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In This Issue ...

CBN introduces 'Naira4dollar' Promo for Diaspora remittances

In a bid to sustain the increase in Diaspora remittances into the country, the Central Bank of Nigeria (CBN) has introduced a 'Naira-4-Dollar' promo. The promo, which takes effect from March 8, 2021 and ends on May 8, 2021, offers recipients of Diaspora remittances N5 for every $1 received as remittance inflow through licensed International Money Transfer Operators (IMTOs).

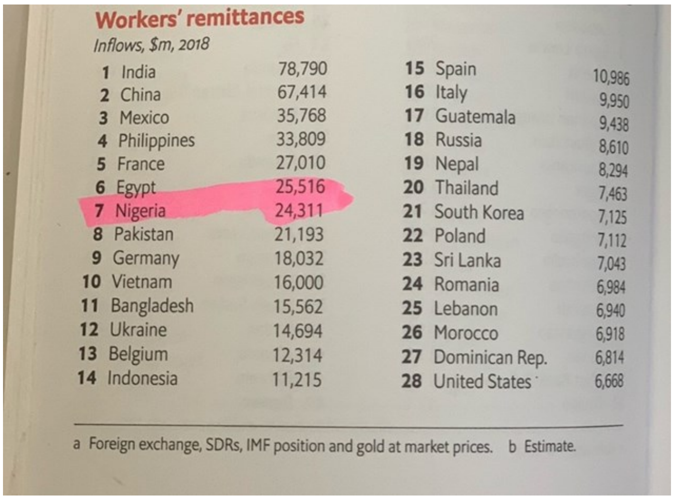
Some Facts

- Like Bangladesh and Pakistan, the CBN designed this promo to increase awareness and diaspora remittances inflows into the country through the IMTOs
- According to the Apex bank it should reduce the cost of remittances from the current cut-throat rates
- In nominal terms, the exchange rate is unchanged but in reality it is an effective 1% depreciation of the currency. The IEFX rate has fallen 4% YTD to N411/$

Implications

This initiative is expected to increase Diaspora remittances flow into the country, boosting forex supply. This will also stem the depletion in the gross external reserves level (currently at $34.88bn as at March 4).

Nigeria was the 7th largest recipient of remittances in 2018 behind India, China, Mexico, Philippines, France and Egypt. However, the World Bank projected a $2bn drop in Diaspora remittances into Nigeria to $21.7bn in 2020 from $23.8bn in 2019, due to the impact of the COVID-19 pandemic and the attendant economic crisis.



Workers' remittances

Inflows, $m, 2018

1	India	78,790	15	Spain	10,986
2	China	67,414	16	Italy	9,950
3	Mexico	35,768	17	Guatemala	9,438
4	Philippines	33,809	18	Russia	8,610
5	France	27,010	19	Nepal	8,294
6	Egypt	25,516	20	Thailand	7,463
7	Nigeria	24,311	21	South Korea	7,125
8	Pakistan	21,193	22	Poland	7,112
9	Germany	18,032	23	Sri Lanka	7,043
10	Vietnam	16,000	24	Romania	6,984
11	Bangladesh	15,562	25	Lebanon	6,940
12	Ukraine	14,694	26	Morocco	6,918
13	Belgium	12,314	27	Dominican Rep.	6,814
14	Indonesia	11,215	28	United States	6,668

a Foreign exchange, SDRs, IMF position and gold at market prices. b Estimate.

As forex supply increases, we expect demand pressures to ease with a possible naira appreciation especially at the parallel market. Year-to-date, the naira has lost 2.55% at the parallel market (currently trading at N482/$). More importantly, the new policy is likely to reduce the premium between the parallel market and the IEFX rates (currently at N71). It will also reduce the cost burden of remitting funds to Nigeria by Nigerians in the Diaspora.

Challenges

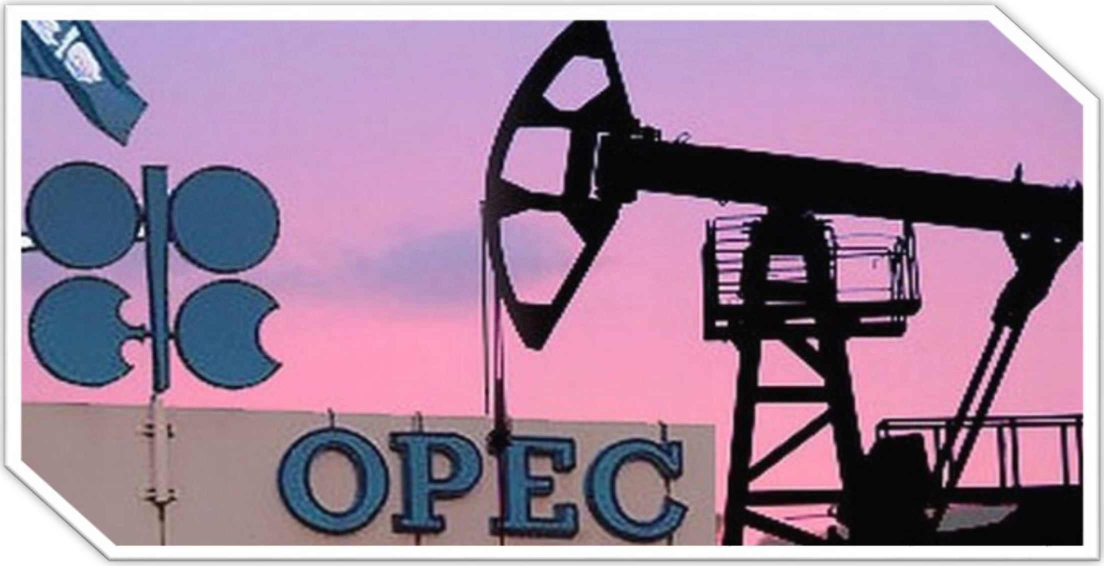
A potential risk to this development is that there will be attempts to roundtrip and arbitrage the system.

In addition, the current pandemic and furloughs could cut deep into the inflows. This is because foreign remittance is largely dependent on the economic conditions in the global economy, particularly the originating countries. According to PWC, the bulk of Nigeria's remittances flow came from the US, UK, Cameroon, Italy, Ghana, Spain, Germany, Benin Republic, Ireland and Canada in 2017. The good news is that all these countries are expected to recover from the COVID-induced recession in 2021 with an average growth rate of 4.3%.

Conclusion

More than anything else, efforts should be geared towards boosting forex inflows by scaling up non-oil exports. This requires sector specific policy initiatives to attract investors and develop the non-oil sector. The FG is proposing new taxes on petroleum products, telecoms and non-alcoholic beverages. While this boost government revenues, it poses significant threat on business growth.

OPEC (+) extends output cuts amid fears of an overheating



The Organization of Petroleum Exporting Country and its allies known as OPEC (+) surprisingly extended their ongoing output cuts (7.2mbpd) to April, allowing for an increase in production for just Russia (130,000bpd) and Kazakhstan (20,000bpd). This was contrary to market expectations, which expected a further relaxation or a stalemate as the two powerhouses – Saudi Arabia and Russia – were on opposing sides. This decision was based on the need to see concrete signs that global oil demand was rising. Prior to this, OPEC (+) had relaxed its production cuts by a total of 150,000bpd for two months (February and March), while Saudi Arabia reduced its production by 1mbpd for two months (starting February). Saudi's 1mbpd voluntary cut is expected to continue for an undisclosed period of time.

