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In This Issue ...

Inflation and unemployment – the looming economic trap

Over 7 million Nigerians lost their jobs due to inflationary pressures in 2020, taking the total number of poor people in the country to over 83 million (40% of the total population).[1] Inflation hit a four-year peak in March. Driven by the effects of COVID-19, it rose to 18.17%, up 4.85% from February. As of July 2021, Nigeria's headline inflation stood at 17.38%. Nigeria is expected to have the fifth highest inflation rate on the continent by the end of 2021, behind only Zimbabwe, Zambia, South Sudan, and Angola.[2] The high inflation has compounded the financial pressure on households already faced with a shrinking labor market, stagnant economic growth, and increasing levels of insecurity.

Nigeria is experiencing cost-push inflation, where prices of goods and services are driven up by the high price of inputs, wages and production resources, most specifically, imports. Although Nigeria has experienced a downturn in its inflation in the past four months, the inflation rate could increase again due to the likely increase in energy costs (PMS price).

[1]World Bank 2021." Critical reforms needed to reduce inflation and accelerate the recovery says new World Bank report". https://www.worldbank.org/en/news/press-release/2021/06/15/critical-reforms-needed-to-reduce-inflation-and-accelerate-the-recovery-says-new-world-bank-report

[2]Channels Television. 2021." Nigeria's Inflation Rate To Rise To 5th Highest In Sub-Saharan Africa By End Of 2021 – World Bank" https://www.channelstv.com/2021/06/15/nigerias-inflation-rate-to-rise-to-5th-highest-in-sub-saharan-africa-by-end-of-2021-world-bank/

Inflation is the biggest driver of poverty because of its impact on households, businesses and overall security. Rising prices erode real incomes and purchasing power of consumers, heightens pressure on operating costs, increases production costs, and reduces real returns on investment. Businesses struggle to survive as it is not always possible for producers to transfer additional cost to consumers, and employment suffers as a result.[3] Rising unemployment, in turn, will push more Nigerians into criminal activity to support their livelihood and make up for lost earnings. A surge in insecurity over the last few years has slowed economic growth further and left more people displaced and unemployed, leading to a vicious cycle of violence.

However, the problem is not easily solved. The combination of rising inflation and unemployment rates creates a unique set of challenges for policy makers. Policies that boost economic output and reduce unemployment, such as a reduction in taxes and an increase in government spending, would worsen inflation because these policies tend to increase the supply of money in the economy.

Policies that would reduce inflation, such as increasing the interest rate, could exacerbate unemployment. When the CBN increases its monetary policy rate, commercial banks have to increase their interest rates, which discourages borrowing and reduces the supply of money in the country. In a country like Nigeria, a significant rise in the interest rate could have devastating effects on the economy. Borrowing becomes more expensive, leading to a decline in the already sluggish economic growth.

[3]Ottoabasi Abasiekong. 2021." "Inflation Remains a Major Driver of Poverty in Nigeria - Muda Yusuf".
https://www.proshareng.com/news/NIGERIA%20ECONOMY/Inflation-Remains-a-Major-Driver-of-Poverty-in-Nigeria--Muda-Yusuf/58302#

Instead, the current situation presents yet another reason for the Nigerian government to focus on economic diversification in general, and specifically a reduction in the country's dependence on imports. Excessive importation strains the already depleted foreign reserves, increases exposure to imported inflation and as a result increases the price of goods available in the economy.[4] An example of this was banning the use of foreign exchange to import rice and other popular imports that could be grown or manufactured locally. This initially led to an increase in local production, but inadequate supply of the commodities ultimately led to a surge in prices.

The current macroeconomic conditions of Nigeria in terms of its current inflation and unemployment rates, reiterates the need for adequate import substitution, export promotion strategies and also the need for a stable exchange rate.

[4]Dennis Adesanoye. 2018."How importation is killing Nigeria's economy". https://nairametrics.com/2018/10/03/nigeria-imports-411-32b-goods-in-8-yrs/


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Nigeria's macroeconomic score-card and outlook

With less than 570 days to the 2023 elections, an assessment of the Nigerian government's scorecard, with respect to achieving its broad macroeconomic goals, reveals under performance amid half-hearted and belated efforts at economic reform. While reforms have not been helped by the COVID-induced disruption and delays in implementation, fears are rife that the government may be switching gears firmly into campaign mode as the elections draw ever closer.

A reality check

In line with the global norm, Nigeria's broad macroeconomic goals are grouped largely into four areas:

Sustainable and inclusive growth

The goal is to achieve real GDP growth that outperforms potential GDP growth rate (8.3% in 2021) and outpaces the population growth rate (3.2%). The reality is that real GDP growth has consistently underperformed potential GDP, and as such, the recessionary gap is widening. According to the United Nations, Nigeria is now the poverty capital of the world (2019: 40.1%) with the fourth lowest life expectancy globally (2019: 53.8 years).[5]

Price stability – keeping prices below target (6-9%)

The CBN employs inflation targeting as its monetary policy management framework for the attainment of price stability – part of achieving its objective of maintaining macroeconomic stability. While headline inflation (17.38%) is currently on the downward trend, it is 8.38% higher than the upper limit of the CBN's target. The CBN deems inflation above 12% as growth retarding: high inflation could impede progress in business sentiment while eroding investor confidence.

