FDC Bi-Monthly Update

Volume 11, Issue 11

August 04, 2021

A Financial Derivatives Company Publication

☏:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

In This Issue …

The launch of the digital naira and its likely impact

The Central Bank of Nigeria (CBN) recently announced plans to launch its own digital currency before the end of the year. The 'digital Naira' would be issued by the CBN and held in digital wallets. Nigeria is now set to join countries like China (digital yuan), Bahamas (sand dollar), Eastern Caribbean (DCash) that have officially launched their own national digital currencies.

Digital not Crypto

While the recent surge – and plunge – in cryptocurrencies took the world by storm, many sceptics still dismiss them as the fool's gold, and lacking in most of the fundamental properties of a fiat currency (medium of exchange, store of value and a unit of account). At this juncture, it is important to note that digital currencies are not the same as cryptocurrencies. While all cryptocurrencies are digital currencies, not all digital currencies are cryptocurrencies. How do they differ? Regulation! Digital currencies are forms of money or cash available in non-physical (electronic/virtual) forms, typically issued by Central Banks and are subject to all the scrutiny and government backing of fiat currencies. They are also only accessible via internet-enabled devices. Crypto currencies, while being digital are not issued by Central banks or tied to any entity – governments/ institutions/individuals. Crucially, the crypto space is devoid of regulation, hence the wild fluctuations witnessed daily in response to market forces.

Blockchain the Disruptor

However, all digital currencies rely on blockchain technology. Known as distributed ledger technology (DLT), it is a digital platform and database that allows digital information to be distributed but not copied. Originally created to authenticate bitcoin (the most popular crypto currency), it was designed as a way to centralize record-keeping without needing third-party authorization – like a bank or a regulator. It enables users to record, track, and validate peer-to-peer transactions. Confirmation of records is done by multiple users with access to the data. It keeps a permanent record of all transactions, keeps users information anonymous while all activity is secure and unchangeable. But beyond recording financial transactions, it can be used to record practically everything of value. The digital naira will employ the use of the Hyperledger Fabric blockchain.

More Pro than Con...hopefully

While the risks associated with the growing use of digital currencies are clear and evolving, the CBN is banking on embracing the emerging digital world and reaping its benefits. The CBN would use electronic coins or notes instead of printing physical money. This would lower the costs of currency management. The use of digital currencies will cut off intermediaries like banks or clearing houses and drastically lower the cost and time involved in cross-border transactions. Remittances and trade finance, especially with the launch of AfCFTA, will be major beneficiaries. The speed of transactions will increase and enhance the velocity of circulation of money, which will boost economic activity.

The adoption of a digital currency will facilitate financial inclusion by increasing the share of the population with access to financial products. It would enable banks bridge this gap by circumventing legacy infrastructure – and the attendant costs – especially in the rural communities. This would allow Nigeria's informal economy go mainstream, giving them access to services like credit and insurance, allowing them expand their business and maximize potential – by so doing, stimulating the wider economy.

The CBN will now need to create sufficient awareness of its digital currency project and its benefits given the perception of most Nigerians who have come to associate cryptocurrency use to online scams.

The new forex ban and its short term market reaction

The CBN in a twist of events has discontinued its forex sale to BDCs with immediate effect. This announcement was made by the CBN Governor during the question and answer segment of the recently concluded monetary policy committee meeting on July 27.

Immediate reaction

By the next day, the parallel market rate had plunged to N522/$ and then N525/$ as the markets tried to process the implications of the CBN's decision on businesses. Since then, the naira has gradually appreciated, to currently trade at N508/$ (August 4). Other market rates have also appreciated. For instance, the IATA rate (the exchange rate used by airlines to issue tickets) moved from N460/$ to N412-N413.

How does the new forex ban affect you?

Since the CBN is expected to shift the forex supply previously sold to BDCs to the banks, we expect to see an increase in volume and turnover in the banking segment of the forex market, making dollar sales more accessible to the public. This will lead to an appreciation of the exchange rate for invisibles such as PTA, BTA, tuition etc. Also, the parallel market rate depreciation will continue albeit temporarily, leading to a widening of the forex market premium. However, as the market adjusts to the new forex ban, the spike in the parallel market premium will fizzle out, leading to a convergence of rates around the IEFX window.

Final thoughts

The banks will benefit from the increased forex supply from the CBN and in return record an increase in transactions. However, the cumbersome documentation process required by banks will remain a challenge for the public. We expect the markets to adjust to the new norm, while the BDCs will be forced to survive or become extinct in the new forex market era.

Is the 3rd wave of covid infections fact or fiction?

There are speculations as to whether Nigeria is experiencing a third wave of the covid infections similar to its African peers such as South Africa who has 36.42% of total cases in Africa, Ethiopia and Morocco. In the last three weeks, Nigeria has recorded close to 4,000 new infections, which could be an indication that the country may very well be experiencing a third wave. Bear in mind that these numbers only capture the officially reported cases. So many people due to fear of stigma, being unaware that they have been infected or symptoms misdiagnosed as other illnesses do not disclose and are not captured in the official data base. As at August 3, Nigeria has 175, 264 official cases and 2,163 fatalities.

Is Nigeria ready for a third wave?

To put it bluntly, no. the economy is still reeling from the aftermath of the first lockdown and most businesses and industries are yet to fully recover. Also, reimposing restrictions at a time when the purchasing power of consumers is constrained by high prices of food, high energy costs coupled with a high rate of unemployment and poverty, the Nigerian economy could slip back to recession that would be more severe than 2020.

Does the government have the funds to provide social palliatives?

The FGN plans to release N1bn each to the 36 states by the end of July, as part of its social palliatives to curb the rising COVID-19 infections and mitigate the impact on the states. This is unlikely to make much of an impact if Nigeria indeed faces a widespread third wave. Most states are already struggling to meet their daily obligations and are even resorting to paying the old minimum wage of N18,000 to their workers due to large fiscal deficits.

Implications of COVID-19 on the Nigerian health sector and potential lasting benefits

COVID-19 has undoubtedly burdened Nigeria's already underfunded health care system. It has contributed to the physical and mental exhaustion of health care practitioners, and further strained dilapidated hospital infrastructure, inadequate staffing levels and limited medical equipment, especially in rural communities. This, coupled with continued poor leadership, has crippled the sector's performance. According to the World Health Organization's Global Health Workforce Statistics, Nigeria has 0.4 physicians per 1000 patients, compared to advanced economies like the US which have over 2.6 physicians per 1000 patients.[1] The low availability of physicians highlights the poor baseline for health care in Nigeria, which COVID-19 has generally made worse.

