

MPC - Reactive in Action...



Proactive in Guidance!

Status Quo Maintained



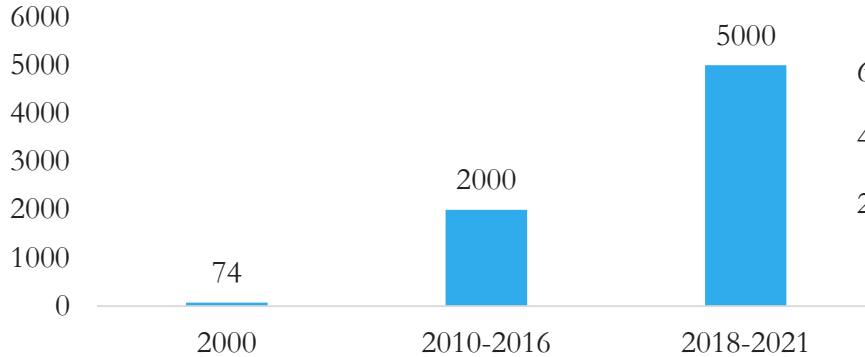
No More Forex Sales to BDCs

BDCs – Traders vehicle or smugglers dream come true??

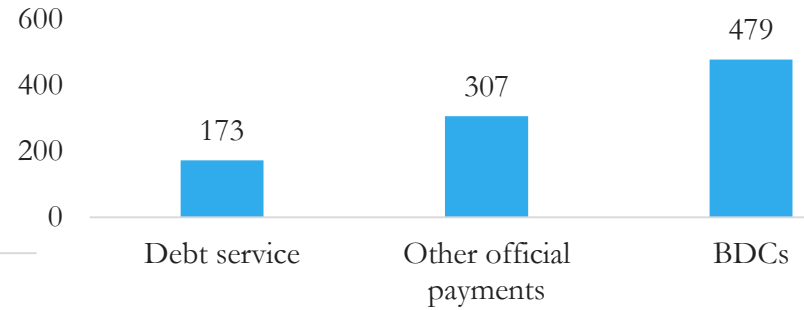
BDCs - Vehicle for Trade or Avenue For Leakage



Number of BDCs



Breakdown of CBN's Forex Outflow (\$'mn)



- ❖ Total outflow - \$100mn weekly = \$440mn monthly = \$5bn per annum
- ❖ In Q1'21, CBN recorded a net foreign exchange outflow of \$600mn

Nigeria is spending more on BDCs than debt service

No More Forex to BDCs

❖ Initial Reaction

- ❖ Naira depreciates marginally
- ❖ Delegitimize the parallel market
- ❖ Forex market premium will increase

❖ Final Reaction

- ❖ Market to adjust eventually
- ❖ Parallel market premium to decline
- ❖ Commercial bank sales to be more accessible
by the public
- ❖ BDCs will adjust to the new price mechanism

*In the end, markets are efficient & administrative controls
hardly work*

What to do with the BDCs ??

Option 1: One Fell Swoop

- ❖ Suspend sales to BDCs and substitute them with banks

Drawback

- ❖ Cumbersome documentation and intermittent supply

Option 2: Supply forex to BDCs at market price

- ❖ Parallel market rate minus 5%
- ❖ $N500 - N25 = N475/\$$
- ❖ CBN could sell to BDCs at $N475/\$$

Interest Rate - Status Quo is No Longer a Ritual ??



Positive but tepid growth
(0.51%: Q1'21)



External reserves creeping
up (\$33.25bn)



Higher oil prices (\$73pb) and
production (1.83mbpd) – *great*
for balance of trade



Falling inflation
(17.75%: Jun'21)



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In the last 8 weeks

“Activities in between meetings are more impactful than during meetings”

CBN's Mandate vs. Achievements

Mandate

- ❖ Price stability
- ❖ Exchange rate stability
- ❖ Boosting investor confidence
- ❖ Complementing fiscal policy by spurring growth

Score

- ❖ Moderating
- ❖ Crawling vs. Static peg
- ❖ Slowly but surely
- ❖ Work in progress






“CBN distinguishes between ritual and policy impact”