Impact Analysis

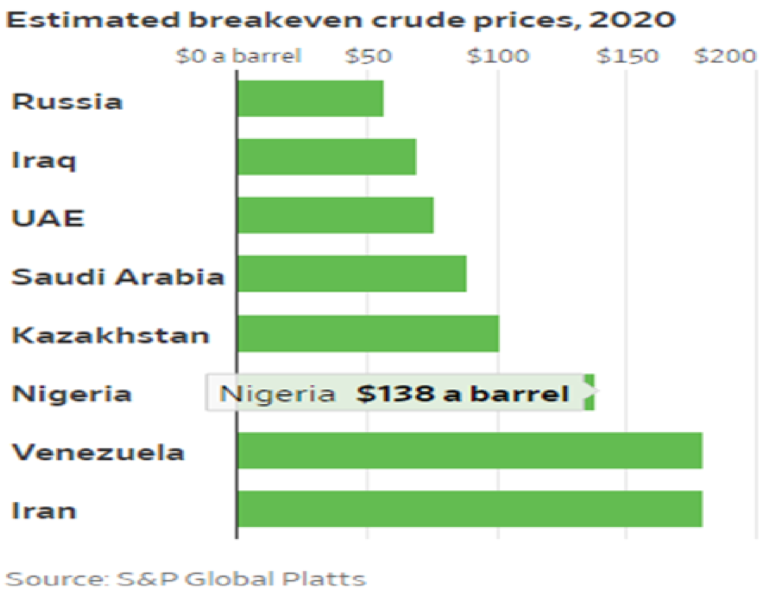
Oil prices rallied higher immediately after the release of the outcome of the meeting, trading to a new one-year high. Brent crude rose to almost $68pb, while the US West Texas Intermediate neared $65pb. So far in March, oil prices (Brent) have increased by 92.47% to an average of $64.92pb compared to the corresponding period in 2020. Oil prices have been on the increase, supported by improving Asian fuel demand and the distribution of covid vaccines, which have boosted market sentiment of a quick recovery in global oil demand.

This is occurring at a time when the prices of global commodities are on the increase and inflationary pressures are rising especially in emerging markets. There are fears that the tightening stance of the oil cartel could lead to an overheating of the global economy. The rollout of more covid vaccines, strengthening economies and government stimulus have contributed to higher commodity prices.

Rising inflation means that returns on investments would fall barring upward adjustments of interest rates by the monetary authorities to support yields. Adopting a tightened stance now may be premature for many economies that are still battling with negative growth rates and in need of significant stimulus to boost their economies. In Africa for instance, Nigeria despite posting a surprise positive growth of 0.11% in Q4'20, is not yet out of the woods and has an inflation rate that could cross 17% in February.

Oil prices at $68 still below Nigeria's breakeven point of $138pb

For Nigeria, oil prices at approximately $68pb is good news. This is 70% above the 2021 budget of $40pb. However, this is still significantly lower (50.72%) than the country's breakeven point of $138pb, according to an S&P Global Platts data. Russia has the lowest breakeven price point of $57pb, followed by Saudi Arabia with $89pb. This means that only Russia is technically in the money at the current oil price.



Higher oil prices will also offset the decline in Nigeria's oil output. Nigeria has an OPEC quota of 1.5mbpd as against its production budget benchmark of 1.86mbpd. The country produced

1.34mbpd in January, 10.67% below its quota and 27.96% below the budget benchmark, to make up for past cheating of its OPEC quota.

Nigeria's monolithic economy is dependent on the oil sector, which contracted further by 19.76% in Q4'20 and contributes a mere 5.87% to GDP. However, in revenue and external reserves terms, oil accounts for over 70% and 90% respectively. Higher oil prices will slow the pace of depletion in Nigeria's external reserves, which has declined so far this year by 1.27% ($450mn) to $34.92bn as at March 3. The federal government's deficit financing needs (projected at N5.6trn), which is exclusive of the funding for the covid vaccines, could reduce on higher oil revenues. Monthly statutory allocation to state governments will likely increase beyond N700bn, which will help the states meet their financial obligations. The downside is the resultant increase in petrol prices that would most likely occur if global oil prices continue to rise and the naira continues to fall at the IEFX window. Currently, the government and organized labour are yet to finalize on next steps. One thing is clear, the era of subsidies is gone; it is just a matter of time and how much more Nigerians are going to be paying to buy a litre of fuel.

Risk of ideological backsliding

A major risk to higher oil prices is the reversal of key economic reforms put in place by the Nigerian government to bridge the deficit gap, boost the growth and development of the economy. With the gradual shift to electric vehicles, oil is gradually becoming obsolescent and this will lead to a drop in investment by the oil majors. Lack of investment will disincentivize production and could lead to a further increase in oil prices to triple digits.

Outlook

The demand for crude oil will continue to increase as more countries inoculate their residents. This will fast track the recovery process, the lifting of lockdowns, the reopening of economies and resumption of key business activities. OPEC (+) will meet again on April 1 to decide production levels for May. The World Bank projects that the global economy will grow by 4% from an estimated contraction of 4.3% in 2020. Oil prices are also projected to cross the $70pb threshold in the next month or two.

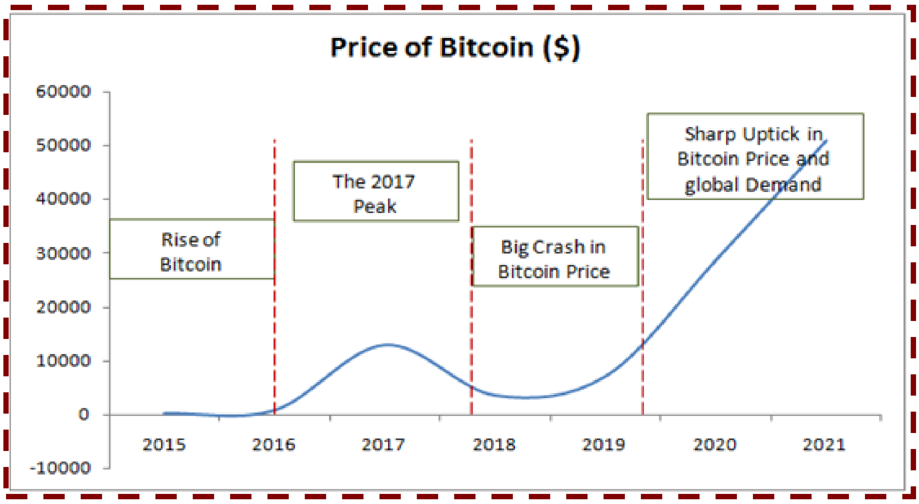
A global recovery will benefit Nigeria, which is highly import dependent, as this means more trade flows. An increase in production will suppress the price increase of global commodities. In addition, we expect to see new projects being embarked upon and a resumption of halted projects. Investment flows will also increase, while remittances will pick up as businesses employ more. Increased investment flows and diaspora remittances will support the Nigerian growth process.

Cryptocurrency Ban and its Economic Implications

In the last four years, cryptocurrencies, especially Bitcoin have become ubiquitous, prompting both global and domestic monetary authorities to devise a means to regulate and accept their usage. In 2017, the price of Bitcoin jumped from $900 in January to about $20,000 by the year end. Digital currencies have proved to be highly volatile and risky, forcing several regulatory bodies, including the Central Bank of Nigeria, to warn against huge investments in the crypto market, especially after the crash of Bitcoin in 2018. Fast forward to 2021, the global economy is now embracing the digital currency as not only a medium of exchange but also a source of risk and store of value. Elon Musk, recently purchased $1.5bn worth of Bitcoin, and MasterCard will begin to facilitate cryptocurrency transactions in 2021.

The price of Bitcoin recently skyrocketed to a record high of $51,000, up 5566.67% from its value four years ago before falling to $46,000. In Nigeria, the crypto market expanded so much that the volume of Bitcoin traded monthly is estimated at $200mn according to BuyCoins, one of Nigeria's largest cryptocurrency exchanges.[1]

[1] Stears Business (2021). "Cryptocurrency: How the CBN restriction cuts off exchanges". https://www.stearsng.com/article/cryptocurrency-how-the-cbn-restriction-cuts-off-exchanges



[2]

"The value of Bitcoin grew by over 50% in 2020 alone"

Crypto vs naira - the big difference

Functions of Money	**Naira**	**Cryptocurrency**
Store of Value	✓	✓
Medium of Exchange	✓	✓
Unit of Account	✓	✓
Legal Tender	✓	✗

"Bitcoin is not yet regularized as a legal tender" If it becomes a legal tender, it could replace the USD as the biggest and most convertible currency in the world.

CBN's ban on cryptocurrency

The CBN prohibited the facilitation of cryptocurrency transactions by commercial banks and other financial institutions in the country. This prompted the Securities Exchange Commission to pause its plans to formalize cryptocurrencies as securities under its remit. The CBN is particularly concerned about the high risk of the digital asset class and the use of the currency for money laundering, terrorism financing and tax evasion. However, these financial crime concerns existed in the country long before the crypto market rose in popularity. In addition, only 1.1% of the total $1 trillion global crypto transactions in 2019 were illicit.[3]

[2]Statista, FDC Think Tank
[3]Chain Analysis (2020). "Only 1% of $1 Trillion Transacted in Crypto in 2019 Was Illicit" https://cointelegraph.com/news/chainalysis-only-1-of-1-trillion-transacted-in-crypto-in-2019-was-illicit

As Quartz explains, laundering money using cryptocurrency is like stealing from a jewelry store but leaving the map to your house at the crime scene.[4] This is because all cryptocurrency transactions may not carry your real name but there is an ID reference and the details of all transactions made with that ID can be traced. The pseudonymous nature of cryptocurrency somewhat validates the CBN's concerns. But the truth remains that cryptocurrency is an emerging market with a huge potential for job creation and investment which is being undermined by arbitrary policy regulations.