However, there have been a few instances where the pandemic has forced improvements that will have lasting positive implications for the country. These include Nigeria's increased international collaboration on epidemic control and vaccine sourcing, advancements in rapid testing, improved personal protective equipment and infection management practices in hospitals and clinics, and even increased federal funding, if only marginal.

[5]World Bank. 2018. "World Bank development indicator". https://data.worldbank.org/indicator/SH.MED.PHYS.ZS

Benefits of health financing on Nigeria's health sector

We have seen marginal improvements in federal funding of healthcare. Nigeria's 2021 health budget (recurrent) rose by N132.5 billion (ban) from N414.5bn in 2020 to N547bn in 2021. Also, the Federal Government increased the capital component of the health budget by 183.43% to N131.74bn in 2021 from N46.48bn in 2020. The increase in allocation is ostensibly aimed at improving vaccine infrastructure and reach across the country, which if sustained would support the administration of vaccines beyond COVID-19. Already, 4.6% of Nigerians have been vaccinated. The Nigerian health sector also received a total of N32bn from the Nigerian National Petroleum Company (NNPC) and the European Union as it hopes to significantly strengthen its response to COVID-19 and revitalize isolation centers. The funds should address some of the challenges confronting the healthcare system, especially with regards to the provision of more testing and isolation centers. In addition, the funds should mitigate future health crises and reduce financial barriers faced by the most vulnerable groups in society – which will support a stronger post-COVID healthcare system. The fund is also expected to strengthen the long-term objectives of the Nigerian health sector through adequate training and re-skilling of medical professionals.

Nigeria's international collaboration structure

Nigeria was able to improve its international collaboration through partnerships with China, the US and the European Union. These collaborations have strengthened Nigeria's bilateral relationships and have improved the country's ability to curtail the spread of the virus. Anti-epidemic supplies received from the Chinese and US governments during the period include 100 medical protective suits, 12,000 face masks, 2,000 medical gloves, 2,000 infrared thermometers, 1,550 hand sanitizers and 201 ventilators.[2,3] In addition, the US provided Nigeria with more than $54 million in COVID-19 assistance and technical advice. This effort was further supported by a 15-member team including 12 medical workers from China who provided medical assistance and expertise to health workers in Nigeria. These collaboration efforts with the US and China will better position Nigeria for future epidemic responses. Also, the timely provision of ventilators, specifically, will improve ongoing treatment capabilities for respiratory illnesses in Nigeria. These new formed relationships could also help address operational challenges with accessing and procuring health supplies in the near term.

[2]https://www.thecable.ng/covid-19-china-donates-medical-supplies-to-lagos

[3]https://www.usaid.gov/nigeria/press-releases/us-donates-brand-new-ventilators-help-nigeria-fight-covid-19

How COVID-19 has improved Nigeria's vaccine sourcing & distribution

On vaccine sourcing and distribution, Nigeria partnered with organizations such as the Global Alliance for Vaccine and Immunization, the Coalition for Epidemic Preparedness Innovations, the United Nations' Children's Emergency Fund and the World Health Organization. These collaborations aim to provide adequate and equitable distribution of COVID-19 vaccines at both the state and community level. The goal is to focus on improving global access to vaccines, and the partnerships set up to facilitate these distributions will have a lasting impact on future vaccine needs. Nigeria is also adopting new ways to manage its vaccine roll out by offering online registration for persons above 18 years using the National Primary Health Care Development Agency (NPHCDA) websites. The online registration will be supported by a multi-faceted approach using the traditional vaccination campaign and house-to-house electronic registration. The adoption of these strategies is aimed at introducing the COVID-19 vaccines in phases across urban and rural communities in a more precise and equitable manner. So far, the success rate seems to be positive as 40% of the Nigerian population is expected to have been vaccinated by the end of 2021 with an additional 30% in 2022 using the various registration processes. Meanwhile, Nigeria has commenced its second dose of the Astra Zeneca vaccine and the outcome shows the number of infected persons in the country declining. The number of active cases in Nigeria as at July 8 is 1,580 with Lagos and Abuja having the most confirmed and admitted cases respectively.

Outlook

The Nigerian health sector has benefitted immensely from international collaboration that will outlast COVID-19 in the areas of vaccine distribution, epidemic control and improved health protocols. However, Nigeria's capacity to tackle the COVID-19 pandemic still lags behind that of advanced economies and could also be coming at the expense of other pressing healthcare issues, eroding any progress made over the past few years. Hence, more work is required on the part of the government in terms of building capacity to ensure that the country's health sector realigns with the recommended WHO standard. This can be supported by further developing real-time scrutiny of the health sector and by building and deepening partnerships with more global pharmaceuticals and laboratories. This is expected to help cushion the impact of COVID-19 in the short-term and should outlive any future pandemic. In addition, ensuring that regular health programs remain well funded is likely to increase the efficiency of the government's response to future crises and to mitigate future economic and health related shocks

Not All Infrastructure Projects Are Worth Doing, Research Paper Finds

Global Perspective: Culled from the Wall Street Journal

Economists call for rigorous cost-benefit analysis before spending money on a project

Rather than building new lanes to ease traffic in an urban area, two economists suggest in a new paper that it might make sense to consider congestion pricing.

A new paper by a pair of economists says the gains from infrastructure spending aren't always clear-cut and recommends that policy makers examine the costs and benefits of each project.

"If we are going to commit a significant amount of resources to new infrastructure projects or to maintain our existing infrastructure, bringing some discipline to the way we decide what we're spending on is an important element of this," said James Poterba, an economist at the Massachusetts Institute of Technology, who co-wrote the paper with Edward Glaeser of Harvard University.

The paper is set for publication Wednesday by the Aspen Economic Strategy Group, a division of the nonpartisan Aspen Institute. Mr. Poterba is a member of the group. Congress and the White House are now working on a bill that would include about $579 billion in new infrastructure spending.

The common way to determine the country's infrastructure needs is to calculate how much it would cost to relieve congestion and to improve the roads, bridges, airports and transit systems that already exist. The economists' approach instead looks at projects individually to assess whether they are needed.

In some cases, the authors write, the best solution doesn't involve construction at all. Rather than building new lanes to ease traffic in a dense urban area, it might make sense to consider congestion pricing, which charges drivers a variable fee depending on time of day, they write.

