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UAE vs Nigeria- A Game of Poker (Emirates is now a fall guy)

Bilateral service agreements are between nations but are operated by airlines. Enter the covid protocol and it becomes a tripartite relationship between the Ministries of External Affairs, Aviation and Health. This became very complicated because Dubai is a favorite destination of Nigerians both as a final but more of a transit point. In the last 6 months, Emirates airline had insisted on a strict Covid testing protocol for Nigeria. The FGN balked and suspended flights between Nigeria and the UAE. Recently, hopes were raised and then dashed by the tit for tat game. So passengers originating from Nigeria would have to resort to other carriers to fly to the Middle East and beyond.

The crux of the matter- a diplomatic spat on PCR testing

In early February, the UAE barred passengers from Nigeria from flying into Dubai due to the government's refusal to allow the airline conduct the rapid test for covid-19. The embargo was expected to last for three to four weeks but was extended in March with a view to resume flight operations in Nigeria in June. The Nigeria Civil Aviation Authority in retaliation, banned Emirates from flying into Nigeria due to non-compliance with covid-19 protocols as well as the introduction of a rapid antigen test as a requirement for Dubai travelers.

Implications

Emirates is one of the preferred airlines by Nigerians, with three frequencies daily from Nigeria (1 from Abuja and two from Lagos). Dubai airport has retained its position as the world's busiest airport for international passengers for the sixth consecutive year, with annual traffic reaching 86.4mn in 2019. Emirates' affordable fares and the level of comfort it provides, gives it a competitive edge over other airlines. Other airlines from a competitive stand point will benefit from the ongoing diplomatic spat as their position is enhanced. In addition, Delta airlines seems to be enjoying a solo run currently, as it is the only carrier with direct flights to the

US. With the indefinite suspension, passengers who have flown from or through Nigeria within 14 days would not be allowed into the UAE. Passengers now have to fly to Accra and therefore travel revenue meant to accrue to Nigeria is being diverted to other countries. Also, the intention by the government to regulate, especially following the twitter ban imposed earlier, could lead to further diversion of revenue away from Nigeria.

Summary

The two countries are important travel partners and stand to lose from the ongoing diplomatic spat. Therefore, we expect that there will be a meeting within the next couple of weeks to resolve the disagreement, and all will be well with the world again.

How can Fintechs Serve as Growth Catalysts?

For developing economies, emerging from the fallout of the coronavirus pandemic will require more than the traditional signposts of economic growth and development. It will also involve the leapfrogging factor that technology introduces.

The far-reaching impact of the pandemic

In 2020, the advent of the coronavirus pandemic and its ensuing effect resulted in a 3.3% contraction in the global economy. For Sub-Saharan Africa, the IMF estimated a 1.9% contraction in 2020 while Nigeria's economy - the top African economy - contracted by 1.8%, even as it reeled from the global oil price crash. Even so, Nigeria is on a growth trajectory in 2021 with a projected 2.5% expansion for the year. The growth in the Nigerian economy is expected to be driven by higher oil prices and increase in production levels coupled with a more general recovery in non-oil sectors. However, Nigeria's susceptibility to commodity price shocks and the current degree of uncertainty surrounding oil prices may derail its growth trajectory. The non-oil sectors, particularly the information and communication technology, are crucial to the country's successful emergence from the pandemic and into long-term sustainability.

The importance of accessible technology

At the height of the COVID-19 crisis, government-imposed restrictions spurred an uptick in the adoption of technology driven services, especially FinTech services. FinTech or Financial Technology refers to the connection between modern internet technologies and established business activities of the banking and more broadly, the financial services sector.[1] As such, FinTechs disrupt the traditional financial services sector as we know it by challenging the conventional roles, business models and service offerings through the introduction of technology-based innovations. These innovations are provided to end-users through mobile phones and internet connections. In January 2021, internet users rose by 22% to 104mn from 81mn in the same period in 2020, while internet penetration rate was estimated at 50%.[2] Similarly, Nigeria's mobile penetration rate currently stands at 90% with 188 million mobile phone connections in the country.[3] The broad permeation of internet and mobile connections means that FinTech services in Nigeria can reach as many as 188mn users.

The specific role FinTech can play

FinTech products span across multiple subcategories ranging from easy-to-use stored value wallets using mobile phones to automated savings, cross-border transfers, credit platforms, and risk assessment services to mention a few. An analysis of reports from similar emerging markets indicates that FinTech can drive economic development by boosting productivity, creating economic opportunities, improving access to financial services, driving financial inclusion and reducing income inequality. The economic impact will largely result from expanding revenue streams and increasing foreign direct investment (FDI) inflows while the digitization of financial services will result in increased productivity.

According to a recent McKinsey report, an estimated 60% of Nigeria's 200 million people have bank accounts.[4] In other words, 40% of the population lacks access to banking services. FinTech can improve the level of financial inclusion by democratizing access to

[1]Peter Gomer et al. 2017. "Digital Finance and Fitch: current research and future research directions". https://www.researchgate.net/publication/314036928_Digital_Finance_and_FinTech_current_research_and_future_research_directions
[2]Data Reportal. 2021. "Digital 2021: Nigeria". https://datareportal.com/reports/digital-2021-nigeria
[3]Data Reportal. 2021. "Digital 2021: Nigeria". https://datareportal.com/reports/digital-2021-nigeria
[4]Eyitope Kola-Oyeneyin et al. 2020. "Harnessing Nigeria's finTech potential". https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Middle%20East%20and%20Africa/Harnessing%20Nigerias%20fintech%20potential/Harnessing-nigerias-fintech-potential-vF.

financial services. FinTech product offerings provide a clear and inexpensive channel to meet the needs of the unbanked for financial services, which is key to facilitating financial inclusion. The multiplier effect will be the far-reaching impact of democratized access including human capital development through financial literacy. Consequently, a broader adoption of FinTech can play a pivotal role in bridging the significant gap in Nigeria's economic development. The actualization of this prospect, however, remains largely reliant on supportive policies and a focused regulatory oversight, without which non-oil driven growth is unachievable.