Reduce unemployment to manageable levels

The goal is to keep unemployment below the natural rate of unemployment (frictional and structural unemployment and not cyclical) while also ensuring a high rate of youth participation and employment. The reality is in stark contrast with the country's aspirations as Nigeria is in its worst unemployment crisis (33.3%) according to the World Bank.[6] This is the highest level of unemployment in Africa. In 2020 alone, seven million Nigerians fell below the poverty line. Youth unemployment is over 50% and rising – fuelling social unrest. The decline in living standards caused by the recession in 2020 and the underlying problem of poverty are compounding the problem of insecurity across the country.

External sector stability and competitiveness

The objective is to achieve a balance of payments surplus – positive current-account, capital account and trade balances. As it stands, Nigeria's share of global exports fell sharply in 2020 before rising again on the back of reductions in both oil price and production. According to data from the Economist Intelligence Unit (EIU), export prices fell by 22.6% while import prices fell slightly by 0.6%. The current-account and trade balances were in negative territory (-3.9% and -16.4 respectively).

[5]The World Bank, May 2020, "Nigeria releases new report on poverty and inequality in country". https://www.worldbank.org/en/programs/lsms/brief/nigeria-releases-new-report-on-poverty-and-inequality-in-country

[6]The World Bank, July 2021, "Of Roads Less Travelled: Assessing the Potential for Migration to Provide Overseas Jobs for Nigeria's Youth". https://documents.worldbank.org/en/publication/documents-reports/documentdetail/727521626087761384/of-roads-less-traveled-assessing-the-potential-of-economic-migration-to-provide-overseas-jobs-for-nigeria-s-youth

Macroeconomic challenges

One of Nigeria's most pressing macroeconomic challenges is sub-optimal output growth and how to raise total factor productivity just after exiting a recession. After many years of positive real returns, we are now witnessing negative labor and total factor productivity with five-year averages of (-1.32%) and (-1.6%) respectively. This implies a relative contraction in output compared to expansions in total input, including labor.

Nigeria is also confronted with a widening fiscal imbalance as its total debt stock has surged by 72.81% (N33.11trn in Q1'21) in the last five years while its debt to export ratio has spiked to 111.6% in 2020 from 57.9% in 2016. The negative real rate of return on investment is a major disincentive as inflation (17.38%), while declining, is still higher than interest rates. The CBN is caught between raising interest rates and restoring investor confidence and keeping rates low to stimulate output. Interest rates rose steadily in the first half of 2021 on tight liquidity before falling marginally. 364-day treasury bill rates are down to 7.35% in August from 9.64% in June.

Nigeria's acute dependence on oil and gas exports for over 80% of its foreign exchange inflows means it is also confronted with an external sector gap. Its terms of trade (ratio between a country's export prices and its import prices) deteriorated to 23.2 in 2020 from 29.7 in 2019. While export prices were down by 22.6%, import prices fell by 0.6%. While the trade deficit of $16.4bn in 2020 is likely to improve to -$5.8bn in 2021, the current account is expected to remain in deficit (-$5.1bn) in 2021. The gross external reserves also resumed steady accretion in July after three months of decline ($33.58bn).

Outlook

The short-term outlook for the Nigerian economy is benign on most fronts. Output will benefit from the base effects of the slump in 2020, increased vaccinations and higher oil prices and production. Headline inflation is likely to decline further in Q3'21 as we enter the harvest season, while the external imbalance problem is expected to ease on higher oil receipts and increased remittances as advanced economies recover. This will also ensure forex supply to manufacturers and other importers.

The policy-making dilemma is that overcoming the macroeconomic challenges requires biting the bullet and confronting several hard and unpopular choices which are often politically inexpedient. For Nigeria to bridge the recessionary gap and attain a long-term GDP growth trajectory that is both sustainable and job-creating, the timing and pace of economic reform are crucial and cannot be politicized.

The subsidies in the Nigerian economy have to be tackled. The most notable are the ones on forex, fertilizers, petrol, electricity and the money market. While the move to market-determined rates has been somewhat reluctant and has been met with resistance, it is necessary for the creation of economic incentives and investor confidence. Only this has the capacity to propel Nigeria to an accelerated GDP growth path.

Fiscal sustainability and the resilience of the Nigerian State

The Federal Government of Nigeria spent N1.8 trillion on its debt service obligations between January and May this year. This was disclosed by the Minister of Finance, Budget & National Planning, Mrs Zainab Shamsuna Ahmed, during the presentation of the budget implementation report. The figure represents approximately 98% of the Nigerian government's aggregate revenue within the period (N1.84trn), which is 44.6% lower than the projected revenue of N3.32trn for the period. This is primarily due to lower-than-expected oil revenues and rising debt levels. Despite higher oil prices, revenues have remained subdued as Nigeria is yet to take advantage of the increase in its oil production quota.

Fiscal shocks & adjustments: how much more room

Nigeria's financial fragility means COVID-19 related shocks are far-reaching and long-lasting. Weaker-than-expected economic performance is threatening Nigeria's ambitious revenue growth targets. The fall in oil receipts and COVID-19 related expenditure, this year and last, have exacerbated an existing revenue problem. The revenue situation means Nigeria is likely to borrow even more than initially projected to cover its shortfall in 2021, while it also attempts to boost capital expenditure.