Mr. Poterba recommended a voucher or tax-rebate system for lower-income households to ensure they aren't disproportionately hurt by the fees.

The cost of repairing an unsafe bridge in a remote area with very little traffic may exceed the benefits, they write. In that case, the most economically efficient solution might be to close or demolish it. It might also make more sense to link cities with rapid buses on dedicated lanes rather than build new rail lines. Satellite broadband or 5G network access might be a good alternative to laying fiber optic cables to provide high-speed internet access to rural areas, they write.

The paper suggests establishing an independent entity such as an infrastructure bank that would perform cost-benefit analyses on projects and that would fund only those where benefits exceed the costs. That would help keep political considerations out of the process, they write.

The studies would take into account a project's financial costs as well as its impact on the environment, maintenance requirements and long-term economic impact.

But there are significant hurdles to cost-benefit analyses. It is often hard to estimate a project's final cost because its design can change due to community opposition or environmental considerations.

Identifying the benefits of a project also is complicated, because measuring benefits depends on how much it will be used, which is difficult to predict in advance.

"You have to be careful you're not being highballed with rosy projections about what the demand for utilization will be," said Mr. Poterba.

Such cost-benefit analyses likely would recommend focusing more on maintaining existing infrastructure rather than new projects, they write. About 47% of highway spending now goes to maintenance, they find.

Officials sometimes prefer spending on new projects over maintenance because of a "ribbon-cutting bias," Mr. Poterba said, "where you can point to the thing and say it wasn't there before my time and now it's there."

The paper also expressed skepticism about public-private partnerships, in which a private entity finances the project in exchange for future revenue from tolls or other charges. Low interest rates in recent years mean that governments can often borrow more cheaply than the private sector, they write.

"Some state and local governments may be attracted to these partnerships because they relieve current cash flow constraints," the authors write. "But they may come at a price in terms of the long-term cost of infrastructure services."

OPEC+'s Supply, Price Impact and Outlook

The ongoing stalemate within the Organization of Petroleum Exporting Countries and its allies, known as OPEC+ has finally ended, as a compromise was reached with the United Arab Emirates (UAE) on its production level. The bone of contention was that the UAE wanted an increase in its quota, while Saudi was pushing for output curbs to be maintained until the rest of the year. The deadlock lasted for at least a week after the cartel's July 1 meeting, keeping the oil market and investors in limbo as to the way forward.

But all is well that ends well. The UAE's baseline for its oil quota would be increased to 3.8mbpd from 3.2mbpd, allowing the country to pump additional 600mbpd of oil. However, this deal is provisional and subject to the approval of all members at a yet to be scheduled meeting. Increasing the UAE's quota/ baseline paves the way for extending the output curbs until December 2022.

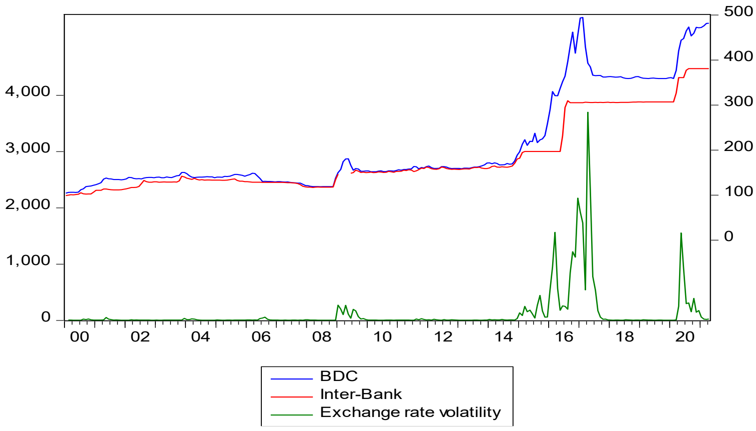
Impact on Prices

When the news broke out about the UAE deal, oil prices fell marginally then increased, trading in a choppy pattern. On July 15, oil price had lost over 1% in the early hours of the day, as investor concerns about a supply increase weighed on price. This was further compounded by OPEC+ announcement of a supply increase of 2mbpd. Add that to the growing spread of the Delta variant to more countries such as Nigeria and it appears that the era of oil prices trading close to $80 and above may be over at least in the short term; especially as Iranian oil is yet to hit the market. Not to worry. Investors are optimistic that the ongoing global demand recovery is strong enough to offset the price moderating factors, keeping oil steady above $70pb.

This is good news for Nigeria who recorded a sharp plunge (50%) in its oil earnings in the first five months of 2021 on lower oil production. Barring any further disruptions (pipeline vandalism, force majeure), Nigeria's oil production level should start to pick up. This coupled with other upcoming sources of revenue such as the sale/ concession of about 36 idle state assets, should help put Nigeria in a better fiscal position.

Examining the Impact of Exchange Rate Volatility in Nigeria

The stability of the exchange rate is a major macroeconomic indicator used to measure the performance of an economy. Nigeria's forex market has undergone significant changes over the years. The forex market has evolved from a fixed regime in the 1960s to a pegged arrangement between the 1970s and the mid-1980s, and to various types of managed floating systems since 1986 (the structural adjustment program period). The country currently has multiple exchange rates (parallel, bureau de change, IATA, investors and exporters window, but to name a few) and currently adopts the managed floating exchange rate system. On May 24 2021, the CBN officially replaced the official exchange rate with the more flexible Nigerian Autonomous Foreign Exchange Fixing Rate (NAFEX) rate in an attempt to unify the country's multiple exchange rates. This replacement means a technical devaluation of the naira by 7.56% to the NAFEX rate (N410/$) from the previous official rate of N379/$. However, the exchange rate has remained volatile at the parallel market, driven by speculative activities and panic buying. The uncertainty about the CBN's forex policy has not only spurred profiteers into action but also kept investors at bay, thereby halting FPI inflows.