The important role of regulators

Regulatory oversight for the Nigerian FinTech sector has been viewed as a clampdown on corporate innovation and fraught with hostility. This is mainly driven by the trust deficit between the regulatory bodies and the regulated. Traditional financial service providers, who initially viewed FinTechs as passing fads, are now in the ring with them. A quick example is the recent conflict in the mobile money space, which saw Africa's largest mobile-money company kicked off the platform shared with brick-and-mortar financial companies. The dispute deprived access to financial services by the unbanked and underserved population– approximately 40% of Africa's largest economy.

Industry reports, over the past three years, indicate that investment in the FinTech sector increased by 197% with foreign investment dominating the inflows. The expectation of new entrants, due to rising financial inclusion levels, will drive more investments to the Nigerian FinTech space in the near to medium term. The operating environment must therefore be strengthened enough to protect all stakeholders and permissive enough for innovation to thrive. At its core, policy focus should include a simplified communication pathway between regulators and the companies, the development of cost-effective digital infrastructure as well as measures towards improving financial literacy levels. This is likely to facilitate innovation, research and development and at the same time strengthen risk management. It can also improve access to and lower the cost of data. Similarly, it may expedite financial inclusion. The bulk of the success rests on the regulatory bodies.

What a common ground means for the economy

The designated regulatory bodies appear to be beset by legacy regulations and an ambiguous understanding of the crucial role they and FinTechs play in the overarching goal of Nigeria's broader development. Nigeria's economic development is at an important crossroad; the opening and the required capability are at hand. Consequently, it is imperative for regulators to remain flexible in their role as overseers as the number of innovative players in the space continue to evolve. Regulators must develop an understandable outlook on the novel competences the sector is likely to decipher. They can no longer be sceptical. Instead, they should take opportunity to pave the way for what's on the horizon.

China's Cocoa Export – Paltry yet Symbolic

China has commenced the export of cocoa beans according to the Chinese Academy of Tropical Agricultural Sciences (CATAS)[5] and as reported by the Chinese media. The first consignment of 500kg, valued at approximately $3,600, was shipped to Belgium (the third biggest importer of cocoa beans) sometime in October of 2020. To put the magnitude of China's first batch of exports in perspective, Ivory Coast and Ghana, accounting for 61.8% of total global output, produced 2,074 metric tons (MT) and 770MT respectively in 2019/20. This puts 500kg at paltry 0.01% of global cocoa beans production of 4600MT. The crop was grown in the tropical township of Xinlong located in the South China island province of Hainan – the country's only tropical rainforest and the most northern location of cocoa cultivation globally. A researcher with CATAS, Hao Zhaoyun, was quoted as saying "cocoa is a raw material for making chocolate. With the increasing demand for chocolates, Hainan has been expanding its cocoa planting area and making breakthroughs in technological development".

[5]China Daily, October 2020. "China's Hainan dispatches first-ever cocoa exports to Belgium" https://www.chinadaily.com.cn/a/202010/28/WS5f990202a31024ad0ba819a6.html

Geography vs Technology

However, the tropical rainforest covers a relatively small proportion of Hainan's land mass (35,354km2). This pales in comparison to Ivory Coast and Ghana's tropical rain forests estimated at 212,000km2 and 91700km2 respectively according to the Food and Agriculture Organization of the United Nations (FAO).[6] Together, that is about nine times the size of China's tropical region. The cocoa crop requires high temperatures, rainfall, humidity and millions of hectares of arable land to grow – conditions found in abundance across West and Central Africa. This geographical consideration presents the biggest limitation to the scale of China's cocoa output. Its inability to significantly increase production means it is impossible to compete with the African cocoa producers.

China may be unable to compete with the African giants anytime soon, but the crucial lesson here is the dogged resolve of the Chinese authorities in applying technology to push up cocoa output. The breakthrough is more symbolic than the country's prospects as a potential disruptor of the cocoa bean market. The quality of cocoa also determines its attractiveness in the global market. This means that if the Chinese variant is of superior quality, it could bank on that as a competitive advantage and usurp market share (albeit less than substantial) from other players. Nonetheless, technological development itself typically comes at a cost which will be factored into the price of the commodity. Modifying cocoa beans to grow and flourish in climatic conditions that are not tropical cannot exactly be ruled out in the medium or long-term. That would be a master stroke. Achieving this feat at a cost that is commercially viable would be the game-changer.

Tech to support Productivity

Cocoa prices are forecast to drop 4.3% in 2021 to average $2,286/ton, as global demand struggles to return amid COVID-19 and growing health consciousness. Cocoa production is also projected to witness a slight decline on account of a marginal drop in output from global powerhouses Ivory Coast and Ghana. Nigeria's cocoa production is forecast to decline to 235,000 metric tons in 2020/21 on the back of difficulties in finding labor to harvest the crop and backlogs of cocoa beans in warehouses, according to the Economist Intelligence Unit (EIU). This is the

[6] http://www.fao.org/home/en/

second consecutive year of decline after output fell from 270,000MT in 2018/19 to 250,000MT in 2019/20 largely due to the inability of farmers to dry a significant part of the harvest as a result of excessive rainfall in South West Nigeria. The black pod disease, which thrives in damp conditions, also wreaked havoc on Nigeria's cocoa output.

While technology could yet put China firmly on the cocoa map, the lack of adoption of technology in Nigeria threatens to limit productivity and dampen output. The inability to widely dispense high-yield and early maturing varieties of cocoa seedlings to farmers is proving to be a major constraint as the technology is available and has been for over a decade. This modified variant also has a greater degree of resistance to diseases while requiring less use of agrochemicals in its cultivation. Farmers have either failed to embrace it or have no access to it – or both. The use of technology to boost productivity is crucial and will support the government's goal of diversifying and deepening sources of foreign exchange earnings beyond oil & gas.