The total public debt is now N33.11trn ($87.24bn) as at March 2021, up 163% from N12.6trn in 2015. As a share of GDP, the stock of public debt is low (21.3%) but rising, giving the government some latitude to borrow more. The government has also implemented an upward adjustment to its borrowing limit from 25% of GDP to 40% of GDP in the new medium-term debt management strategy. This is to accommodate new loans to finance the budget deficit. The new limit is still well below the World Bank/IMF's recommended threshold (55%) for countries in Nigeria's peer group.

In addition, the medium-term debt strategy also okays a shift from a 50:50 domestic-external loan split to 70:30. This will deepen the domestic debt market further and lower cross border risks associated with external debt in the context of limited export earnings. In light of the significantly higher domestic interest rate environment in comparison to the start of the year, this strategy is also coming under scrutiny.

Non-oil revenues key to fiscal sustainability

However, precariously low tax revenue has made debt servicing decidedly arduous. At 6% of GDP, lower than the sub-Saharan African average of 15%, the federal government's tax revenue is among the world’s lowest. This is compounded by widespread evasion, inefficient tax administration and a large informal sector. Nigeria’s debt/export ratio is projected at 111.6% in 2020. The situation is also calling into question the ability of the government to credibly cover its future deficits and debt given its other obligations over the long-term.

The external debt picture, at $32.86bn, is projected to increase to approx. $40bn in the coming months following the approval of $6.2bn in external borrowing. Given the inevitable rise in global interest rates, as central banks in advanced economies ponder the normalization of monetary policy, debt service costs on external debt will increase and could push Nigeria’s debt beyond the point of sustainability. Achieving fiscal sustainability and the macro-fiscal objectives of the government will require bold, decisive and urgent action.

Subsidies are reverse taxes

Nigeria's continued subsidy on imported petrol (estimated at N5.5bn daily), over a year after it attempted to fully deregulate the downstream oil sector, is perhaps its biggest revenue leakage. The IMF, at its June 1-8, 2021 meetings with Nigerian authorities, underlined the importance of doing away with subsidies completely, particularly in the context of low revenue mobilization.

"The mission expressed its concern with the resurgence of fuel subsidies. It reiterated the importance of introducing market-based fuel pricing mechanism and the need to deploy well-targeted social support to cushion any impact on the poor. The mission recommended stepping up efforts to strengthen tax administration to mobilize additional revenues and help address priority spending pressures"[7]

While petrol subsidies are just one of several other subsidies (electricity, fertilizer, foreign exchange) that exist in Nigeria's economic system, its removal is likely to face the most pushback. The Petroleum Industry Bill (PIB), as passed by the National Assembly contains sections that ensure the disappearance of subsidies, and it remains to be seen if labor unions and civil society groups can be convinced that it is in the best interest of Nigerians. If and when petrol subsidies are done away with, an estimated N2trn will be added to government revenue to be shared by the three arms of government. To put the amount in context, N2trn is 14.78% of the total expenditure budget, 38.65% of the budget deficit and over 15 times the total federal government expenditure on education and health. The government will come under pressure to match rhetoric with action and deploy the savings to tackle the infrastructure deficit, which is estimated by Moody's Investor Service at $3trn over the next 30 years.

[7]The International Monetary Fund, June 2021, "IMF Staff Concludes Virtual Visit with Nigeria". https://www.imf.org/en/News/Articles/2021/06/17/pr21184-nigeria-imf-staff-concludes-virtual-visit-with-nigeria.

No going back

Nigeria's economic reform momentum appears, on the surface, to be irreversible, but the pace of reform will require political will that is rooted in an ideology that gives no room for backsliding. While efforts at significantly boosting non-oil revenue performance are well underway, they need to be intensified and sustained. Escaping the debt trap may require policy action as drastic as raising non-oil taxes, particularly as the capacity to capture the informal economy remains severely impaired. Building the non-oil economy requires investment in infrastructure that should be enabled by the removal of fuel subsidies and would place Nigeria firmly on a path to prosperity – a hard but winnable battle.

Three Reasons to be worried about Africa's progress

Global Perspective: Culled from Bloomberg Opinion

Ethiopia, Nigeria and South Africa were supposed to be the economic engines of an entire continent, but conditions in all three countries have recently taken a turn for the worse.