[4]

Exchange Rate Volatility and Its Impact

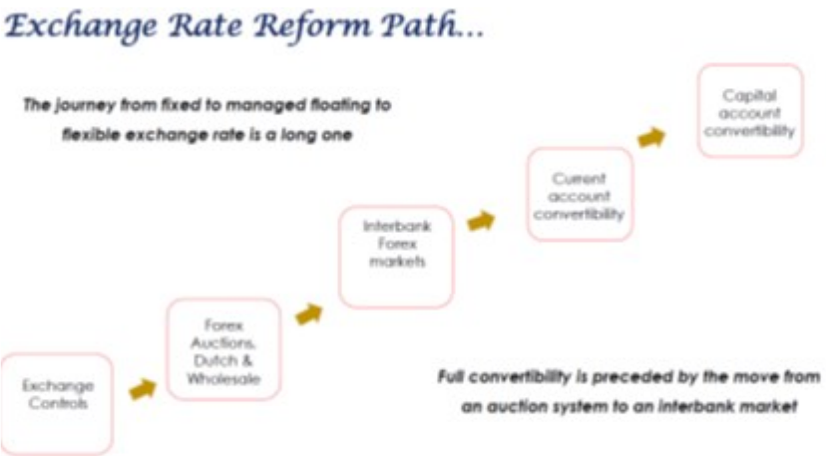
Two sectors that are highly vulnerable to exchange rate volatility are trade and manufacturing and both have a combined contribution to GDP of 25.54%.[5] Nigeria is an import dependent nation

[4] CBN and FDC Economic Think-tank
[5] NBS Q1'21 GDP report

and this makes it highly vulnerable to exchange rate volatility. As of Q1'21, Nigeria's total import bill was N6.85trn compared to N2.91trn in export earnings. Rising global prices coupled with the naira depreciation have made imported goods more expensive, resulting in a higher import bill for the government. This has also led to an increase in the cost of goods manufactured in the country as manufacturers pass on the cost burden to consumers in the form of higher prices. The CBN's forex rationing has pushed many a manufacturer to adopt a blended exchange rate to meet their forex needs. Also because of the forex shortages and the high cost of imported items, the trade sector has been affected as traders both retail and wholesale struggle to stock up on their inventory levels. As a result, many imported items are either scarce or very pricey when available.

Way forward

There are two options the CBN could adopt in its forex reform path. One is a full convertibility of the naira and the other option, to adopt a crawling peg and gradual convergence of the multiple exchange rates.



[6]

Both options have their pros and cons. While a full convertibility of the naira will impact positively on the country's trade balance which is in a deficit of N3.94trn[7], Nigeria's capacity utilization remains low. Countries that benefit from a full convertibility exchange rate have a high export base and can increase their exports to take advantage of the weaker currency. Nigeria's major (or only if we are being frank) export is oil. The unintended consequence of having a full convertibility currency is the sharp increase in external debt service costs due to the weaker currency. This would be exacerbated when global interest rates start to rise. The other option of a crawling peg reduces the impact of a sharp spike on prices. However, this will encourage speculative activities and panic buying in the autonomous markets.

[6]FDC Think-tank
[7]NBS Q1'21 Foreign Trade report

In New Papers, Economists argue Deficits are like Ponzi Schemes

Global Perspective: Culled from Bloomberg Businessweek

Laurence Kotlikoff and others say accumulating debt to pay for current expenses is taking money from the young to pay off the old. The current boom in deficit spending by governments around the world probably owes at least something to Olivier Blanchard, who in 2019 wrote, "Put bluntly, public debt may have no fiscal cost." Blanchard, a former chief economist of the International Monetary Fund, argued that if the economy's growth rate is durably higher than the government's borrowing rate, a lump of debt becomes more affordable over time because interest payments shrink as a share of the economy.

It seemed like an invitation to open the red ink spigots, even though Blanchard has since hedged and even expressed concern this year that the Biden administration's deficit spending will overheat the U.S. economy. Now, a pair of research papers by Boston University economist Laurence Kotlikoff and co-authors question Blanchard's original conclusions. The authors say saddling future generations with more debt doesn't pass the test of Pareto improvement, which is the standard Blanchard held himself to. A policy is Pareto-improving if it makes some people better off without making anyone worse off. If even one person is harmed by a policy, it's not Pareto-improving.

Kotlikoff, who calls himself a deficit realist rather than a deficit hawk, argues that accumulating debt to pay for current expenses is like a Ponzi scheme in that money from new players (the young) is used to pay off people who started playing the game earlier (the old). The Ponzi scheme collapses when the economy's growth rate falls below the interest rate. "For a while it all looks great, then somebody gets nailed," Kotlikoff says in an interview. "Olivier is a fantastic economist and he's a friend of mine but I don't think this was his best effort," Kotlikoff says, referring to the American Economic Association presidential address in January 2019 that was the basis for Blanchard's paper. Asked for a reaction to the two new papers, Blanchard responds in an email, "I agree with the arguments, which I actually had made, less with the tone." He says his 2019 presidential address applied to a particular set of circumstances and that there are many cases where deficit spending is not the answer—for example, when people are fearful of the future and therefore doing a lot of precautionary saving. "The right solution here is not higher debt, but the provision of universal health insurance, Medicare for all."

In one paper, Deficit Follies, Kotlikoff and three co-authors, Johannes Brumm of Karlsruhe Institute of Technology in Germany, Xiangyu Feng of Boston University, and Felix Kubler of the University of Zurich in Switzerland, look at three situations involving deficit spending at times when the economy's growth rate exceeds the government's interest rate. They conclude: "None provides a basis for taking from the young and giving to the old." In one case, for example, the reason the government's interest rate is very low is that people are worried about risks to their livelihoods, so they buy government bonds as a hedge, which pushes down the government's interest rate. The government is tempted to ramp up borrowing at its low interest rate, but the right way to mitigate livelihood risk, the authors write, is progressive taxation, in which money flows from people who were lucky in their careers to those who were unlucky.

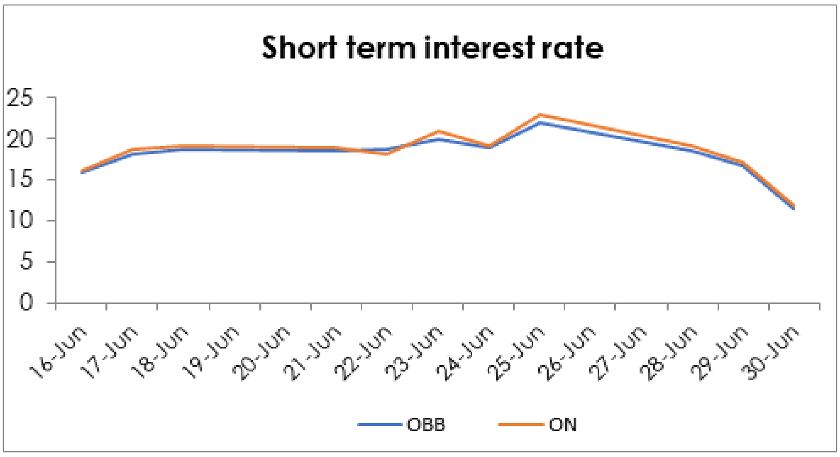
In the other paper, When Interest Rates Go Low, Should Public Debts Go High?, Kotlikoff and the same co-authors write that intergenerational risk-sharing is a good thing, but it needs to be able to go in both directions. If the young do better, they should pay the old, and if the old do better, they should pay the young. In the real world it's impossible for people who live hundreds of years apart in time to strike this kind of deal, which means there's a distortion in the market. Kotlikoff says Blanchard doesn't take this distortion into account.