Inside & Outside Lags

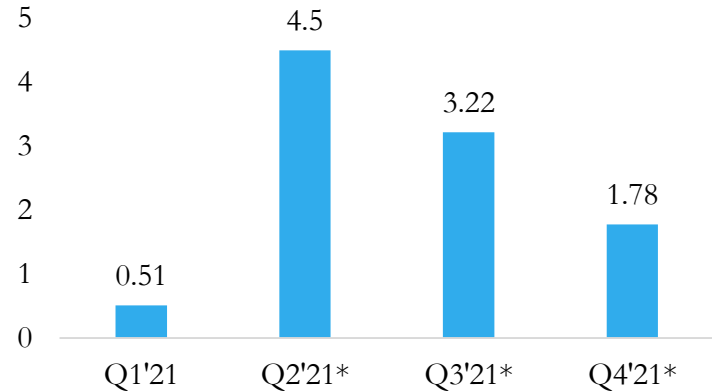
- ❖ The inside lag is the amount of time it takes for a government or a central bank to respond to a shock in the economy
- ❖ The outside lag is the amount of time it takes for a government or central bank's actions, in the form of either monetary or fiscal policy, to have a noticeable effect on the economy

“Nigerian economy plagued by both lags”

Economy Moving but Struggling

- ❖ Growth projections – Q2'21: 4.5%
- ❖ PMI lower by 4.5% to 48.8 points from 51.1 points in June
 - ❖ Employment – 51.5 points 
 - ❖ Output – 48 points 
 - ❖ Supplier delivery time – 46.5 points 
 - ❖ Stock of purchases – 47.5 points 
 - ❖ New orders – 50.5 points 

GDP Growth Forecast (%)



Source: NBS, FDC Think Tank

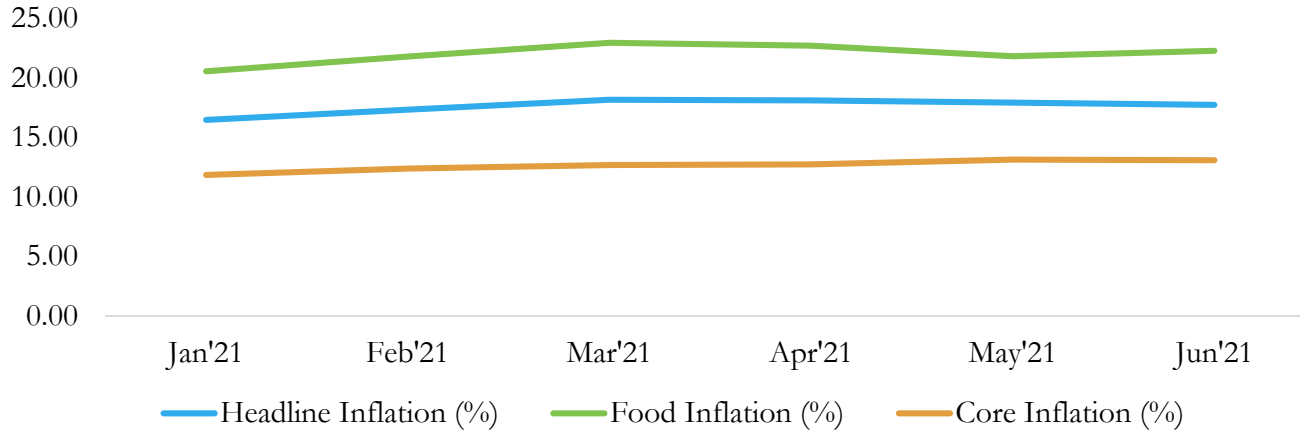
Economy Moving but Struggling

- ❖ Oil production fell to 1.40mbpd in June from 1.41mbpd in May
- ❖ Nigeria's production quota increased to 1.83mbpd
- ❖ Inflation moderated marginally to 17.75% in June – *Still super high*
- ❖ Interest rates up initially and falling marginally - *Still far below inflation rate*
- ❖ External reserves creeping up to \$33.25bn for the first time since April
- ❖ Currency management – *Static or crawling peg*
 - ❖ Parallel market rate oscillating between N503/\$ – N506/\$



Inflation Falling But For How Long??

Inflation (%)

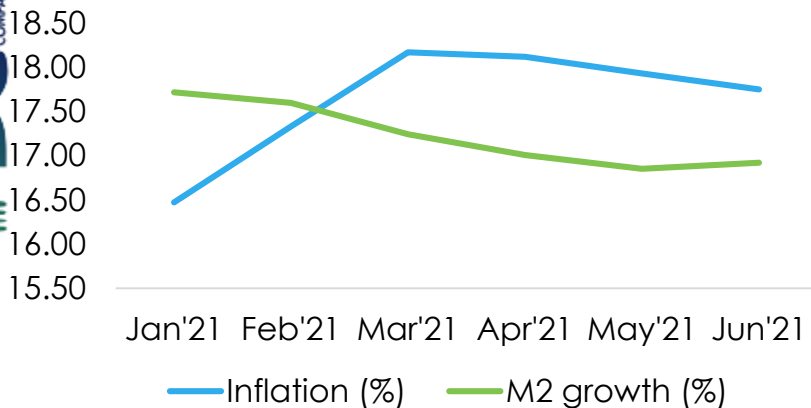


- ❖ Headline inflation fell for 3 consecutive months in June (17.75%)
- ❖ But m-o-m increased by 0.05% to 1.06% (13.46%) from 1.01% (12.82%) in May
- ❖ Food: 21.83% , Core: 13.68%