Lessons from Ghana – Political Will

The global chocolate industry is valued at over $150bn.[7] However, while West Africa accounts for about 70% of cocoa beans supply, they receive less than $6bn (4%) for their troubles. This is consistent with the widely prevalent pattern of raw material export across the continent. In 2020, Ghanaian President, Nana Addo Dankwa Akufo-Addo, while delivering a speech in Switzerland, announced plans to process 50% of Ghana's annual cocoa bean production domestically and end the dependence on the export of the raw commodity.[8] Ghana is steadily raising its primary cocoa processing capacity. However, the bulk of cocoa market revenue (80%) is generated at the secondary processing stage (cocoa paste manufacturing), which is dominated by Europeans and Asians. This is where massive potential lies and where African cocoa bean producers need to invest in. The Chinese could enter that market and compete favorably in the coming years. Given their reputation for research and development, and the quick deployment of technology to lower production costs, they could swiftly corner the market.

[7]Businesswire, December 2020. "Global Chocolate Market - Forecasts from 2020 to 2025" https://www.businesswire.com/news/home/20201207005451/en/Global-Chocolate-Market-Report-2020-Market-to-Reach-US182.090-Billion-by-2025-Increasing-from-US137.599-Billion-in-2019--ResearchAndMarkets.com#:%7E:text=The%20global%20chocolate%20market%20is,food%20products%20across%20the%20globe

[8]The Cocoa Post, March 2020, "Ghana Will No Longer Export Raw Cocoa Beans – President Akufo-Addo" https://thecocoapost.com/we-dont-want-to-be-mere-exporters-of-cocoa-anymore-ghana-president/

Lessons from Cameroon – Untapped Potential in the entire South

On a final note, Nigeria's Ministry of Agriculture believes that Nigerian cocoa bean production can exceed that of Ivory Coast. It would need to grow nine-fold for that to happen. As unlikely as that may seem, the potential for expansion of cocoa cultivation is immense and remains untapped. Cameroon, once a marginal player, has made giant strides in recent years to come into contention, overtaking Nigeria as the fourth largest cocoa producer in the world with a projected output of 280,000MT in 2020/21. While Nigerian output is largely concentrated in the south-west region, rising Cameroonian output validates the view that the entire southern region of Nigeria (particularly the south-east which shares a border with Cameroon) should have cocoa yields as high as the south-west. This could lead to a quadrupling of Nigeria's cocoa output and the Ministry's claim may not be as farfetched as it sounds after all.

Airport free trade zones: Implications for industrialization & economic diversification in Nigeria

Nigeria's federal government recently declared five of its international airports as free trade zones to encourage increased investment inflows and international trading activities.[9] While these are not Nigeria's first free-trade zones, the move is expected to further bolster the government's diversification drive with significant implications for industrialization.

Significance of airports as free trade zones

A free trade zone is a specific area within a country that is approved for tariff free international trading activities. This implies that, as long as the business activities remain within the confines of the free trade zone, the import, processing, manufacturing and export of goods or services are exempted from applicable tariffs such as customs' fees, import and export duties etc.[10] According to the Nigeria Export Processing Zone Authority, there are 25 active free trade zones in Nigeria out of a total of 44 designated free trade zones.[11] Free trade zones improve the attractiveness of a country to investors considering the tariff free conditions attached.

[9]Chinedu Eze. 2021. "Maximizing FG's Delineation of Free Trade Zones at Airports". ThisDay. https://www.thisdaylive.com/index.php/2021/04/02/maximising-fgs-delineation-of-free-trade-zones-at-airports/

[10]Chinedu Eze. 2021. "Maximizing FG's Delineation of Free Trade Zones at Airports". ThisDay. https://www.thisdaylive.com/index.php/2021/04/02/maximising-fgs-delineation-of-free-trade-zones-at-airports/

[11]Nigeria Export Processing Zones Authority. 2019. Free zones' footprint in Nigeria: profiles of active free zones by location. https://www.nepza.gov.ngs/index.php/free-zone/active-free-zones

Implications for businesses and investors

Investors and businesses typically benefit from free trade zones through reduced operating costs due to the tariff waivers. However, the location of the free trade zone around an airport will provide investors with an added advantage of improved access to the international market. The recent designation of the five international airports as free trade zones will reduce domestic logistic costs for businesses and encourage investment inflows into the country. A lower cost of operation will encourage economies of scale and promote increased economic activity within and around the airports, which will in turn impact positively on businesses operating in the free trade zones. Furthermore, airports as free trade zones, will create a diversified transport system for companies, which could reduce Nigeria's port crisis. Nigeria is grappling with congestion at its two main ports, Apapa and Tin Can Island, resulting in several road hazards and traffic congestions, particularly in Lagos, its commercial capital.[12]

Expected impact on the economy

The Nigerian government has been seeking to attract investors into the economy to support the development of its non-oil sector in order to reduce the country's dependence on oil. Nigeria depends on the oil sector for approximately 50% of its fiscal revenue, and the sector accounts for about 90% of its total export earnings. The designation of airports as free trade zones is expected to attract foreign direct investment (FDI) into the country. FDI inflows into Nigeria fell by 21.21% to $2.6 billion in 2020 from $3.3 billion in 2019.[13] The anticipated uptick in FDI will promote industrialization and facilitate non-oil sector growth, which is vital for economic diversification. It will also enhance job creation, which will address another daunting challenge in the Nigerian economy, unemployment. Nigeria's unemployment rate rose to 33.3% in Q4'20 from 27.1% in Q2'20.[14]

Furthermore, the recent move is supportive of international trading activities in Nigeria, particularly exports. This will position Nigeria to benefit from the anticipated rebound in the global aviation industry after the severe impact of COVID-19. Air transport accounted for approx. 0.10% of Nigeria's GDP in 2020 down from 0.14% in 2019.[15] Nigeria will also benefit from improved

[12]Neil Munshi. 2020. "Nigeria's port crisis: the $4,000 charge to carry goods across Lagos". Financial Times Limited. https://www.ft.com/content/a807f714-7542-4464-b359-b9bb35bdda10

[13]United Nations Conference on Trade and Development. 2021. "Global FDI flows down 42% in 2020: Further weakness expected in 2021, risking sustainable recovery". Investment Trends Monitor. https://unctad.org/system/files/official-document/diaeiainf2021d1_en.pdf

[14]National Bureau of Statistics. 2020. "Labor Force Statistics: Unemployment and Underemployment Report Q4 2020". https://nigerianstat.gov.ng/download/1238

[15]National Bureau of Statistics. 2021. "Nigerian Gross Domestic Product Report (Q4 & FULL YEAR 2020)". https://www.nigerianstat.gov.ng/download/1229

regional trade activities especially through the African Continental Free Trade Agreement. Increased exports earnings due to the boost in export activities will aid exchange rate stability and facilitate economic recovery.