By

Tyler Cowen

A refugee camp in Azezo, Ethiopia, July 2021. *Photographer: Eduardo Soteras/AFP/Getty Images*

One of the saddest stories of the year has gone largely unreported: the slowdown of political and economic progress in sub-Saharan Africa. There is no longer a clear path to be seen, or a simple story to be told, about how the world's poorest continent might claw its way up to middle-income status. Africa has amazing human talent and brilliant cultural heritages, but its major political centers are, to put it bluntly, falling apart. Three countries are more geopolitically central than the others. Ethiopia, with a population of 118 million, is sub-Saharan Africa's second-most populous nation and the most significant node in East Africa. Nigeria has the most people (212 million) and the largest GDP on the continent. South Africa, population 60 million, is the region's wealthiest nation, and it is the central economic and political presence in the southern part of the continent. Within the last two years, all three of these nations have fallen into very serious trouble. The most obvious disaster is Ethiopia, where a civil war is worsening by the day. Recently Prime Minister Abiy Ahmed called for all eligible citizens to enter the armed forces. That is a sign of desperation, not imminent resolution of the conflict. Abiy had promised a rapid victory, but in June the Tigrayan forces won some battles against the national Ethiopian army, taking over significant parts of the country. The Tigrayan rebels now control even the famed city of Lalibela, a major tourist center and home of Ethiopia's UNESCO-designated stone Christian churches. It is not clear what will happen next. Keep in mind that until the recent conflict, Ethiopia was enjoying years of double digit economic growth, unprecedented in modern African history. The country's industrial policy and economic reforms were considered marvels for other developing nations to emulate. Those views may still be valid, but the good news has been overwhelmed by longstanding ethnic conflicts that have broken out into the open. It was just two years ago that Abiy was awarded a Nobel Peace Prize.

The situation in Nigeria is perhaps less dire, but the country's politics clearly are moving backwards. There is a longstanding rebellion in the Northeast, a business shutdown in the Southeast, and a notable increase in kidnappings for ransom. A Council for Foreign Relations publication describes a "growing separatism" in the country. The rise in kidnappings is alarming in its own right, but it is also a broader sign of the weakness of the national government. The country is undergoing what some call a "kidnap epidemic," with the true number of abductions remaining unreported. On the economic front, Nigeria just exited its second recession in four years, and growth has not exceeded 3% since 2015.

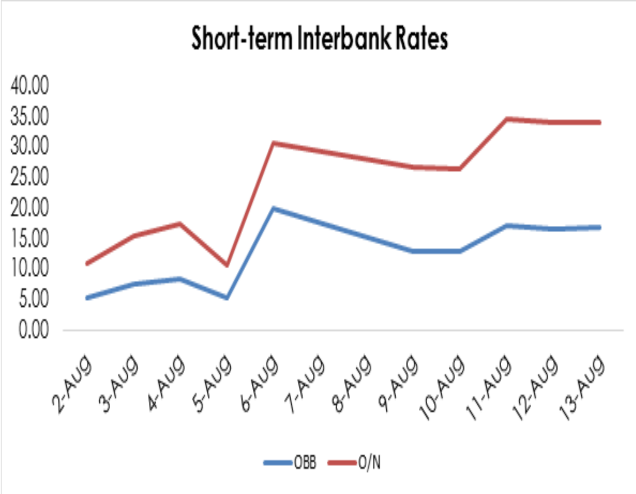
As for South Africa, a recent New Yorker feature article noted that "Mandela's dream" is "in ruins" and spoke of the "mob violence" that is "threatening the country's constitutional order." Some 40,000 businesses have been looted, vandalized or burned amid mass riots and unrest. The country has seen its worst violence since the end of apartheid. South Africa also has been experiencing major Covid waves and lockdowns. The measured unemployment rate is 33%, and that does not count those who have stopped looking for work.

These three countries were supposed to be the economic engines of an entire continent a continent that, according to the United Nations, will be home to some 2.5 billion people by 2050, or a quarter of the world's population. But now their economies are ailing. And while South Africa is making some strides in holding former President Jacob Zuma accountable, it's hard to say these countries are political models for stable democratization. Based on size and historical and cultural import, Democratic Republic of the Congo ought to be another contender as an influential African nation. But the country has been wracked by conflict for decades. It is not in a position to fill the void created by the failings of Ethiopia, Nigeria and South Africa. The last few decades have been a relatively propitious time for Africa. There have been a minimum of major wars in the world, and a dearth of major new pandemics (until recently). China was interested in building up African infrastructure, and across the continent countries made great advances in public health. Could it be that this window has shut, and the time for major gains has passed? And that is not even reckoning with the likelihood of additional damage from Covid on a continent with a very low level of vaccination.

These sub-Saharan political regressions might just be a coincidence in their timing. But another disturbing possibility is that the technologies and ideologies of our time are not favorable for underdeveloped nation-states with weak governments and many inharmonious ethnic groups. In that case, all this bad luck could be a precursor of even worse times ahead.

Macroeconomic Indicators August 2nd—13th

The average opening position for banks fell by 12.19% to N154.22bn, in the review period, from N175.63bn in the corresponding period in July. Short term interbank rates of OBB and O/N increased to 16.75% and 17.25% respectively at the end of the review period, from 5.25% and 5.75% recorded in the first fortnight of July.



[8]

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 85bps to 7.35% p.a. on August 11th from 8.20% p.a. on July 28.

T/bills Tenor	Primary Market rate as at July 28 (%p.a.)	Primary Market rate as at August 11 (%p.a.)	Direction	Secondary Market rate as at August 2 (%p.a.)	Secondary Market rate as at August 13 (%p.a.)	Direction
91	2.50	2.50	⟺	3.67	3.00	↓
182	3.50	3.50	⟺	5.74	4.10	↓
364	8.20	7.35	↓	8.00	7.40	↓

[8]CBN, FDC Think Tank

Outlook

We expect the CBN to continue to use its orthodox monetary tools to regulate the level of liquidity in the system.