The problem with deficit spending is that the benefits always go in the same direction—from the young, who have debt foisted on them, to the old, who benefit from current spending. Another problem is that a country that does deficit spending sucks in savings from abroad, which harms capital formation and future growth in other countries, the authors write. The authors caution that their deficit spending critique doesn't apply to deficit finance "used to fund infrastructure or correct externalities, like global warming," or to fight a recession by spurring demand. Those are big caveats and imply that running deficits for such purposes can be justified.

Macroeconomic Indicators – June 16th -30th

Money Market

The average opening position of banks returned to positive level during the review period. It spiked by 234.88% to N124.08bn in the second half of June from a negative position of N91.99bn in the corresponding period in May. Average short term interbank rates rose by 350bps to 18.24%p.a in the review period from 14.74%p.a in the corresponding period of May.



[8]

At the primary market, total Treasury bill allotment was N193.87bn. The closing rates for the 91-day and 182- day T/bills were flat at 2.50%p.a. and 3.50%p.a. respectively on June 16 and June 30. While the 364-day T/bills fell by 25bps to 9.15%p.a. on June 30 from 9.40%p.a. on June 16. However, at the secondary market, the closing rates across the tenor dates spiked by 37bps, 99bps and 35bps to close at 4.95%p.a, 6.95%p.a. and 9.15%p.a on June 30 from 4.58%p.a, 5.96%p.a and 8.80%p.a. on May 31.

T/bills Tenor	Primary Market rate as at June 16 (%p.a.)	Primary Market rate as at June 30 (%p.a.)	Direction	Secondary Market rate as at May 31 (%p.a.)	Secondary Market rate as at June 30 (%p.a.)	Direction
91	2.50	2.50	↔	4.58	4.95	↑
182	3.50	3.50	↔	5.96	6.95	↑
364	9.40	9.15	↓	8.80	9.15	↑ [9]

[8]CBN, FDC Think Tank
[9]FSDH, FMDQ, FDC

Outlook

Short term interbank rates will remain elevated around current levels on tight liquidity in the system.

Impact

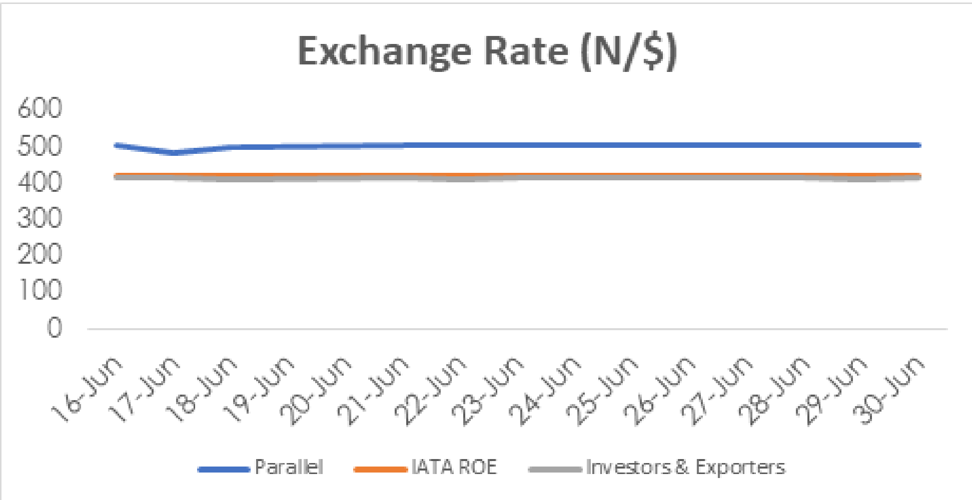
The inflation-interest rate differential will continue to narrow on higher interest rates.

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

The exchange rate at the IEFX window was relatively stable, trading within the band of N411-412/$. Higher oil prices and continued intervention from the CBN have supported the value of the currency at the IEFX window. However, the parallel market continues to be driven by speculative activities. The exchange rate closed the review period at N502/$ compared to N495/$ at the end of May.



[10]

[10]CBN, FDC Think Tank

Outlook

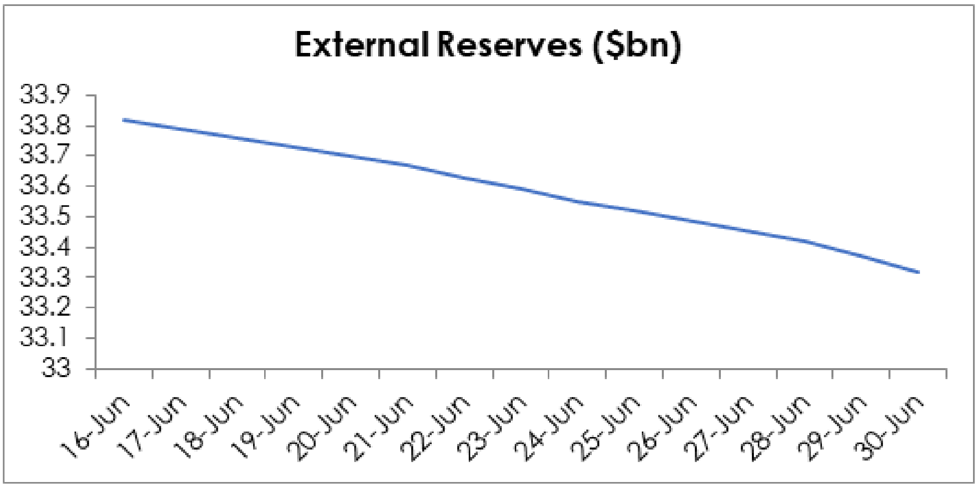
Panic buying and profiteering will continue to influence the parallel market dynamics. While the IEFX will be driven by market forces of demand and supply.

Impact

Forex rationing will continue to force manufacturers to use a blended rate and this will keep cost of raw materials high.