Potential challenges

Harnessing the benefits of free trade zones is highly dependent on a country's ability to attract investors. While the tariff waivers attached to free trade zones are expected to improve a country's attractiveness to investors, other operational challenges could weigh on investor confidence. Foremost among these issues is poor infrastructure development. The level of infrastructure development in a free trade zone such as good road networks and electricity supply, impact on investors' willingness to enter a market. Another challenge is insecurity. Nigeria's insecurity problem involving frequent kidnappings and terrorist attacks will continue to be a deterrent to investors. The Nigerian government is expected to step up efforts to ensure good security and necessary infrastructure are in place in the newly designated airport free trade zones.

Lagos luxury property: 'No matter how bad the economy, they buy'

Global Perspective: Culled from the Financial Times

Plunging currency fuels demand for upmarket apartments as wealthy seek home for cash

Just across the water from Lagos' teeming mainland, where the bulk of the megacity's 20m people live in slums, real estate developers on upmarket Banana Island are selling million-dollar luxury flats, done out in gold, black and cream. "What we sell is quality," said Sijibomi Ogundele, the 40-year-old chief executive of real estate developer and construction company Sujimoto, waving his hand around an apartment in the Giuliano di Medici apartment building. He points to the Zaha Hadid-designed bathtub in the master bathroom: "This design is some of the most expensive in the world."

Ogundele is part of a luxury property boom in Africa's biggest city that has taken off even as the broader Nigerian economy has suffered soaring inflation, sluggish growth and high unemployment. The driving force is ultra-rich Nigerians looking for somewhere to park their money in an economy where the central bank has devalued the naira by more than a third against the dollar in the last year.

"We have a niche market — the one per cent of the one per cent," Ogundele said. "There aren't a lot of them, their number is not increasing . . .[but] those people, no matter how bad the economy is, they will buy." The view from the Giuliano's balcony — past an empty lot full of construction materials and a pair of lazy, big-horned bulls — is of more apartment blocks being built by Sujimoto. The Lucrezia, an under-construction 14-story waterfront luxury building where flats will start at $1.9m, features a private Imax cinema. Nearby is the Leonardo, a 25-story complex that advertises 22 swimming pools and a "virtual indoor golf bar". "During Covid, people . . . were not spending money because they weren't travelling, no shopping, no nothing, so I think they felt rich," Andrea Geday, chief of executive of El-Alan, a co-developer of the 25-story 4 Bourdillon development, the tallest residential building in West Africa. "And the devaluation of the naira was a factor, because they needed to solidify the funds somewhere, and the only

way is to buy property." From Geday's 21st floor flat in 4 Bourdillon, the construction boom in Ikoyi, arguably the richest and most exclusive neighborhood in Nigeria, is clear. Not only are there a half dozen towers going up, including one right next door, but dozens of smaller projects — four-floor multi-flat buildings or developments of a dozen cookie-cutter town houses.

The luxury towers cater to Nigeria's ultra-rich, who Knight Frank estimates number around 200,000 or 300,000, for whom money is no object, and who own second homes in London, Dubai, New York or Miami. Some analysts question who will live in all these new properties, especially given the many existing apartment complexes in the Lekki and Ikoyi neighborhoods that are at just 30 or 40 per cent capacity. The answer is that it may not really matter, given how useful real estate is as a laundry service for dirty money, said Timothy Nubi, a real estate management professor at the University of Lagos. "There is one school of thought that it is a means of storing capital by people who have no opportunity of taking their money abroad, or putting their money in the bank — they just put their money in property . . . and hope that they can sell it years later," said Nubi.

"It's just crazy. You drive around Ikoyi and you will see the whole left side of a street [with buildings] that are vacant." This week, the head of Nigeria's Economic and Financial Crimes Commission, Abdulrasheed Bawa, told Channels TV that "90 to 100 per cent" of money laundering was done through real estate. At the sales office for the Lucrezia, Ogundele said he has heard about money laundering being part of the real estate game in Nigeria, but never experienced it himself. "And there's no money to steal right now anyway!" he said, jokingly about the parlous state of the economy.

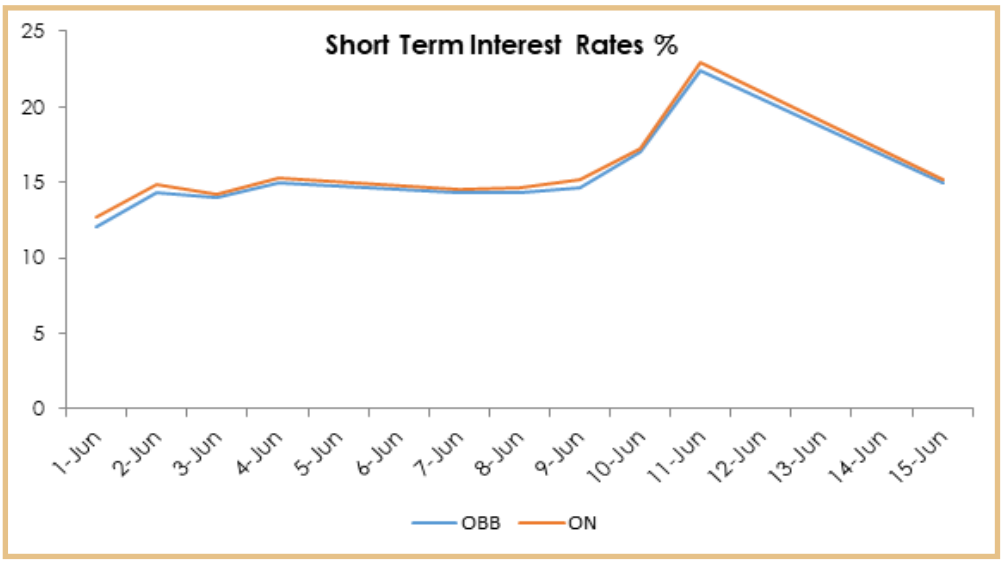
Given the huge disparities of wealth and opportunity across Lagos and Nigeria more broadly, Nubi said the government should focus on driving investment in affordable housing in a city with a housing deficit of about 2.5m units and in which two-thirds of residents live in slums, according to UN estimates. "We have this problem of mismatch in the property market in Nigeria," he said. "What is coming to the market is not actually what people need."