Impact

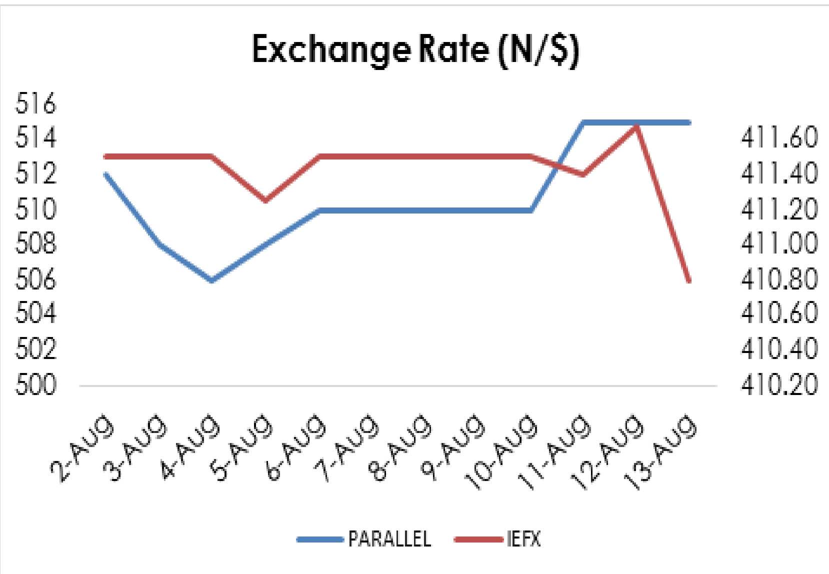
Higher interest rates are positive for investors to offset the impact of inflation on their investments.

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 0.59% to N515/$ at the end of the first fortnight in August. This was driven by speculative buying, following the CBN's discontinuation of forex sales to BDCs. At the IEFX window, the naira was relatively stable around N411/$. It appreciated marginally by 0.17% to close the review period at N410.80/$ from N411.50/$ at the beginning of August. At the end of the first fortnight in August, average daily turnover ($137.86mn) was 3.65% higher than the corresponding period in July ($133mn).



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[9]CBN, FDC Think Tank

Outlook

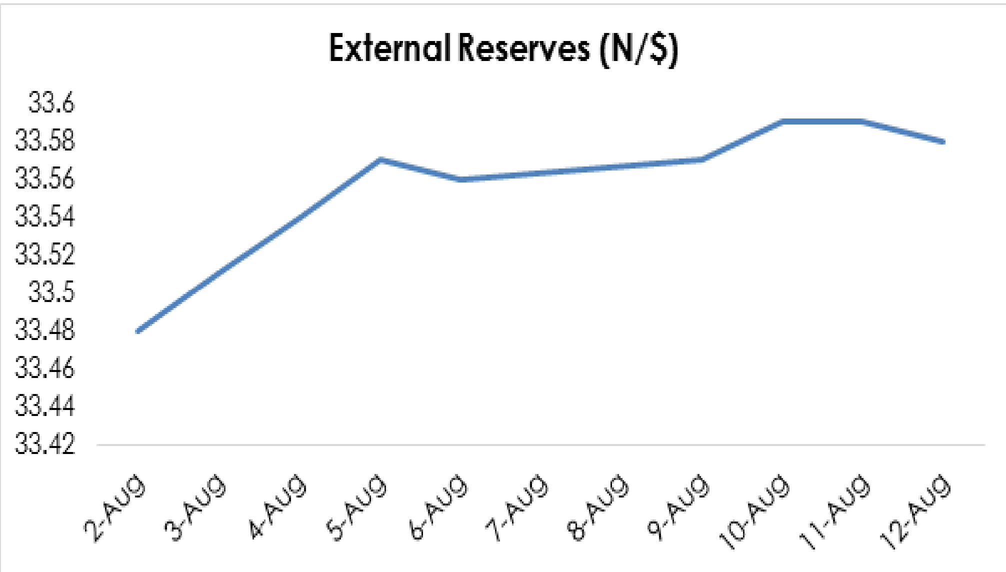
We expect the CBN's increase in forex supply to commercial banks to support the exchange rate for invisibles in the near term and ultimately, close the gap between the parallel and official rates (N104/$ as at August 13). Similarly, we expect the $3.35bn IMF SDR allocation to increase the external reserves level to about $37bn and support the CBN's intervention in the forex market.

Impact

A stable currency will increase investor confidence, thereby increasing foreign investment inflow, which is a catalyst for economic growth.

External Reserves

In the first fortnight of August, Nigeria's gross external reserves maintained a steady accretion. The reserves gained 0.30% to $33.58bn (August 13). The cumulative gain as at August 13 is $180mn. At $33.58bn, the reserves level is sufficient to cover 8.24 months.



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[10]CBN, FDC Think Tank

Outlook

We expect an increase in the external reserves level upon receipt of the SDR allocation of $3.35bn. This will enhance the CBN's ability to support the currency.