External Reserves

Nigeria's gross external reserves lost $910mn between the end of May and June to close at $33.32bn on June 30. This is occurring despite higher oil prices, due to the backlog in forex demand. The external reserves level is sufficient to cover 8.18 months of imports and payments, down from 8.40months on May 31($34.23bn).



[11]

Outlook

We expect the depletion in the external reserves level to continue to fall albeit at a slower pace on higher oil prices.

Impact

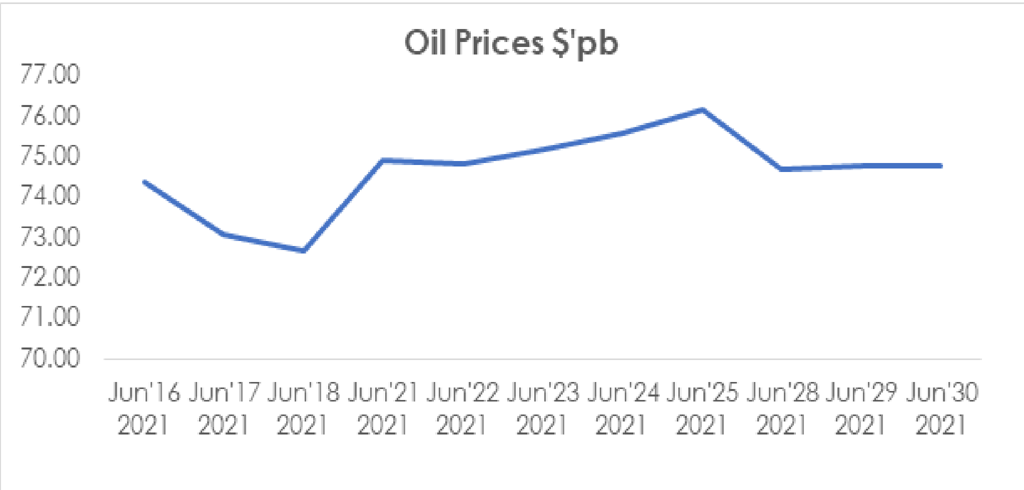
The lower the external reserves level, the less likely the CBN will be able to support the currency.

[11] CBN, FDC Think Tank

Commodities Market - Exports

Oil Prices

Between June 16 and June 30, the average price of oil was $74.64pb, 20.64% above the average price of $68.17pb recorded in the second half of May. The increase in price was driven primarily by strong global demand amid tight market supply, positive market sentiments, falling US crude inventories (8.15 million barrels) and the steady growth recovery in key markets such as the US, China and the UK. Meanwhile, OPEC+ has been unable to conclude on its supply plan for August due to the ongoing stalemate between Saudi Arabia and the UAE. While Saudi is in support of the cartel maintaining its output cuts for the rest of the year, the UAE is pushing for an increase in its output levels.



[12]

Outlook

Oil prices are likely to continue to trade above $70pb despite the deal allowing the UAE to increase its OPEC quota. The Iranian nuclear deal is yet to be finalized although the market has priced in the extra 1mn barrels of oil expected from the country. Nonetheless, oil prices are likely to trade above $70pb in the next two weeks.

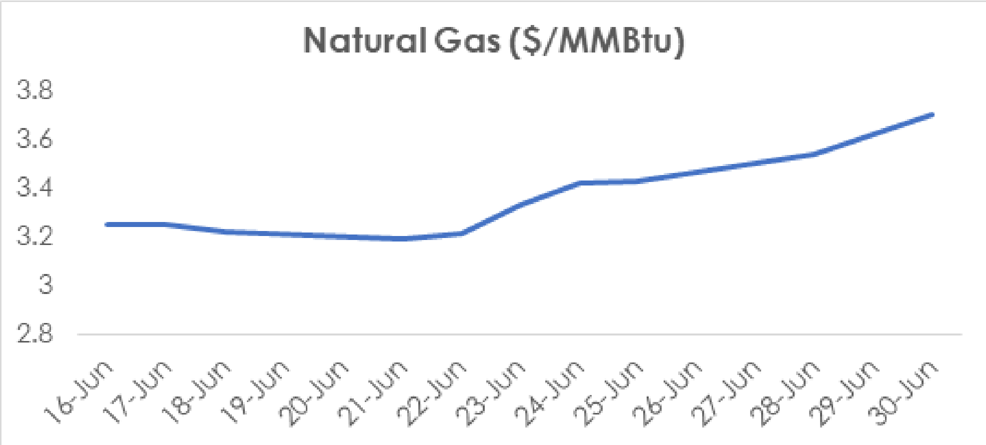
Impact

Higher oil prices would offset Nigeria's low production levels. Increased oil proceeds implies an improved dollar cash flow position and would slowdown the pace of depletion of the external reserves.

[12] Bloomberg, FDC Think Tank

Natural Gas

The average price of natural gas increased by 13.42% to $3.38/MMBtu during the review period from $2.98/MMBtu in the corresponding period of May. During the period, prices touched a peak of $3.70/MMBtu on June 30. The increase in prices was driven by hot summer and storage demand for power generation from Europe and Asia. Also, LNG prices have been rising in Brazil with more deliveries made to the northern hemisphere due to a hotter than expected summer.



[13]

Outlook

We expect LNG prices to remain bullish for the next couple of weeks on strong global demand. This would be firmly cushioned by increased demand for Liquefied Natural Gas in China and South Korea despite the government's ban on coal-fired generation.

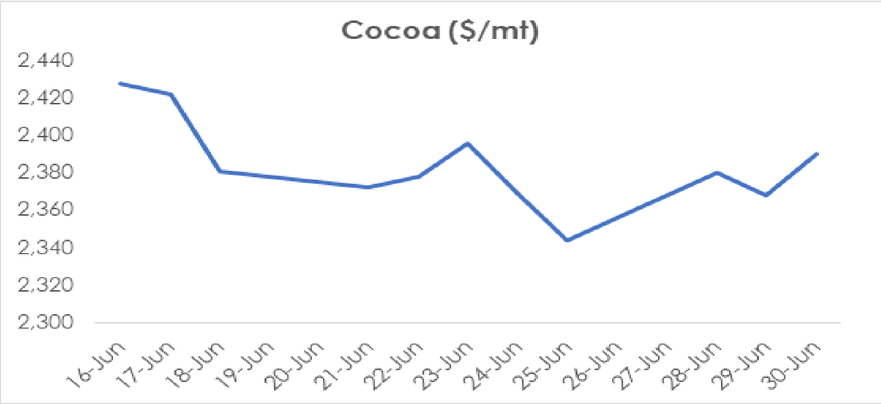
Impact

Higher LNG prices are positive for foreign exchange earnings. This would significantly slow the pace of external reserves depletion.