Economic implications

Investment

The recent ban on cryptocurrency transactions could taper investment flows into the country as global investors are beginning to heavily eye the cryptocurrency space. Just recently, Jay Z and Jack Dorsey announced a $23.6mn investment to fund Bitcoin development in Africa. In addition, there is a fast growing interest from Wall Street and the big players in the financial industry, such as JP Morgan and Morgan Stanley. This signals a huge potential for the crypto market in the coming years. There are high expectations of reduced volatility as investors could begin to increase cryptocurrency investments in emerging markets. This is good news but with the largest consuming market in Africa banning cryptocurrency transactions, this could limit potential investment inflows that would boost economic growth.

Shadow economy

Bitcoin was created for the sole purpose of reducing bottlenecks in financial transactions, particularly across borders. The ban is unlikely to completely stop all transactions. What is more likely is the rise of a crypto shadow economy in Nigeria, which could now increase the chances of money laundering and illicit financial flows. There would be no more advertisements by popular exchanges on social media platforms and no transactions using financial institutions.

Capital flight

The move by the CBN may fuel the pessimism of existing and potential investors (domestic and foreign) who were already skeptical about the uncertain policy environment. The attendant effect could be an increase in capital outflows, which is risky for the naira and infrastructure development.

[4] Quartz (2019). "Bitcoin money laundering is a classically dumb crime" https://qz.com/1761343/bitcoin-money-laundering-is-a-classically-stupid-crime/

Poverty and unemployment

The fast expansion of the Nigerian crypto market has created numerous jobs especially for the youths. The ban will affect individual home-based traders and these traders often have employees of their own. Stopping the operations of the emerging crypto market means more job loss, and this could trigger a faster increase in the rate of unemployment which is already at 27.1% (Q2'20).

Conclusion

From all indications, the crypto market is not going anywhere soon. Therefore, it is vital for the CBN to invest in understanding the market and utilizing it to attract much-needed investment inflows. The CBN could also regulate the cryptocurrency exchanges and issue guidelines to encourage forex inflows through these platforms, similar to its recent guidelines on diaspora remittances. The macroeconomic picture is still not inviting, and an uncertain policy environment coupled with multiple exchange rates will keep investors skeptical. Nigeria is already high risk for investors and with the rising total debt stock ($84.57mn as of September 2020), a widening fiscal deficit (estimated at N5.6trn) and an infrastructure gap estimated at $100bn annually, there is need for fiscal and monetary policy consolidation to attract investment. An increase in capital inflows will boost productivity and output levels.

Nigerian crypto investors defy crackdown to ride bitcoin frenzy

Global Perspective : Culled from Financial Times

"Central bank warnings of danger rebound amid sense of euphoria among wide pool of retail traders"

With savings of just under $80 and a salary of $50 a month, Promise Nwabueze, a social media manager in south-east Nigeria, decided to invest all he had into cryptocurrency. The gamble paid off. Within months, his savings had increased fivefold. They have continued to rise ever since.

"Presently my total net worth is $2,500 — I'm sorry I'm being so excited, but it's incredible," he laughed, speaking by phone from Benin City, where he was teaching a class on crypto trading. "Now I am teaching so many people because the idea is to lift up [people] in Nigeria."

Africa may have the world's smallest crypto market, with just a 2% share of global trade, according to a 2020 report by US blockchain research firm Chainalysis. But, with the value of bitcoin in circulation just under $1tn and each bitcoin selling for about $50,000, it has the largest proportion of retail users doing transactions under $10,000, according to Chainalysis.

Some observers, including the Central Bank of Nigeria, have expressed concerns that inexperienced investors could lose their meagre savings gambling on a highly speculative asset. "Small retail and unsophisticated investors also face high probability of loss due to the high volatility of the investments in recent times," the bank said, as it sought to clamp down on the trade. Bitcoin experienced a similarly wild upswing in 2017, only to then plunge 80 per cent from its peak.

But Idayat Hassan, head of the Abuja-based Centre for Democracy and Development, said the crypto rally has been so strong that "citizens are not concerned about the potential losses but instead the immediate gains they make . . . because they are not losing". There's a sense of euphoria in part because it "gives the young people hope and represents opportunities" in a country where joblessness is rife, she said, noting that even her father was interested in trading cryptocurrencies.

"We are the poverty capital of the world," Nwabueze said, explaining the popularity of cryptocurrencies. "The economic strength of our country is not really encouraging — our GDP, our inflation, unemployment is on the rise, and the jobs that are available do not really pay enough to put food on your table."

Nigerians turned to bitcoin when the government froze the bank accounts of leaders of the EndSARS protests against police brutality that swept the country last autumn. Supporters began donating to the cause using bitcoin, a practice that was encouraged by the likes of Twitter chief executive Jack Dorsey.

The frenzy over digital currencies prompted the central bank to reiterate 2017 guidance prohibiting local banks from serving customers with crypto accounts. In a memo this month defending its decision, the bank argued that cryptocurrencies were prone to use by criminals, drug traffickers and terrorists. But the central bank's message "had the opposite effect the CBN wanted it to have", said Ibukun Akinnawo, who hosts an investment club for mostly Nigerian 9-to-5ers on the social networking app Clubhouse and has invested in digital currencies. "People were now really wanting to talk about crypto."

In the wake of the crackdown, Nigerian traders turned to peer-to-peer markets, which allow users to sell digital money to each other in exchange for real money or other digital currencies.

Yele Bademosi, the founder of Bundle, a Nigerian crypto and cash payments app, said volumes on his exchange remained high after the central bank ruling because people relied on peer-to-peer markets. He said the CBN crackdown could push crypto the way of the Nigerian naira, the local currency in which there is a thriving black market. "It's going to look a lot more like the parallel market FX situation," he said.

Victor Asemota, an investor and longtime leader of the Nigerian tech scene, attributed demand for cryptocurrencies to the CBN's efforts to prop up the naira. These efforts have been criticized by the IMF and World Bank. Officially, the naira trades at about 380 to the dollar, compared to roughly 470 on the black, or parallel, market.

He argued that the bank's latest pronouncement would hit already weak foreign investment into Nigeria, alarming investors who might have thought of using digital currencies to repatriate funds. "What everyone has always been afraid of is that Nigerian government policies are inconsistent," said Asemota. The move shows "the government is totally out of touch with the economy".

A senior banking executive said the CBN's policy had annoyed "the kids". "They are hopping mad! They see this as a deliberate attempt by the authorities to stifle their financial independence, especially given the role crypto played in the EndSARS protest," he said. "To the rest of us gnarled, old cynics, it's just par for the CBN course of stifling anything and everything they don't understand or can't fully control."

For now, investors are sanguine about the chance of losses, focusing instead on the possibilities offered by cryptocurrencies. Chinyere Ofoegbu, 30, saved up $150 while working an office job that paid $210 a month, invested in crypto and says she has seen her savings grow. "I'm not one that likes to badmouth my country, but it can be really, really difficult being a Nigerian and living in Nigeria," she said. "These people have a lot of responsibilities and don't want to commit fraud . . . so people are looking for safe, healthy alternatives. And that is where cryptocurrency comes in."

Nwabueze warns his students about risk, and makes clear he's not offering financial advice to avoid liability. But "losing is part of the game", he said. "If you don't lose, you can't win. If you don't want to lose then put your money in the bank and get your 2 per cent. But if you [want] to make money, you should know that it's going to be a rough ride."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Log on to www.fidelitybank.ng or sme.fidelitybank.ng to get your business account in 5 minutes!
STAY safe

Cybersecurity and the Public Good Argument

Increased internet connectivity globally means more and more businesses and individuals are increasingly reliant on online activity and transactions. COVID-19, and the resultant need for businesses to work remotely, accelerated this shift. But increased online activity also comes with a conundrum. Should the internet, by extension, the security of the internet be labeled a public good?

What is a Public Good?