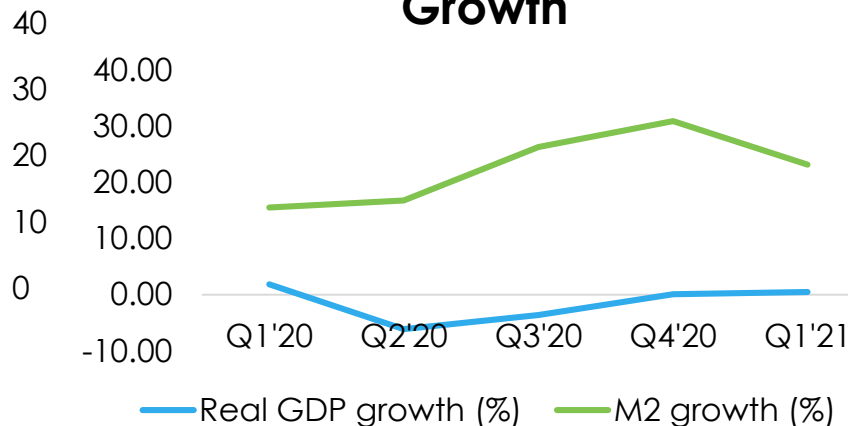
Money Supply Rising

❖ M2 rose by 18.9% to N38.76trn in Jun'21 compared to N32.59trn in Jun'20

Money Supply Vs. Inflation



Money Supply Vs. Real GDP Growth



❖ Divergence exists between inflation and money supply growth

❖ M2 grew by 19% while real GDP expanded by a meagre 0.51% in Q1'21

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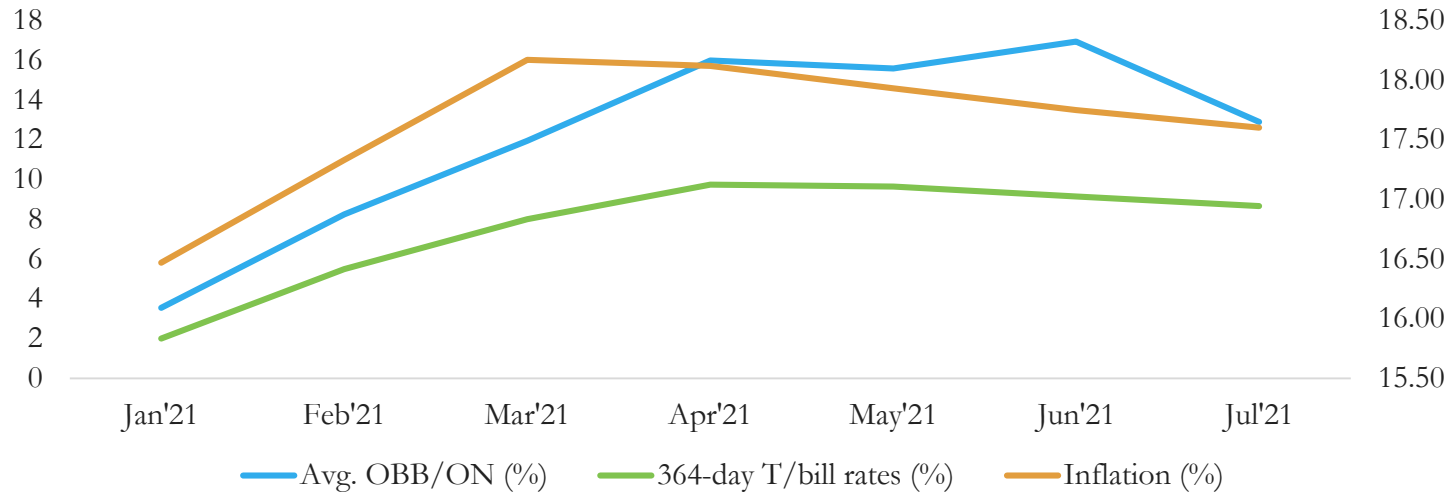
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Interest Rates Declining, Savings Falling