Cocoa

Average cocoa prices declined by 3.40% to $2,384mt in the second half of June from $2,468mt in May. The decline in cocoa prices is attributed to persisting supply glut in major cocoa producing countries amid weak global demand. Supply prospects have also been largely aided by increased rainfall in Ivory Coast. The International Cocoa Organization (IOC), has projected that global cocoa production for the 2020/21 harvest season could reach a peak of 5.024 tonnes.

[13]Bloomberg, FDC Think Tank



[14]

Outlook

We anticipate cocoa prices to remain soft on weak global demand and persisting supply glut.

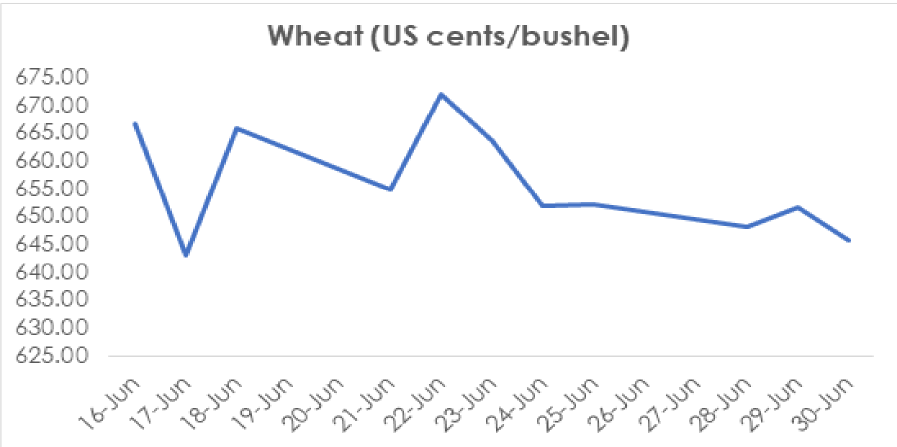
Impact

A fall in cocoa prices would adversely reduce Nigeria's non export earnings and government revenue

Imports

Wheat

Wheat prices averaged $656/bushel in June, 1.63% below the average price of 666.84/bushel recorded in the second half of May. The downward trend in price was due to improved harvest forecast for Russia and Ukraine.



[15]

[14]Bloomberg, FDC Think Tank
[15]Bloomberg, FDC Think Tank

Outlook

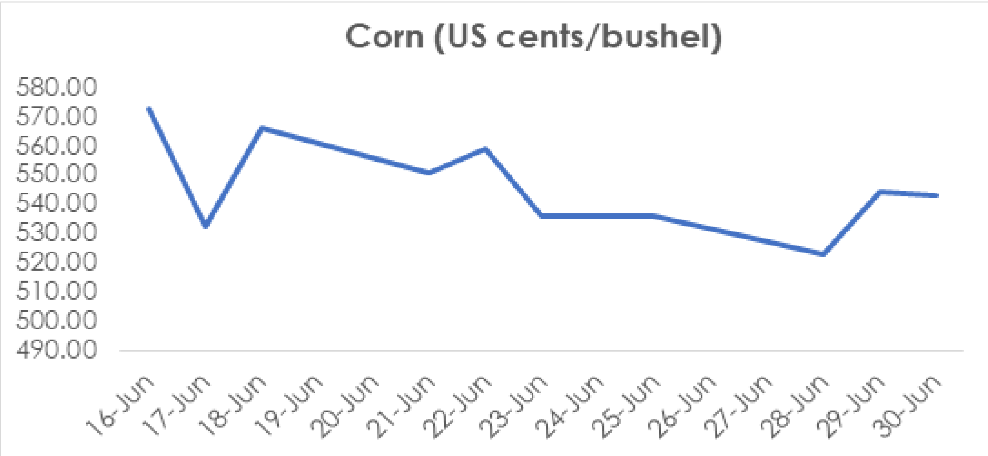
We expect wheat prices to remain soft on improved harvest forecast in major wheat producing regions.

Impact

A decrease in the global price of wheat will reduce the cost of imported wheat but the forex shortages in Nigeria will continue to keep the price of flour and flour related commodities high.

Corn

Corn prices averaged $545.39/bushel in the second half of June, 15.98% lower than the average of $649.14/bushel in the previous month. The fall in price was driven by weak global demand despite persisting supply constraints from the US. During the review period, corn prices reached a high of $572.50/bushel and a low of $522.75/bushel on June 16th and 28th.



[16]

Outlook

Corn prices to remain bearish for the next two weeks on the back of weak global demand

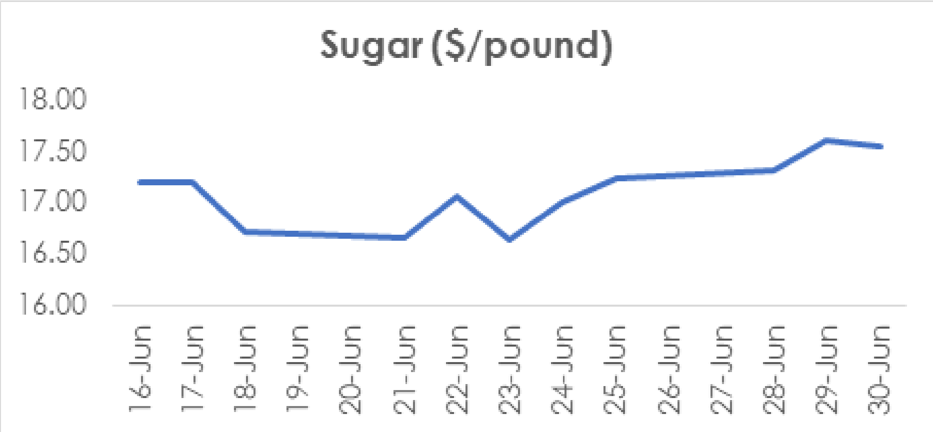
Impact

Lower corn prices will positively affect the Nigeria's import bill.

Sugar

Average sugar prices rose by 0.59% to $17.11/pound during the review period, from $17.01/pound in the corresponding month in May. The increase in price was driven by limited supply from Brazil amid strong global demand for sugar.

[16]Bloomberg, FDC Think Tank



[17]

Outlook

The price of sugar is expected to increase in coming weeks on limited supply concerns from Brazil

Impact

An increase in sugar prices will increase Nigeria's import bill on sugar.