A public good, by definition, refers to services provided to all members of the public – mostly for free and typically financed through public taxation. Economists agree that before a good can be described as public it must possess two distinct attributes: it must be "non-excludable" and "non-rivalrous". While the former means that it is almost impossible to exclude anyone from using the good, the latter means the use of the good by one user does not prevent the use of the good by others. The most common examples of public goods are government services like national defense, police and public healthcare services.

The safety and security of lives and property (tangible and intangible) are one of the crucial pillars on which successful societies are built. Its relevance in stimulating investment, limiting uncertainty and fostering economic growth and development cannot be overstated. So, individuals and businesses pay taxes to governments who in turn provide security for all of society.

Is the internet a Public Good?

Internet infrastructure globally is mostly privately owned and deployed for profit. Internet service providers usually charge users subscription fees that are commensurate with the amount of bandwidth the users consume. The "non-excludability" characteristic of a public good means that the cost of keeping non-payers from benefitting from the good or service is prohibitive. Going by the aforementioned, internet access in itself cannot be defined as a public good. But while our lives increasingly depend on digital infrastructure to function optimally and governments, businesses and individuals reap the benefits of convenience, lower operating and transactions costs, access to information and a global marketplace, the potential threats have kept many on the edge and constantly looking over their shoulders.

The Cyber threat is Unprecedented

The sheer magnitude of the threat is one that we are unable to capture as it continues to grow in sophistication, frequency and potential impact. The integration of the internet to almost every other form of technology makes the cyber security risk even more elevated. Everything from identity theft to stealing data with the objective of modifying a machine's behavior is possible. Monetary losses are very common but artificial intelligence designed to breach national security or threaten financial system stability is something every country would consider an elevated risk.

In much the same way that security is a crucial enabler for thriving societies, cyber security is fundamental in nurturing development and technological progress in the digital space as well as unlocking the potential of digital technologies while ensuring that the outcomes are beneficial to society.

The malicious use of digital technology is one that comes with anonymity and almost consistently leaves efforts and investments in improving cybersecurity playing catch up. Many companies are investing heavily in cybersecurity with the value of the global market estimated to grow at a compound annual average of 15% in 2020-26 to reach $400bn by 2026.[5] This is expected to be driven by the ever-increasing demand for robust and secure networks by businesses and governments for safe data accessibility as they progressively migrate their core businesses to digital platforms.

[5]https://www.gminsights.com/industry-analysis/cybersecurity-market

For the companies who choose not to deploy cybersecurity measures, they leave themselves at the mercy of on-line bandits who cost the world economy more than $1 trillion in 2020 – up by over 50% from $600bn in 2018.[6] Beyond the monetary losses and the attendant system downtime that accompany these cyber attacks, the theft of intellectual property is particularly damaging. So while some governments and corporations have the resources to constantly reinforce measures aimed at protecting themselves, others do not and risk falling victims.

A case for market failure

Typically, economists make the case for government intervention only when some kind of "market failure" has occurred. This is a situation where individual incentives for rational behavior do not amount to rational outcomes for the collective and leads to an inefficient distribution of goods and services in the free market. In the case of the internet, cyber criminals prey on the un-protected and, through innovation, continue to device ways to penetrate even the most encrypted digital fortresses while remaining anonymous for the most part. They do so because they can -and will continue to do so until they can't. The incentive to continue to sharpen and deploy their hack-ing skills far outweighs the incentive to not do so. What they consider rational behavior is clearly detrimental to an increasingly digital world and will not amount to rational outcomes.

Therefore, for shared prosperity in a secured digital future, the investments in cyber security and the incentive for improvements cannot be less than the incentive for cybercriminals to innovate. Playing catch-up is not an option. There is way too much at stake. Government intervention is therefore necessary and cyber security simply has to be viewed as a public good. Strengthening and securing the digital space requires collective action by all relevant stakeholders while the bur-den of the cost has to be shared among them equitably.

[6] https://www.businesswire.com/news/home/20201206005011/en/New-McAfee-Report-Estimates-Global-Cybercrime-Losses-to-Exceed-1-Trillion#:~:text=The%20report%2C%20conducted%20in%20partnership,at%20close%20to%20%24600%20billion.


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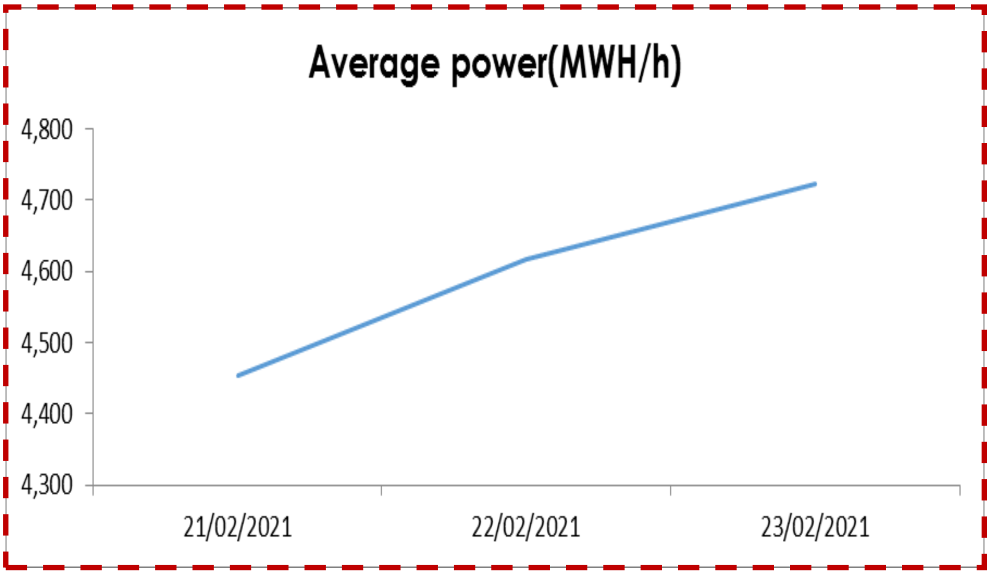
Macroeconomic Indicators

Power Sector

The average on-grid power output was 4,598MWh/h, 2.63% higher than the average of 4,480MWh/h in the corresponding period in January. The major constraints were gas and water distribution challenges from the DISCOs. In the review period, the estimated annualized financial loss of the power sector was N909.58bn.



[7]

Outlook

It is still the dry season and as expected, water constraints have continued to rise. A further review shows that for the month of February, water constraints have risen significantly by 1,142% to 324.2MWH/h from 26.1MWH/. With water constraints on the rise, the average power supply is projected to fall to a range of 4,500-4,550MWh/h in March. However, this constraint is expected to ease gradually as we approach the rainy seasons.

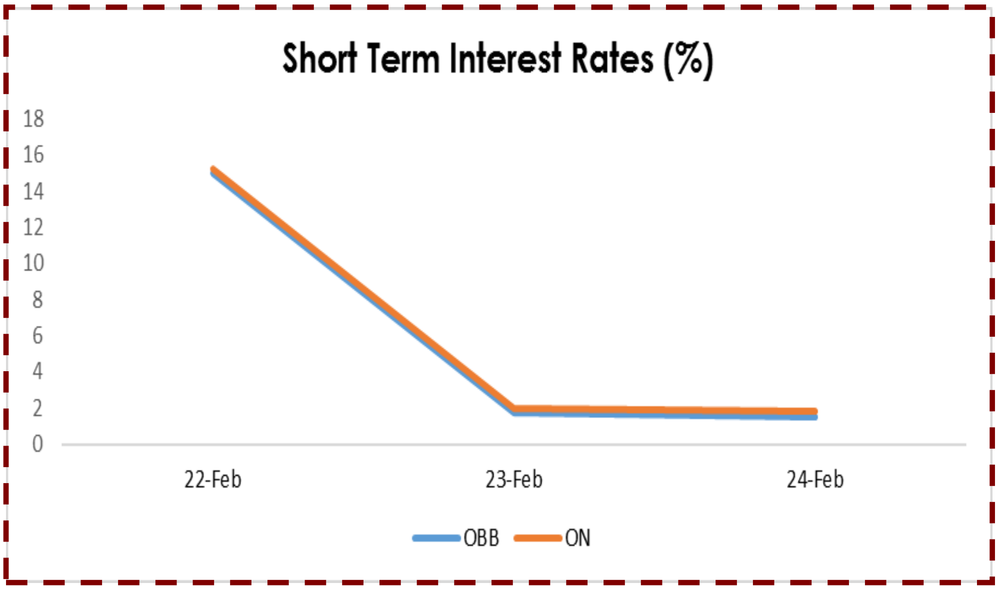
Impact

The rise in average on-grid power output would automatically cut down the use of alternative forms of energy. An increase in power output would cut down cost of production and increase savings for households

[7]FDC Think Thank

Money Market

The average opening position of the interbank money market decreased by 61.66% to N333.93billion in the review period from N870.96billion in the review period. This was due to reduced liquidity in the system reflective of an OMO repayment of N423.79bn towards the end of the review period in February. The short term interbank rates (OBB, O/N) fell by an average of 403bps to 6.22% p.a. from an average of 10.25% p.a. recorded in the review period of January respectively. In the review period, there were no OMO bills issuances but an OMO repayment of N423.79bn was recorded. However, short-term interbank rates have gradually decreased to 1.5% (OBB) and 1.83% (ON) due to excess liquidity in the system which has been largely attributed to inflows from the FAAC disbursement and an OMO repayment of N423.79bn for the review period in February.