Impact

An increase in the gross external reserves will support the CBN's intervention at the foreign exchange markets and help in the convergence of the parallel market rate towards the rate at the I&E window.

[14]CBN, FMDQ

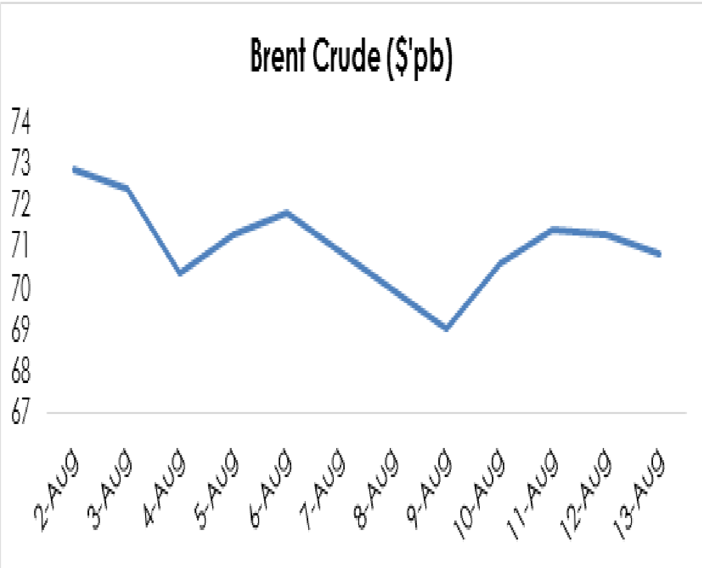
Commodities Market

Exports

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

Oil Prices

In the period under review, the average price of Brent was $71.40pb, 4.99% lower than the average price of $75.15pb recorded in the first fortnight in July. This was driven by a surge in Covid-19 cases and the adoption of lockdown measures in Asia. In addition, the Federal Executive Council approved NNPC's acquisition of a 20% stake in Dangote Refinery.



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Outlook

We expect oil prices to remain soft in the near term due to the surge in Covid-19 cases globally. China, a major importer of oil, recently imposed lockdown measures. This will dampen its oil demand prospects and weigh on oil price. We expect oil prices to stay within the $70pb- $74pb range.

Impact

Oil accounts for 86% of Nigeria's export earnings and contributes approximately 10% to GDP. Lower oil prices coupled with Nigeria's low oil production would lead to reduced oil earnings and government revenue. The government's acquisition of a 20% stake in the Dangote refinery, which is projected to be the largest single-plant in the world, guarantees steady supply of crude to the refinery and will boost the NNPC's revenue. In addition, the Kaduna and Warri refineries will undergo rehabilitation and complement the Dangote refinery. Nigeria could be on its way to be becoming a regional oil hub

[11]Bloomberg, FDC Think Tank

Oil Production

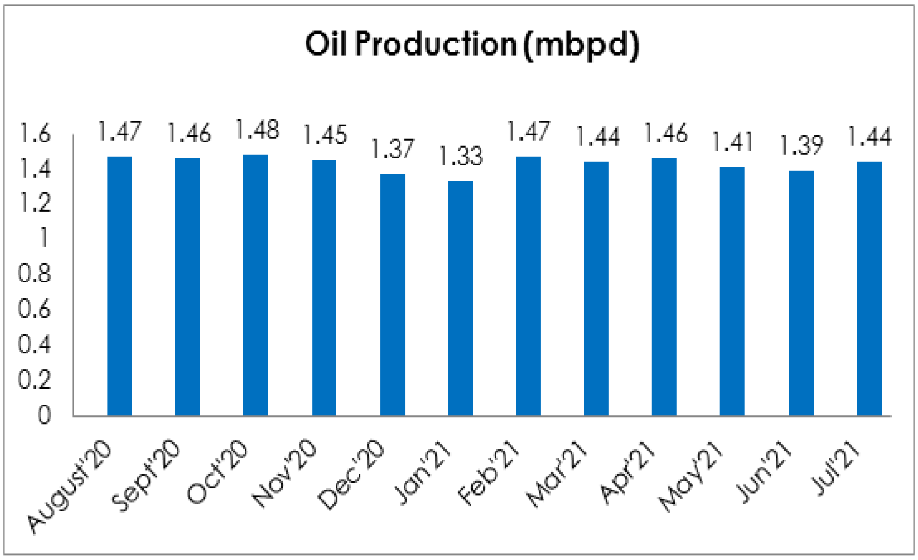
According to the Organization of Petroleum Exporting Countries' (OPEC) monthly oil report, Nigeria's domestic oil production increased by 3.60% (45,000bpd) to 1.44mbpd in July from 1.39mbpd in June. This is 22.58% below the benchmark of 1.86mbpd. Nigeria's oil rig count increased by 40% to 7 from 5 in June.

Outlook

We expect the increase in Nigeria's domestic oil production to be sustained in the coming months barring any disruptions.

Impact

An increase in oil production will offset the fall in oil prices and this will lead to higher oil revenue. This will impact positively on the fiscal and external balances of the country.

