sound knowledge and technical skills in the consumer goods space. His Majesty Nnaemeka A. Achebe CFR, MNI, Obi of Onitsha is the Chairman of the board. He is a well-travelled monarch, with extensive leadership experience having served as a director on numerous company boards.

Mr. Carl Raymond R. Cruz is the Managing Director of Unilever Nigeria. He holds a Bachelor of Science degree in Marketing from De La Salle University, Philippines. He has an extensive career in Unilever D & E Markets in Asia (Philippines, Thailand, India and Sri Lanka). Since joining Unilever in 1992, he has gained over 26 years' experience working in customer development, and in marketing roles across home care, beauty & personal care and foods.

More than 70% of Unilever Nigeria's ownership is strategically owned by these parent companies: Unilever Overseas Holdings BV Holland (UK) and Unilever Overseas Holdings BV control 72.32%, while Stanbic Nominees Nigeria Limited through a cumulative holding, controls 7.59% of the total shares.

Chairman

Nnaemeka A. Achebe
CFR,MINI Obi

Managing Director

Mr. Carl Raymond R. Cruz

Bulls and Bears say

Bulls Say:

- Strong brand equity
- Large footprints in Nigeria
- Strategic alliance and support from parent company provides a competitive advantage
- Potential to increase forex earnings by intensifying export drive, AfCFTA is a game changer
- Growing awareness and sophistication to drive sales in personal care segment

Bears Say

- Maturing food product segment and intense competition
- Difficult operating environment
- Weak consumer spending
- Increasing competition from smaller brands
- Cost containment remains a key constraint
- Slow economic growth
- Increase in parent company control to threaten minority shareholders' interest
- High import dependence exposes Unilever Nigeria to forex volatility

Economic Outlook for 2021

As the Pfizer and Moderna, and other vaccines become more widely distributed and more people are inoculated, the year 2021 is expected to be one of slow and painful ascent to recovery, growth and hope.

- The global economy is projected to grow at 5.2%, from an estimated contraction of 4.4% in 2020
- Average oil prices (Brent) are likely to recover to a range of $45pb and $50pb. Goodbye to the era of $80pb and above!
- SSA countries will all return to positive growth territory with an average growth rate of 2.2% for the region compared to 2020's estimate of -4.5%

- Most emerging and African countries will face another battle of a debt crisis as they survive and come out of a covid induced recession
- Nigeria is projected to record a positive growth of 1%- 1.2% in 2021
- The spike in covid cases if uncontained will trigger another lockdown; the effect of which will be more severe than the first and could keep Nigeria in a recession
- Low global oil prices will continue to exert pressure on the external position of the country
- The naira will oscillate between N450/$ and N470/$ in the parallel market
- Existing supply shocks, cost push factors and currency pressures will keep Nigeria's inflation rate elevated throughout the year
    - Projected to reach 16% before moderating towards the end of the year
- Interest rates will change direction to a gradual increase as price stability becomes a front burner issue again for the CBN
- This will increase the federal government's debt service costs which were low throughout 2020 due to the low interest rate environment