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Outlook

We expect the CBN to mop up liquidity in the money market through OMO sales to further push up interest rates. On the other hand, the MPC has been scheduled to meet on March 23/24.

Impact

An increase in interest rate would push up forex inflows in the money market. This would in turn drive the need to save.

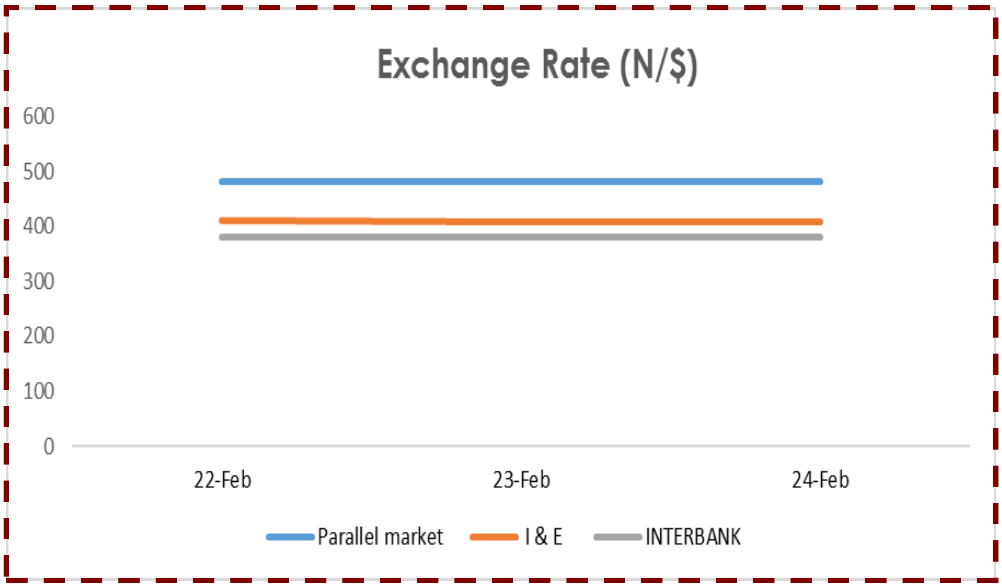
[8]FDC Think Thank

Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate 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 intervention 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 has continued to trade flat against the dollar at N480/$ during the review period. While at the IEFX window, the naira appreciated by 0.29% to close the review period at N408.8/$ from N410/$. However, the average daily turnover during the review period in February was $129.46mn.



[9]

Outlook

We expect the CBN to continue its intervention with the hope that the exchange rate at the parallel market would continue to remain stable in the near term on higher oil prices.

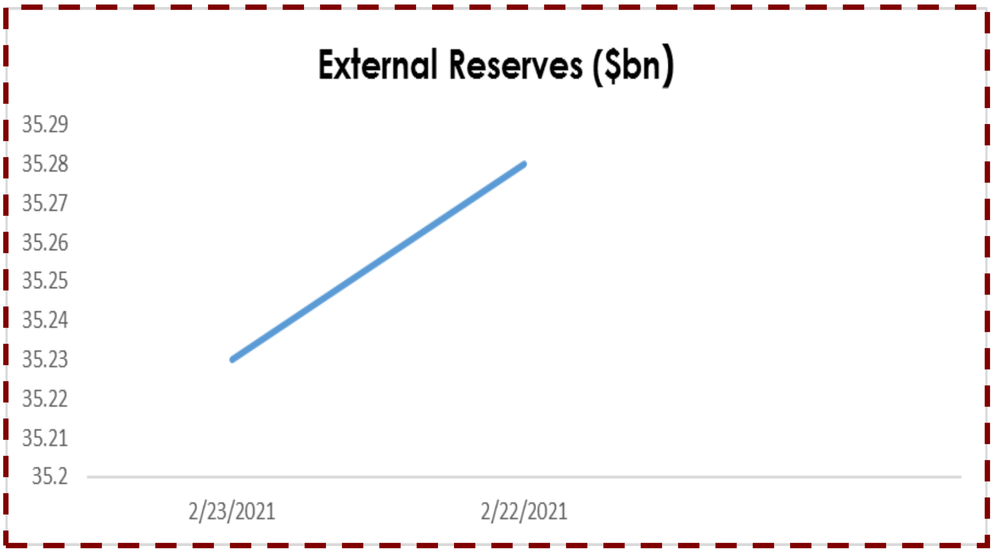
Impact

An increase in currency pressures at the parallel and I & E window, would weaken the value of the naira as the cost of imported goods will continue to soar.

[9]FDC Think Thank

External Reserves

Nigeria's gross external reserves declined by 3.63% from $36.51bn on January 21 to $35.23bn during the review period in February. This was driven by limited forex inflows during the review period. However, with oil prices above $66pb, we expect a slowdown in the pace of external reserves depletion. The country's imports and payments cover decreased to 9.46 months on February 23 from 9.47 months on February 22.



[10]

Outlook

Higher oil prices are positive for Nigeria's gross external reserves and we expect the pace of reserves depletion to slow as oil prices remain high and boost forex inflows.

Impact

Higher oil prices will limit the pace of depletion in the external reserves level will receive some support. We therefore expect currency pressures to ease as the CBN increases its forex supply. This would help ease off pressures at the forex market.

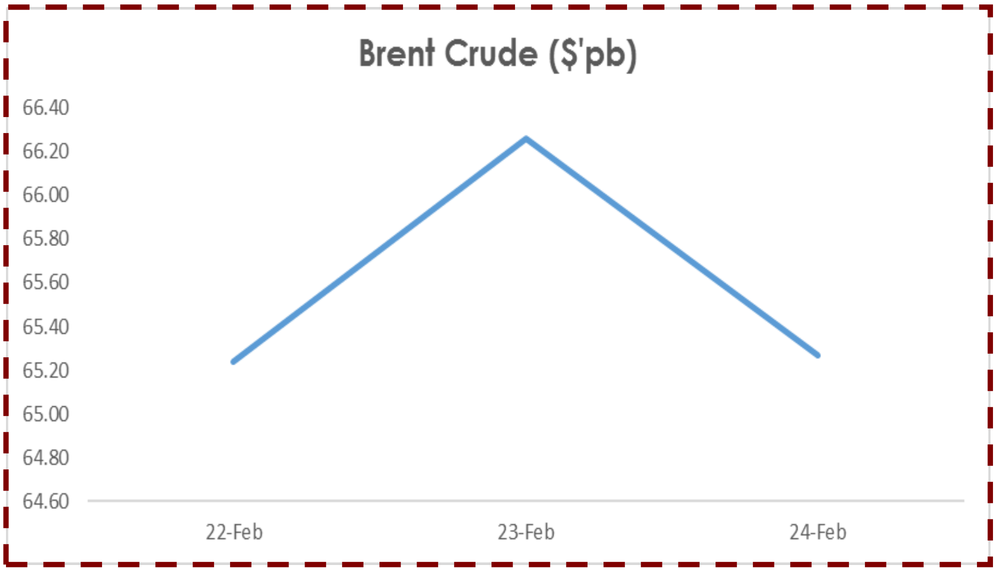
[10]FDC Think Thank

Commodities Market - Exports

Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

During the review period, the average price of Brent was $65.59pb, 18.46% higher than $55.37pb recorded in January. The increase in prices was driven by tight market supply and positive market optimism amid vaccine rollouts in many countries. So far, major OPEC members (Saudi Arabia and Iraq) have pledged to reduce their production levels.