Macro-economic indicators (June 1st-15th)

Money market

The opening position for banks averaged N171.70bn in the first half of June relative to a negative position of N50.1bn in the corresponding period in May. Total OMO repayments during the period was N181.46bn during the review period compared to OMO sales of N48.30bn.

Average NIBOR during the review period was15.48% p.a., lower than 16.93% p.a. in the first half of May.



[16]

In the primary market, T/bill yields remained flat across the 91 and 182 day tenor respectively while the 364 day tenor stop rates declined further by 1bp to 9.64% p.a. on June 9th from 9.65% p.a. on May 26 at the primary market. At the secondary market, the 91-day tenor stop rate increased by 21bps to 4.79% p.a. while the 182-day and 364-day tenor stop rates increased by 15bps and 20bps respectively to 6.11% p.a. and 9.00% p.a.

T/bills Tenor	Primary Market rate as at May 26 (%p.a.)	Primary Market rate as at June 09 (%p.a.)	Direction	Secondary Market rate as at June 1 (%p.a.)	Secondary Market rate as at June 15 (%p.a.)	Direction
91	2.50	2.50	↔	4.58	4.79	↑
182	3.50	3.50	↔	5.96	6.11	↑
364	9.65	9.64	↓	8.80	9.00	↑

[16]CBN, FDC Think Tank

Outlook

We expect market liquidity to remain at current levels pending any further injection or withdrawal in the market. The CBN has increased its forex sales to banks and this is expected to reduce liquidity in the money markets.

Impact

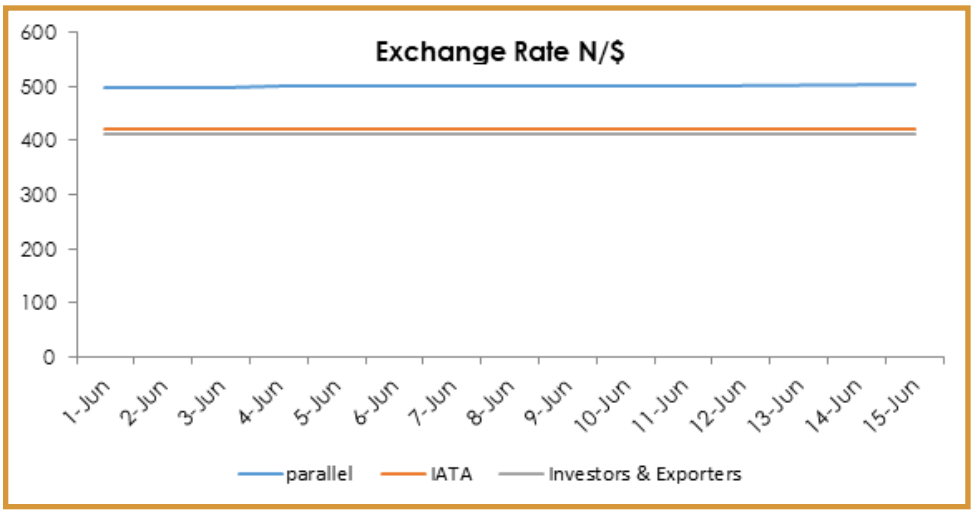
Average NIBOR is trading at an average of 15.48% pa due to low liquidity. This will continue to attract more investors to the fixed income space.

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 depreciated by 1.41% from N498/$ on June 1st to a high of N505/$ on June 15th. This occurred in spite of the increase in the average daily turnover by 29.16% to $149.31mn from $115.60mn in May. The depreciation of the parallel market rate is driven by speculative activities. The currency however traded flat at N420/$ at the IATA rate of exchange while it hovered around N410.8/$ and N412/$ at the IEFX window.



[17]

[17]CBN, FDC Think Tank

Outlook

We expect the exchange rate to trade at current levels at the parallel market in the near term on speculative trading

Impact

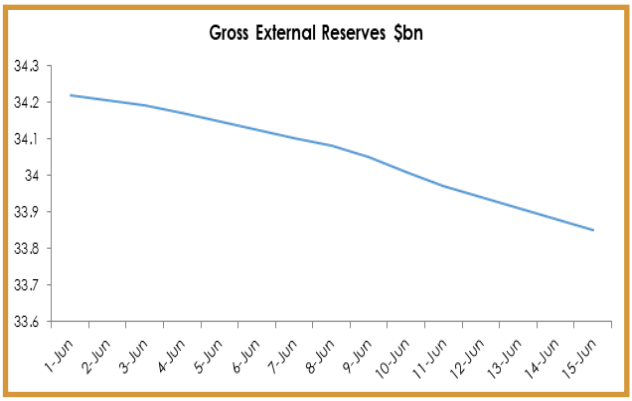
Currency depreciation would boost Nigeria's export earnings. This is positive for the country's trade balance.

External Reserves

Nigeria's gross external reserves fell below the $34bn threshold to $33.85bn on June 15th from $34.51bn at the end of the first half of May. This occurred despite higher oil prices ($74pb) and could be partly attributed to the increase in the CBN's forex sales to banks. The level of import and payments cover is down to 8.31months from 8.47months on May 14th.