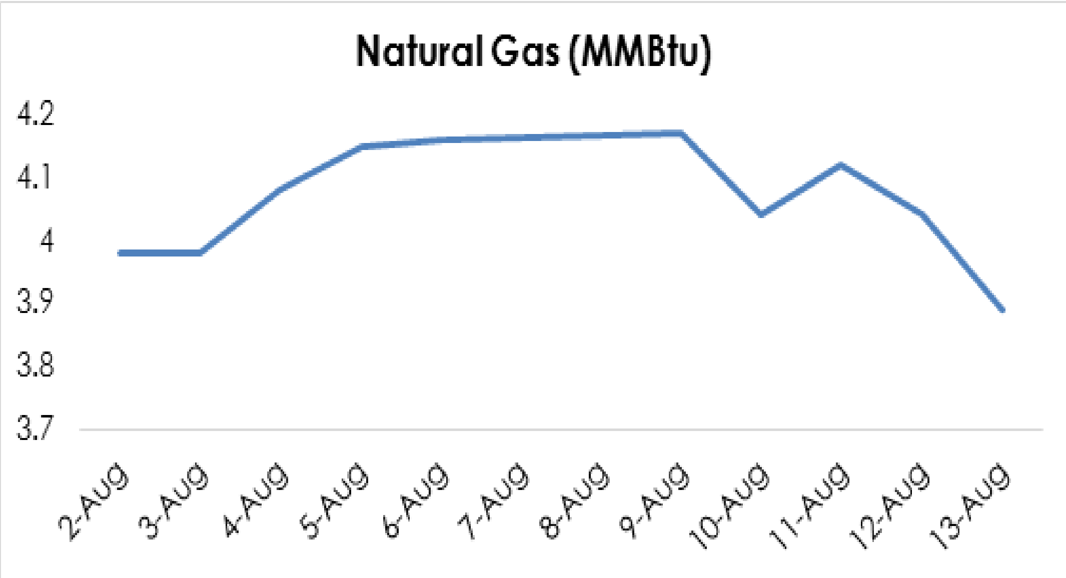


[12]

Natural Gas

During the review period, the price of natural gas fell by 2.26% to $3.89/MMBtu from $3.98/MMBtu, at the beginning of the period. This was due to an increase in the US' natural gas inventories of 49 billion cubic feet (Bcf). The fall in price occurred despite an initial forecast of high temperatures in parts of the US.

[12]OPEC, FDC Think Tank



[13]

Outlook

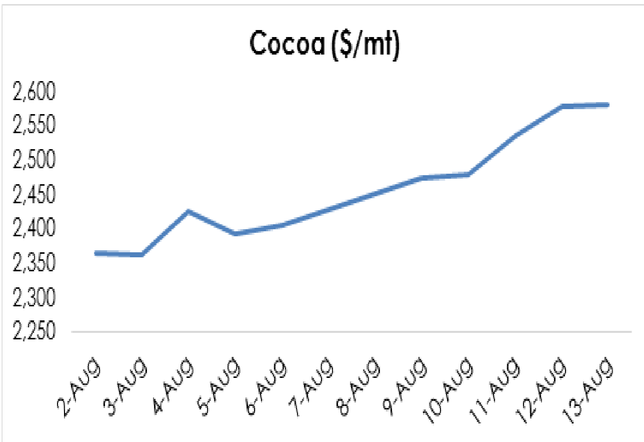
We expect the price of natural gas to resume its upward trend on the back of unfavorable weather forecasts in the US.

Impact

LNG is a major export of Nigeria. An increase in the price of natural gas will increase Nigeria's export earnings and also support the accretion of the external reserves.

Cocoa

The price of cocoa rose by 9.38% to $2,588/mt from $2,366/mt during the review period. This was primarily driven by unfavourable conditions in Ivory Coast and Cameroon. Meanwhile, the harvest season has commenced in the southeastern parts of Nigeria (Abia and Cross River).



[14]

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

Outlook

We expect the price of cocoa to maintain the upward trend, crossing the $2,600mt threshold in the next two weeks, as output in major cocoa producing countries remains low.

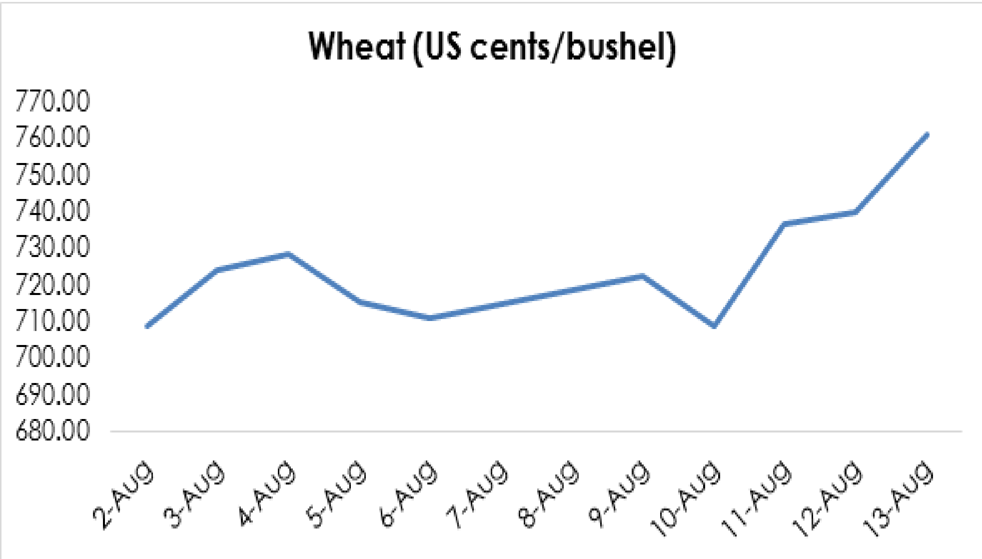
Impact

Nigeria is the fifth-largest cocoa producer in the world. An increase in the global price of cocoa is positive for Nigeria's cocoa export earnings.