[11]

Outlook

We expect oil prices to stay in above $65pb in the near term on tightening supply and hopes of vaccine rollout across countries.

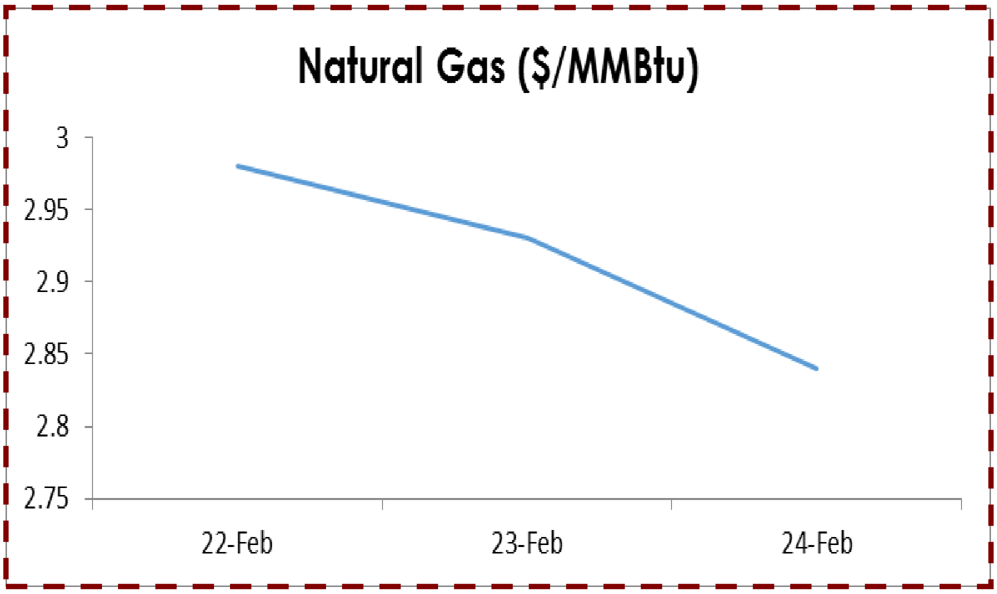
Impact

Higher oil prices and increasing forex receipts will boost Nigeria's export earnings and slow down the pace of external reserves depletion. However, PMS prices will rise to reflect rising global oil prices.

[11] FDC Think Thank

Natural Gas

The price of natural gas fell by 4.69% to $2.84/mmbtu in February 24 from $2.98/mmbtu in February 22. The fall in price was driven by weak demand for heat from the US (Texas).



[12]

Outlook

We expect prices to ease in March as the winter season gives way to the spring season in many parts of the world and the global demand for heat falls as result.

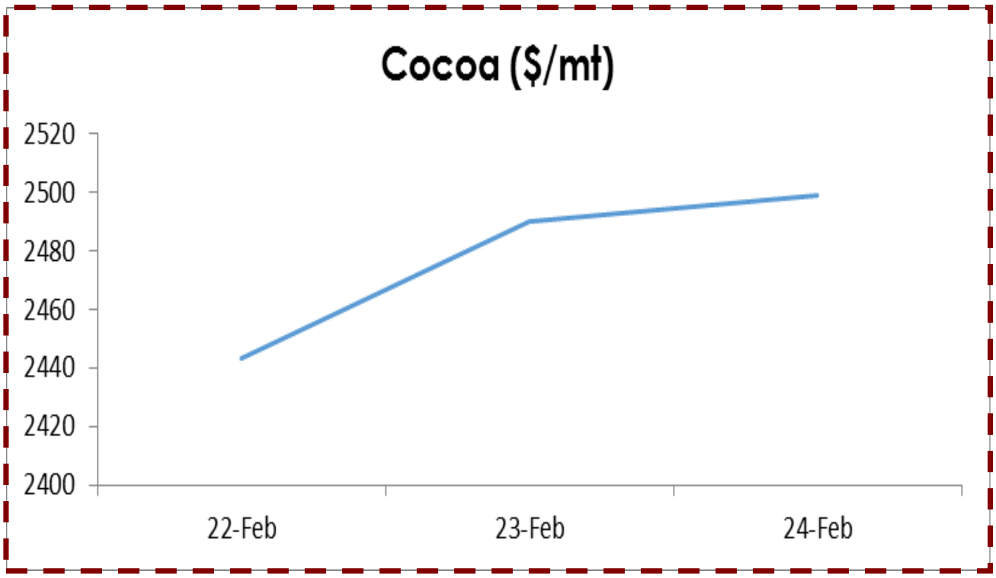
Impact

A fall in the global price of natural gas will be negative to Nigeria's LNG export earnings. However, we expect the pace of price fall to continue in the near term as we approach spring.

Cocoa

The price of cocoa rose by 2.29% to $2,499/mt from $2,443/mt during the review period. This was primarily driven by the increase in global chocolate demand from Europe.

[12]FDC Think Thank



13

Outlook

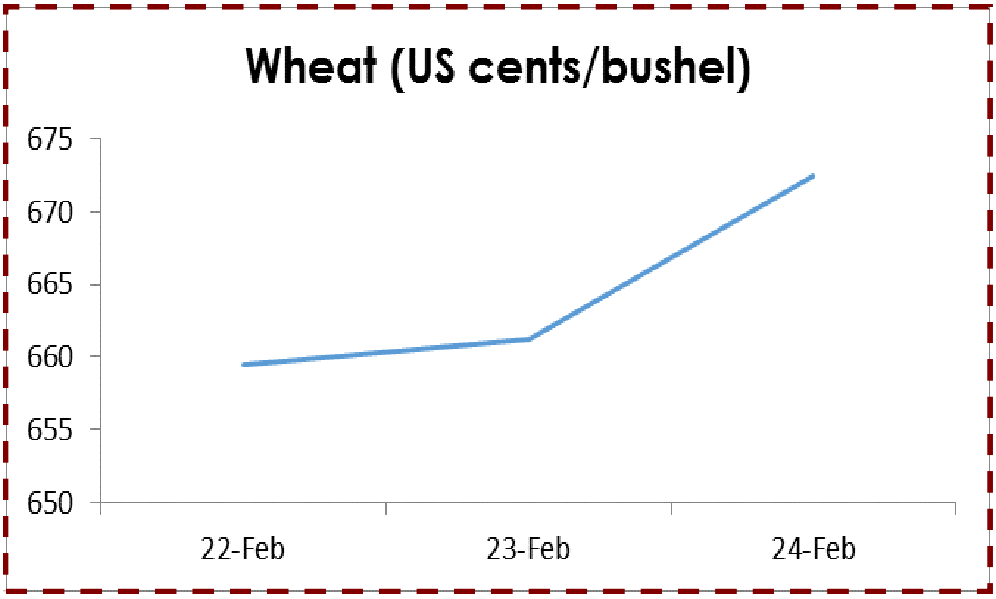
Cocoa prices could continue to rise on strong global demand for chocolate following a tight market supply

Impact

A rise in cocoa prices is positive on Nigeria's export earnings.

Wheat

The price of wheat has continued to edge higher in the global market. Wheat prices rose by 1.97% to $672.5/bushel from $659.5/bushel in the review period. The increase in price was driven by unfavorable weather conditions in major wheat producing countries which has affected global supply for wheat.



14

[13] FDC Think Thank
[14] FDC Think Thank

Outlook

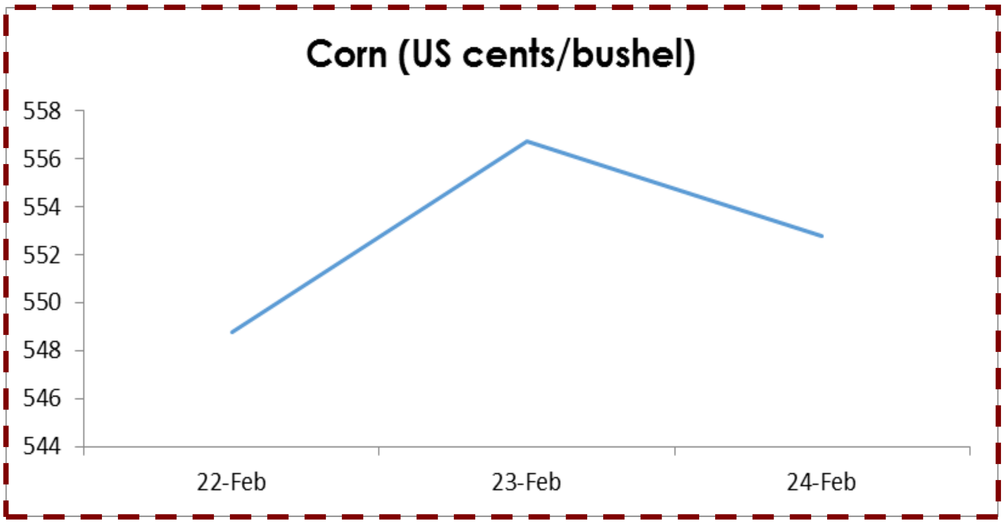
We expect prices to maintain the upward trend on tight global supply for wheat in the next couple of weeks.