Outlook

We expect the external reserves to decline further towards $33bn in the near term due to the lingering backlog of unmet forex demand. However, higher oil prices will slow the pace of depletion of the external reserves.



[18]

Impact

Falling external reserves reduce the CBN's ability to support the naira.

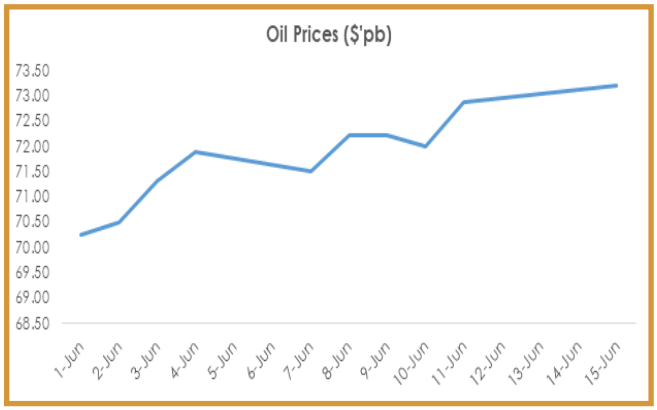
[18]CBN, FDC Think Tank

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

Global oil prices averaged $71.79pb between June 1st and 15th, which is 5.29% higher than the average price of $68.18pb in the corresponding period in May. As at June 15th, oil price rose sharply to $73.19pb touching its highest level of above $71pb since 2018. The increase in price was buoyed by tight supply and demand optimism particularly from Europe and China. Also, the uptick in oil price was driven by increased vaccinations across several developing nations. This is in spite of the increase in OPEC+ supply. However, analysts are of the opinion that an imminent return of Iranian oil supply could taper the oil price rally.



[19]

Outlook

We expect oil prices to remain above $70pb amid improved demand prospects in the next few weeks.

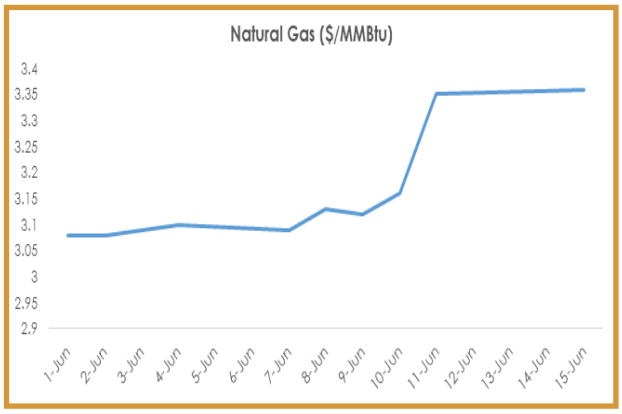
Impact

Higher oil prices is positive for Nigeria's fiscal and external balances.

Natural Gas

The average price of natural gas during the review period was $3.16/mmbtu, 7.48% higher than the average of $2.94/mmbtu recorded in the corresponding period in May. The bullish trend in LNG price was driven by growing demand for air cooling in temperate regions particularly the US that are in the peak of the summer season.

[19]Bloomberg, FDC Think Tank



[20]

Outlook

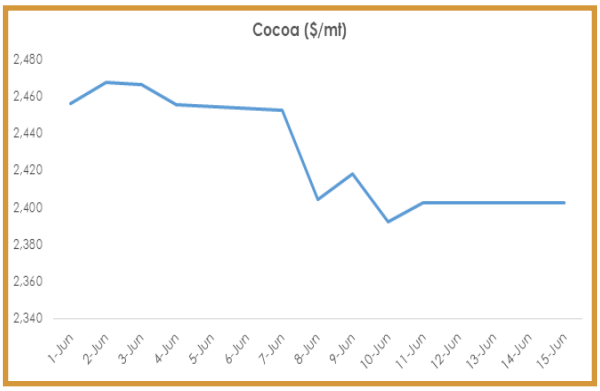
We expect LNG prices to maintain the bullish trend in the near term on strong global demand that is typical during summer

Impact

Natural gas is a major export commodity for Nigeria. High LNG prices will increase Nigeria's export revenue.

Cocoa

During the review period, the average price of cocoa increased by 0.21% to $2,431mt from $2,426/mt in May, driven predominantly by strong global demand for cocoa products despite the supply glut in Ivory Coast and Ghana. Meanwhile, Nigeria's largest cocoa growing state, Ondo, has set a one-kg-per-tree target as it aims to increase its cocoa output to 100,000 tonnes in the 2020-21 season.



[21]

Outlook

We expect cocoa prices to remain bearish in the near term due to favourable weather conditions in Ghana and persisting supply glut in Ivory Coast

Impact

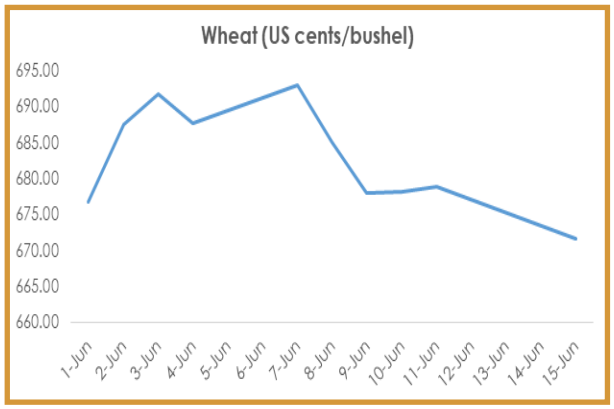
A fall in cocoa prices will negatively affect Nigeria's export revenue.

[20]Bloomberg, FDC Think Tank
[21]Bloomberg, FDC Think Tank

Commodities Market - Imports

Wheat

On the average, the price of wheat fell by 7.29% to $682.88/bushel during the review period, from $736.54/bushel recorded in the first half of May. The decline in price was driven by weak global demand for US wheat.