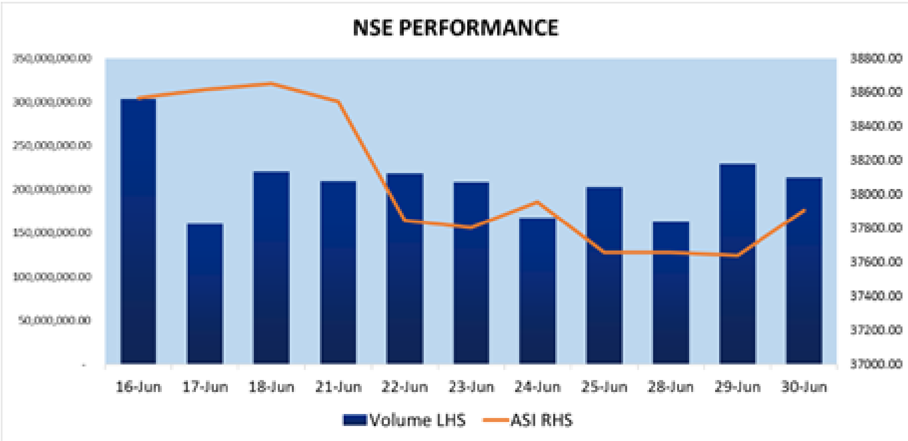
[17]Bloomberg, FDC Think Tank


UBA
United Bank for Africa
Leo
on WhatsApp
Chat on +234-903-000-2455
Leo
TODAY
Type a message
leo
Check Account Balance?
Top up your airtime?
Bank Transfers?
Bills Payment?
https://m.me/ubachatbanking
Leo@ubagroup.com
CFC (+234-1-2807400)
Africa
New York
London
Paris
Web: www.ubagroup.com
Email: cfc@ubagroup.com
Africa's global bank

Stock Market Review

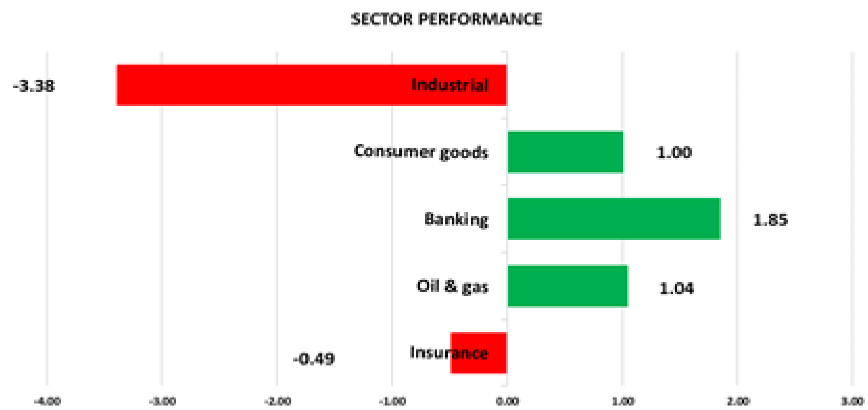
The NSE recorded a negative performance in the review period, as it lost 1.56% to close at 37,907.28 points on June 30th from 38,507.29 points on June 15th. In the same vein, market capitalization fell by 1.54% (N310bn) to N19.76trn on June 30th relative to its close of N20.07trn on June 15th. The market YTD return declined to -5.87% from -4.38% in the review period. The market lost in 5 out of the 11 trading days of the review period with a cumulative loss of 1.55%.

The NSE traded at a price to earnings (P/E) ratio of 14.17x as of June 30th, 8.67% higher than the close of June 15th (13.04x). The market breadth was positive at 1.22x as 47 stocks gained, 67 remained unchanged while 32 lost.



[18]

Market activity level was mixed in the review period. The average volume traded decreased by 6.65% to 208.73mn units from 223.61mn units. Meanwhile, the average value of trades rose by 0.84% to N2.41bn from N2.39bn in the review period.



[19]

[18]NSE and FDC Think tank
[19]NSE and FDC Think tank

The performance of the sector indices was mixed in the review period (June 15-25). The banking sector recorded the highest gain (1.85%) followed by oil & gas (1.04%) and consumer goods (1.00%). On the other hand, the industrial and insurance sectors lost 3.38% and 0.49% respectively.

Linkage Assurance Plc topped the gainers' list with a 50.00% increase in its share price. This was followed by Ikeja Hotel Plc (43.01%), Vitafoam Nigeria Plc (28.87%), Honeywell Flour Mills Plc (23.70%) and Fidson Healthcare Plc (17.65%).

TOP 5 GAINERS				
Company	**June-15 (N)**	**Jun-30 (N)**	**Absolute Change**	**Change (%)**
Linkage Assurance Plc	0.56	0.84	0.28	50.00
Ikeja Hotel Plc	0.93	1.33	0.40	43.01
Vitafoam Nigeria Plc	11.95	15.40	3.45	28.87
Honeywell Flour Mills Plc	1.35	1.67	0.32	23.70
Fidson Healthcare Plc	5.10	6.00	0.90	17.65

The laggards were led by Consolidated Hallmark Insurance Plc (18.92%), BOC Gases Plc (18.80%), Airtel Africa Plc (11.36%), Juli Plc (9.56%) and Abbey Mortgage Bank Plc (9.52%).

TOP 5 LOSERS				
Company	**June-15 (N)**	**Jun-30 (N)**	**Absolute Change**	**Change (%)**
Consolidated Hallmark Insurance Plc	0.74	0.60	0.14	-18.92
BOC Gases Plc	10.53	8.55	1.98	-18.80
Airtel Africa Plc	753.30	667.70	85.60	-11.36
Juli Plc	1.36	1.23	0.13	-9.56
Abbey Mortgage Bank Plc	1.05	0.95	0.10	-9.52

Outlook

We expect the NSE performance to remain volatile in the near term on cautious trading ahead of the release of Q2'2021 corporate results.

Economic Outlook for the Next Two to Four Weeks

Q2 GDP growth data is scheduled for release in August by the NBS. We are projecting a spike to about 3% based on base year effects, as Q2'20 was the peak of the lockdown and economic crunch. Economic output is expected to increase further in Q3 due to the harvest season and this will impact positively on crop production output levels.

Inflationary pressures are expected to taper on increased food supply, however, the likelihood of another electricity tariff and petrol price hike in August will offset the slowdown.