Impact

An increase in the price of wheat would adversely increase Nigeria's import bill. The increase in prices would also reflect on wheat based commodities like bread

Corn

Corn prices rose by 0.73% to $552.75/bushel in February 24 from a price level of $548.75/ bushel recorded in February 22. The increase in price was driven by a strong global demand for Chinese corn.



[15]

Outlook

We expect corn prices to remain high on strong global demand

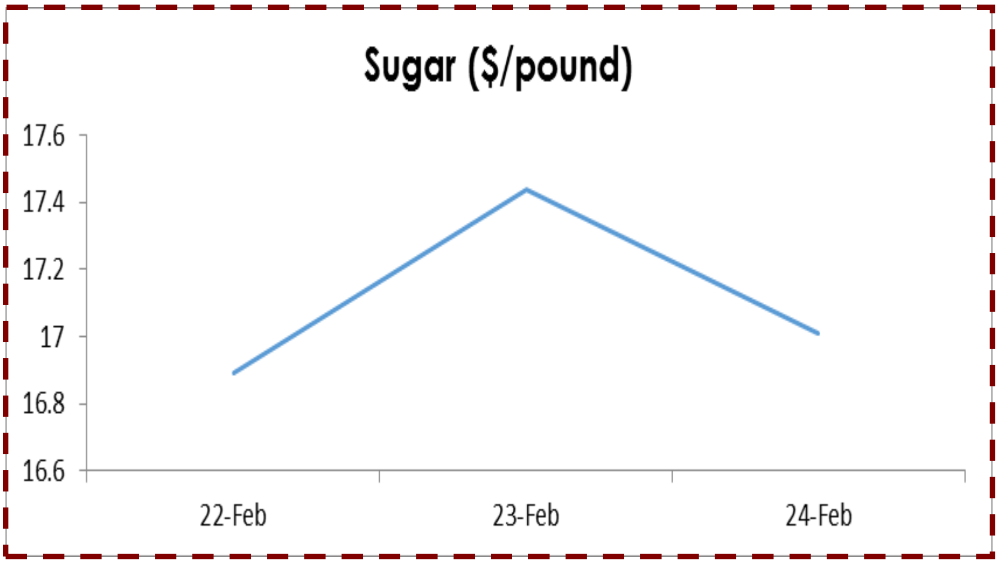
Impact

Higher corn prices would increase the import costs for local manufacturers which would in turn be reflective on prices for cereals

[15] FDC Think Thank

Sugar

The price of sugar rose to $17.01/pound in February 24. This is 0.71% higher than the price of $16.89/pound recorded on February 22. The increase in price was driven by unfavorable weather conditions in Thailand amid rising demand for refined sugar.



[16]

Outlook

Increased demand for refined sugar in the global market would keep sugar prices elevated.

Impact

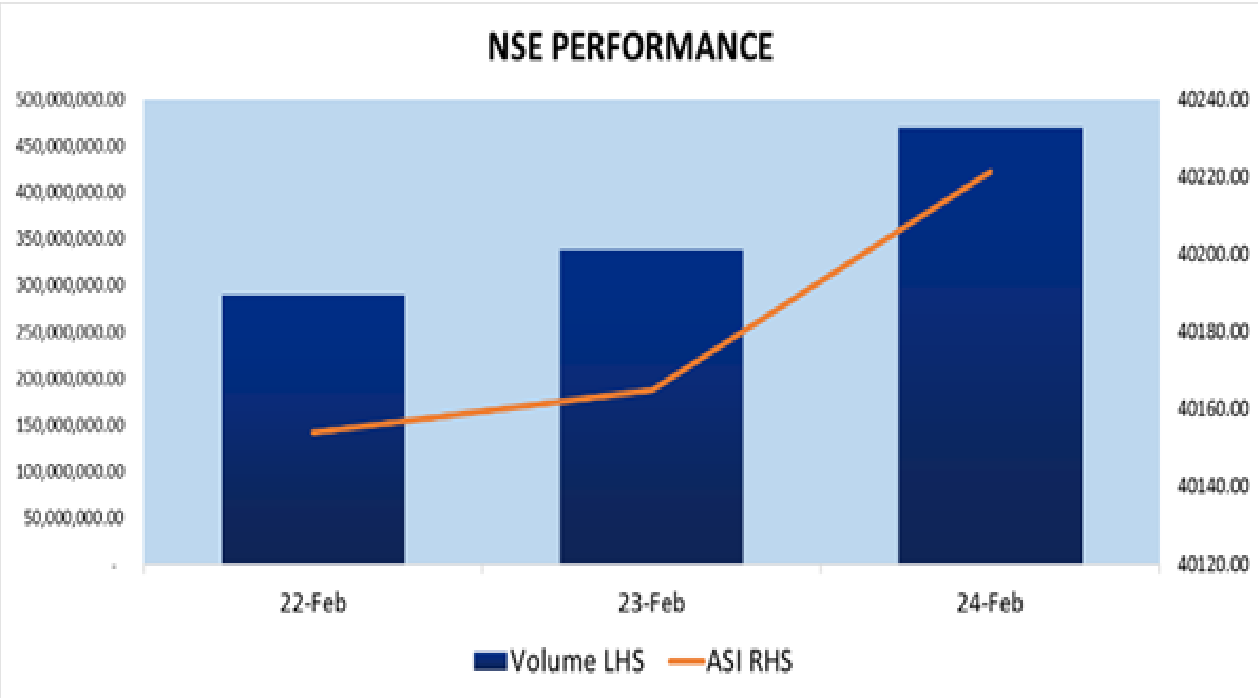
Higher sugar prices is negative for Nigeria. As the country's sugar import bill would increase

[16]FDC Think Thank

Stock Market Review

The NSE closed on a positive note in the review period (February 22-24). It marginally gained 0.09% to close at 40,221.30 points on February 24th from 40,186.70 points on February 19th. Similarly, market capitalization was up marginally by 0.05% (N10bn) to N21.04trn relative to its close of N21.03trn on February 19th. The market YTD return was negative at 0.12%. The market gained in 2 out of the 3 trading days of the review period with a cumulative gain of 0.09%.

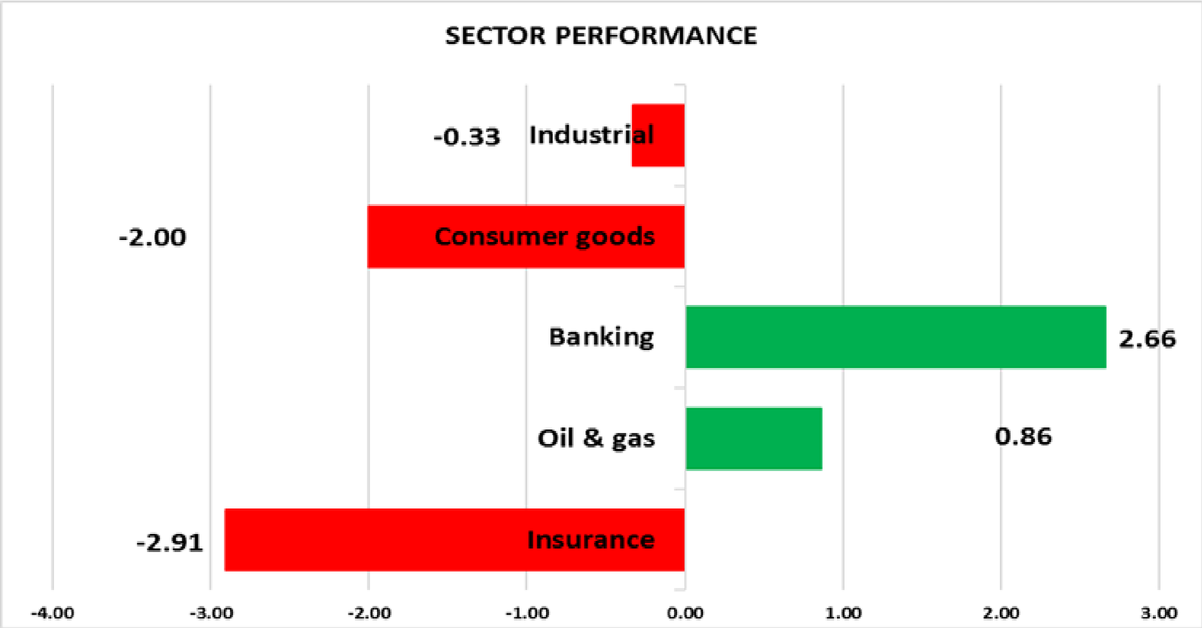
The NSE traded at a price to earnings (P/E) ratio of 15.32x as of February 24th, 0.72% higher than the close of February 19th (15.21x). The market breadth was negative at 0.55x as 22 stocks gained, 40 lost while 100 stocks remained unchanged.