[22]

Outlook

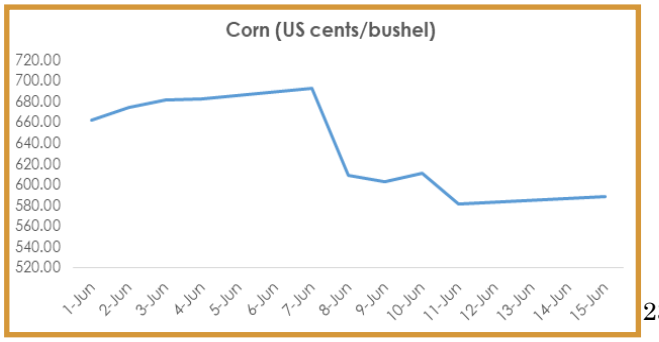
We expect wheat prices to maintain the bearish trend in the near term on the back of low demand concerns. Also, there have been signs of improved weather condition in parts of Russia. This is expected to increase supply.

Impact

A decline in the global price of wheat will decrease the production cost for domestic companies that are dependent on wheat.

Corn

The price of corn averaged $638.83/bushel during the review period, down by 9.51% from $705.93/bushel in the corresponding period in May. The decrease in price was attributed to a fall in demand for US corn and on expectation of bumper harvest in Brazil.



[23]

Outlook

We expect corn prices to remain soft on weak global demand

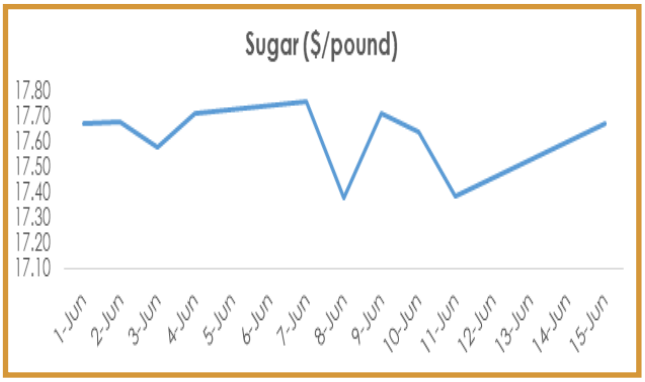
Impact

Low corn prices would positively reduce Nigeria's import bill for corn and reduce the production cost for firms that rely on corn

[22]Bloomberg, FDC Think Tank
[23]Bloomberg, FDC Think Tank

Sugar

During the review period, the average price of sugar increased by 1.91% to $17.62/pound from $17.29/pound recorded in the first half of May. The uptick in sugar prices was primarily driven by limited supply from Brazil and Thailand.



[24]

Outlook

We expect sugar prices to increase in the near term on tight market supply. This would be buoyed by strong global demand for sugar cane.

Impact

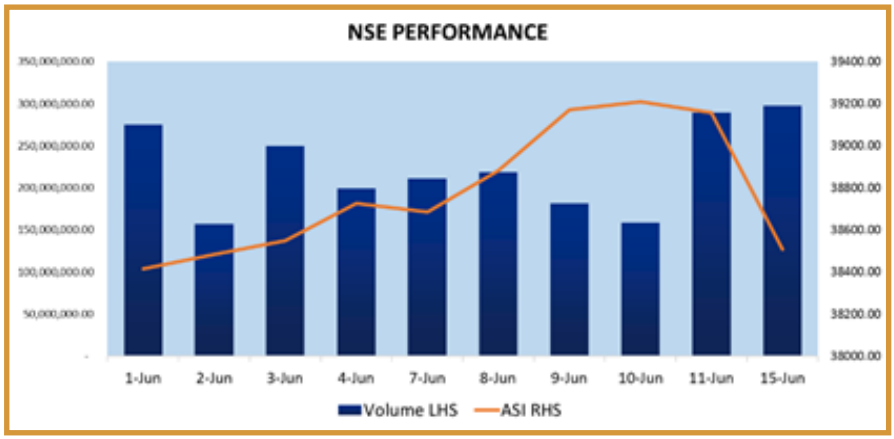
A spike in sugar prices would negatively affect Nigeria's import bill for sugar. This would significantly feed into prices of confectionaries

[24]Bloomberg, FDC Think Tank

Stock Market Review

The NSE closed positive in the review period. It gained 0.18% to close at 38,507.29 points on June 15th from 38,437.88 points on May 31st. Similarly, market capitalization increased by 0.20% (N40bn) to N20.07trn relative to its close of N20.03trn on May 31st. The market YTD return improved to -4.38% from -4.55% in the review period. The market gained in six out of the ten trading days of the review period with a cumulative gain of 0.20%.

The NSE traded at a price to earnings (P/E) ratio of 13.04x as of June 15th, 0.23% higher than the close of May 31st (13.01x). The market breadth was positive at 1.03x as 39 stocks gained, 38 lost while 79 stocks remained unchanged.



[25]

Market activity level was positive in the review period. The average volume traded rose by 7.57% to 223.61mn units from 207.88mn units. Also, the average value of trades increased by 13.81% to N2.39bn from N2.10bn in the review period.

[26]

The sector indices performance was positive in the review period. The industrial sector recorded the highest gain (3.85%) followed by banking (0.77%), consumer goods (0.73%) and oil & gas (0.68%). Meanwhile, only the insurance sector lost (-2.03%).

University Press Plc topped the gainers' list with a 43.59% increase in its share price. This was followed by Morison Industries Plc (31.91%), Cutix Plc (23.56%), Berger Paints Nigeria Plc (17.21%) and Veritas Kapital Assurance Plc (15.00%).

[25]NSE, FDC Think Tank
[26]NSE, FDC Think Tank

TOP 5 GAINERS				
Company	**May-31 (N)**	**Jun-15 (N)**	**Absolute Change**	**Change (%)**
University Press Plc	1.17	1.68	0.51	43.59
Morison Industries Plc	0.94	1.24	0.30	31.91
Cutix Plc	2.25	2.78	0.53	23.56
Berger Paints Nigeria Plc	6.10	7.15	1.05	17.21
Veritas Kapital Assurance Plc	0.20	0.23	0.03	15.00

The laggards were led by Computer Warehouse Group Plc (40.10%), Ikeja Hotel Plc (15.45%), Champion Breweries Plc (15.09%), Learn Africa Plc (14.81%) and Chemical and Allied Products Plc (13.83%).