Interest Rates & Inflation



❖ Avg. short term interbank rates (OBB/ON) fell by 270bps to 12.89% from 15.59% in

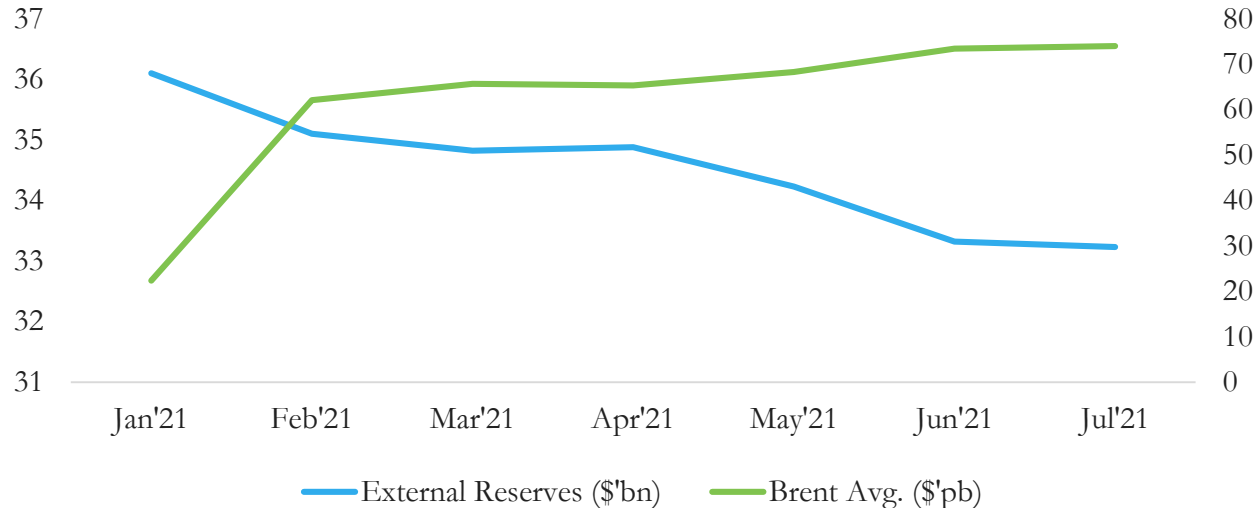
May

❖ 364 day t/bill rates declined by 0.98% to 8.67% from 9.65% in May

Marginal External Reserves Accretion

- ❖ Gross external reserves rose for the first time since April, currently \$33.25bn
- ❖ Could be due to higher oil prices (\$73pb)

External Reserves vs Oil Prices



Impact On Your Wallet & Stomach

Commodities		Jun'21	Jul'21	% Change	
New Yam(medium size)		N1,300	N1,500	15.38	↑
Garri (50kg) (Yellow)		N16,400	N17,000	3.66	↑
Beans (Oloyin) (50kg)		N32,000	N34,000	6.25	↑
Onions (50kg)		N25,000	N27,000	8.00	↑
Pepper (50kg)		N20,000	N30,000	50.0	↑
Flour (50kg)		N15,000	N15,500	3.33	↑
Cement (50kg)		N3,800	N4,000	5.26	↑
Chicken (1kg)		N2,200	N2,300	4.55	↑
Rice (50kg)		N26,000	N27,000	3.85	↑
Tomatoes (50kg)		N25,000	N30,000	20.0	↑

Commodity Prices Still High

Impulse
buyers

1 in 2 Nigerians have reduced food intake (eating less)



1 in 4 Nigerians is buying less (non-food)

Premeditative
buyers

Impact on You

WORKER



MIDDLE CLASS



ELITE/ AFFLUENT



Domestic Food Prices



Higher



School Fees



High



Flight Ticket



Higher



Unemployment



Stay High



House rent



Increase



Intl School Fees



Higher



House rent



Increase



Medical



Increase



House rent



Increase



Medical



Increase



Medical



Increase

What Next??

Oil prices will stay above \$70pb

Q2'21 GDP numbers to be released August 26

PMI data will be out next week – *Some improvement likely*

Exchange rate to remain sticky at current levels across markets

External reserves likely to maintain rising trend (\$33.5bn)

Official inflation could fall to 17.6% as harvest season begins

Low vaccination rate could trigger a third wave

Airline tickets will become more expensive

Thank you!