[17]

Market activity level was negative in the review period. The average volume traded fell by 32.91% to 365.62mn units from 545.01mn units in the previous period. Similarly, the average value of trades was down 9.38% to N4.83bn from N5.33bn in the review period.

[17]NSE and FDC Think tank



[18]

The sector indices performance were mixed during the review period. The insurance sector lost the most (-2.91%), followed by consumer goods (-2.00%) and industrial (-0.33%) while the banking and oil & gas sectors gained 2.66% and 0.86% respectively.

Academy Press Plc topped the gainers' list with a 17.14% increase in its share price. This was followed by Sovereign Trust Insurance Plc (12.00%), Oando Plc (11.07%), UPDC Real Estate Investment Trust Plc (9.35%) and Zenith Bank Plc (6.48%).

TOP 5 GAINERS

Company	Feb-19 (N)	Feb-24 (N)	Absolute Change	Change (%)
Academy Press Plc	0.35	0.41	0.06	17.14
Sovereign Trust Insurance Plc	0.25	0.28	0.03	12.00
Oando Plc	3.07	3.41	0.34	11.07
UPDC Real Estate Investment Trust Plc	5.35	5.85	0.50	9.35
Zenith Bank Plc	24.70	26.30	1.60	6.48

The laggards were led by Lasaco Assurance Plc (-26.19%), African Prudential Plc (-18.49%), Niger Insurance Plc (-13.04%), Sunu Assurance Plc (-9.88%) and Multiverse Mining and Exploration Plc (-9.09%).

[18]NSE and FDC Think tank

TOP 5 LOSERS				
Company	Feb-19 (N)	Feb-24 (N)	Absolute Change	Change (%)
Lasaco Assurance Plc	1.68	1.24	0.44	-26.19
African Prudential Plc	7.30	5.95	1.35	-18.49
Niger Insurance Plc	0.23	0.20	0.03	-13.04
Sunu Assurance Plc	0.81	0.73	0.08	-9.88
Multiverse Mining and Exploration Plc	0.22	0.20	0.02	-9.09

Outlook

We expect the positive performance of the stock market to be short-lived due to negative investor sentiment and rising interest rates.

Equity Report:

Nigerian Breweries Plc

Analyst's note

Nigerian Breweries reported an impressive top line growth of 4.3% to N337 billion in FY'20 from N323 billion recorded in 2019, driven by increased promotion optimization and brand portfolio mix. This indicates a gradual recovery from the impact of the COVID-19 induced pandemic on the industry and particularly on the company. However gross profit declined by 9.39% to N118.7 billion from N131 billion. The decline in gross profit is attributable to a 13.7% increase in cost of sales to N218 billion.

The company reported a 16% decline in operating profit to N29.6 billion relative to N35.2 billion recorded in the corresponding period in 2019. The decline in operating profit is driven by the 9.39% decline in gross profit and a 17.6% decline in other income to N828 million. The company's deliberate cost optimization strategy and operational efficiency resulted in a 9% and 0.83% reduction in marketing and administrative expenses to N70.7 billion and N19.2 billion respectively.

Market Capitalization: N395.85bn
Current Price: N49.50
Industry: Food, beverage and tobacco

Despite an impressive top line figure, Nigerian Breweries recorded an unimpressive bottom line performance as profit for the year declined sharply by 54% to N7.4 billion relative to N16 billion reported in 2019. A 236% and 21,000% surge in interest expense on overdraft and lease liabilities respectively coupled with a 226% increase in foreign exchange loss to N4.8 billion resulted in a 52.3% increase in finance cost to N18.27 billion. Also, a 5.5% reduction in finance income to N246 million contributed to the decline in profit for the year.

Industry and Company

The breweries industry is a subset of the food, beverage and tobacco (FBT) industry, which is under the manufacturing sector. The FBT sub-sector grew by 1.5% in 2020 (2019: 2.17%) and has a five-year average of 0.54%. Meanwhile the manufacturing sector contracted by -2.75% in 2020 (2019: 0.77%) and has a five-year average of -0.88%.[19] The manufacturing sector is a major employer of labour and contributes about 12.83% to GDP.[20]

The brewery industry was adversely affected by the global economic downturn, lockdown and disruption induced by the pandemic. The impact of tough fiscal regulation (excise duties, VAT at 7.5%) and higher cost pressures continue to weigh on the sector's performance coupled with lingering weak macroeconomic fundamentals pressuring consumers' disposal income as well as consumer spending. In addition, the forex illiquidity and weaker naira have increased the cost of production of breweries, which have a high import content.

However, the breweries industry is expected to deliver great value in the medium to long term on the back of Nigeria's growing population and favourable demographics, low consumption per capita, and increasing opportunities for exports under the African Continental Free Trade Area Agreement (AfCFTA).

There is limited room for pricing and players will need to improve market share through brand visibility. Breweries will continue to leverage on product innovation to remain competitive in the face of constrained pricing actions.

Company Overview

NB Plc is the pioneer and largest brewing company in Nigeria, with a 58% industry market share by revenue. The company runs a diversified product portfolio of alcoholic and non-alcoholic beverages. Its major competitors include Guinness Nigeria (a subsidiary of Diageo) and International Breweries (a subsidiary of ABInBev).

Nigerian Breweries, has over the years, maintained a low leverage position, mainly supported by its strong cash-generating capacity coupled with its optimal funding mix of equity.

[19]NBS (2016-2020)
[20]NBS

The company is well positioned to benefit from potential growth in the industry and also maintain its market share by volume growth due to its well-diversified product portfolio and improved operational efficiencies. The company can also sustain its favorable trade terms with customers and leverage on the support of its parent company (Heineken Group).

We expect the company to fully bounce back following a quick economic recovery and fast distribution of vaccines in the short to medium term. The company's business fundamentals remain strong and sustainable. The company is expected to maintain a good cash flow position and a moderate leverage position on the back of access to low finance cost.

Bulls and Bears

Bulls say

- Strong brand name
- Variety of products
- Consumer loyalty and brand visibility
- Large market size supported by growing population

Bears say:

- Stiff competition, especially through discounts and promotions
- Weak consumers' purchasing power
- Harsh operating environment
- Traffic bottlenecks in and around the Lagos ports and roads
- Forex illiquidity and naira weakness

Economic outlook for the next month

The pace of economic recovery will improve as the level of economic activities pick up. However, inflationary pressures will persist due to the rise in PMS and diesel prices, electricity tariff hike, lingering forex restrictions on food imports and exchange rate pass through effect.

We expect the exchange rate convergence around the IEFX rate to continue, with the CBN selling more dollars. An increase in forex turnover at the I & E window will mop up excess naira liquidity. The CBN is likely to ease its forex rationing stance and increase dollar sales. In addition, this would be supported by increased oil revenue which will boost external reserves level and dollar liquidity. Therefore currency pressures could ease.

The interest rate environment is expected to improve and higher yields would attract more investment in fixed income securities. While this is good for investment inflows, it also means a decline in stock prices. The MPC is scheduled to meet March (22/23) and could adopt a tighter policy stance in tandem with its peers (Mozambique & Zambia). Major considerations would be the IMF's recommendations, rising inflation and currency pressures.