TOP 5 LOSERS				
Company	**May-31 (N)**	**Jun-15 (N)**	**Absolute Change**	**Change (%)**
Computer Warehouse Group Plc	2.07	1.24	0.83	-40.10
Ikeja Hotel Plc	1.10	0.93	0.17	-15.45
Champion Breweries Plc	2.12	1.80	0.32	-15.09
Learn Africa Plc	1.08	0.92	0.16	-14.81
Chemical and Allied Products Plc	22.05	19.00	3.05	-13.83

Outlook

Nigeria's inflation rate fell for the second consecutive month to 17.93% in May from 18.12% in April. With a benchmark interest rate of 11.5%p.a, this implies that negative real return on investment has narrowed to 6.43%p.a from 6.62%p.a. This will drive a further shift to interest-yielding securities, which will weigh on the NSE performance in the next few weeks.

NASCON

DANGOTE

Corporate Focus: Lafarge Africa

Market Capitalization: N338.26 bn

Current Price: N21

Industry: Cement

Analyst's note

Higher Cement Prices Support Revenue Growth

Lafarge Africa reported a 12.2% top line growth in its Q1'21 result to N71.5 billion from N63.7 billion in the corresponding quarter of 2020. This performance was partly supported by an increase in the price of cement coupled with increased sales volume attributable to high domestic demand.

Cost optimization spurs growth in operating profit

The company's operating profit grew by 24.6% to N14.7 billion in Q1'21 from N11.8 billion in Q1'20, partly driven by an 8% growth in gross profit to N19 billion relative to N17.6 billion reported in corresponding quarter of 2020. The company's cost optimization strategy resulted in a decline in operating expenses. Selling and administrative expenses declined by 10.58% and 14% to N749.7 million and N4.3 billion respectively, attributable to a 12.5% reduction in staff salaries and related cost as well as reduction in marketing activities.

Reduction in finance cost boosts bottom line growth

The company reported a 36% growth in profit before tax to N12.8 billion from N9.4 billion in Q1'20 partly driven by a 24.6% growth in operating profit to N14.7 billion, 50% increase in finance income to N171 million and a 18% reduction in finance cost to N2.10 billion relative to the N2.57 billion reported in Q1'2020. The reduction in finance cost is attributable to a 25% decline in long term borrowings to N3.8 billion attributable to the company's continuous effort to deleverage the balance sheet. A 180% increase in tax charges to N3.6 billion slowed growth in profit after tax to N9.14 billion from N8.07 billion reported in Q1'20 .

Company Overview

Lafarge Africa is a leading building material company, an offspring of LafargeHolcim, the world's largest cement manufacturing and marketing company with 2300 operating plants across 70 countries. Lafarge Africa has a strong presence in Nigeria, and is one of the major players in the Nigerian cement industry with a production capacity of 10.5 million metric tones per annum and plants in Ashaka-Gombe State, Mfamosing-Cross river, Ewekoro and Sagamu in Ogun State.

Lafarge Africa has grown inorganically over the years. Lafarge South Africa took ownership of Blue circle industries plc in 2001 and changed its name to Lafarge cement WAPCO. Between 2011 and 2016, the company through its strategic business growth and expansion plan acquired LSAH, Ashakacem and Unicem.

The inorganic expansion has however resulted in a drag on the company's performance and profitability over the years. In 2018, the South African subsidiary reported a loss of about N16.9 billion which offset the profit made by the Nigerian subsidiary. The management divested from this loss making subsidiary in 2019 with proceeds from the sales used to pay off foreign currency related party loan of about $316.3mn including the accumulated interests owed to Caricement BV Amsterdam.

In January 2021, the management made a decision to also divest the company's 35% shareholding in Continental Blue Investment Ghana Limited (CBI Ghana) to focus on the company's expansion plan to grow its Nigerian market. The divestment process is ongoing and expected to be completed near-term.

We are optimistic about the growth of the company on the back of an aggressive focus on and expansion of its profit making subsidiary coupled with the maintenance of a sound capital structure. We expect the company to intensify competition and deepen its market share in the face of increasing competition, considering Nigeria's growing population, increased construction activities, increased government spending and low cement consumption per capita.

What Bulls and Bears say

Bulls say:

* Controls the second largest market share (15%)
* Strong brand name
* Strong parental support

Bears say:

* Stiff competition from other players
* Aggressive competition by way of discounts and promotions
* Weak consumers' purchasing power
* Harsh operating environment

Economic Outlook

In the next four to six weeks, we expect the positive sentiment of rising global demand to continue to impact the oil market, keeping oil prices elevated above $70pb. While this is good news for Nigeria in terms of increased government revenue and dollar cash flows, it also has its downside. Since Nigeria imports all its refined crude, higher oil prices amid an exchange rate adjustment implies that landing costs have increased. Since fuel prices remain unchanged at N165/ltr, it could mean that subsidy payments have increased, reducing the funds available for infrastructure development. Or, it could signify another petrol price increase in subsequent months. If this happens, it could stoke social unrest in an already terse socio-economic environment.

The depletion in external reserves is expected to continue towards $33.5bn in July, albeit at a slower pace. This is because of higher oil receipts. The speculative pressure driving the exchange rate at the parallel market is projected to recede. However, fundamental factors such as the lingering forex demand will keep the exchange rate trading around N490/$ at the parallel market.

Commodity prices are expected to remain elevated due to existing factors such as the state of insecurity, which has led to the depletion of food reserves and higher food prices. We do not anticipate a further decline in the inflation rate for June due to the exchange rate devaluation effect. Also, the possibility of another fuel price hike and electricity tariff in July will increase core inflation.

Q3'21 corporate results would be released in July. We expect the performance of the earnings results to drive market sentiment in the stock market.