Imports

Wheat

When compared to the corresponding period in July, the average price of wheat rose by 12.78% to $725.75/bushel from $643.49/bushel. This was underpinned by unfavourable weather conditions in Russia and parts of the US. The US Department of Agriculture (USDA) lowered its global wheat supply forecast by 16.8mn tons to 1.06bn tons on the back of reduced production in Canada, Russia and the US.



[15]

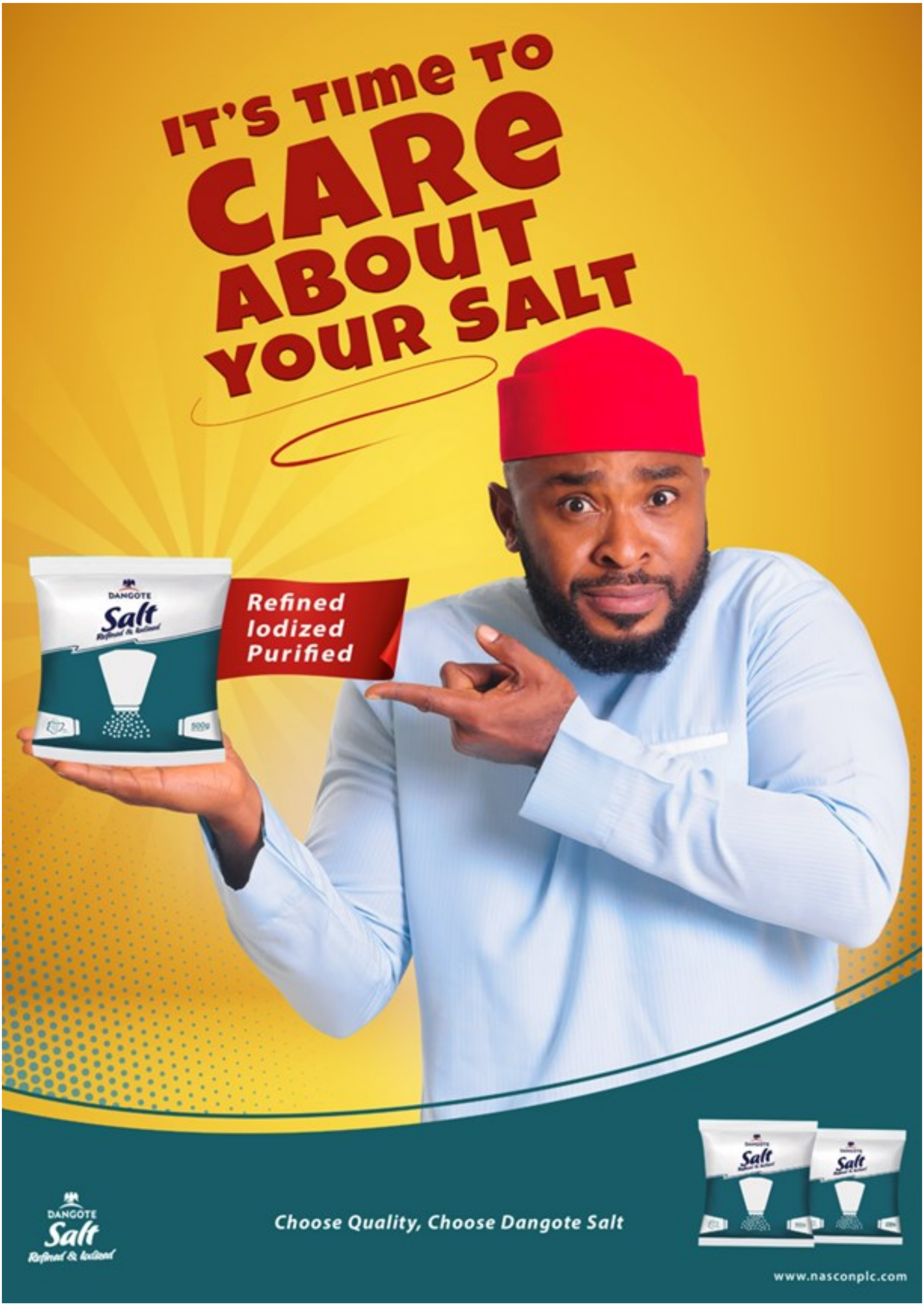
Outlook

We expect increase in the price of wheat to remain supported by lower production in top producing countries.

Impact

An increase in the global price of wheat will feed into the prices of finished products such as bread and pastries

[15]Bloomberg, FDC Think Tank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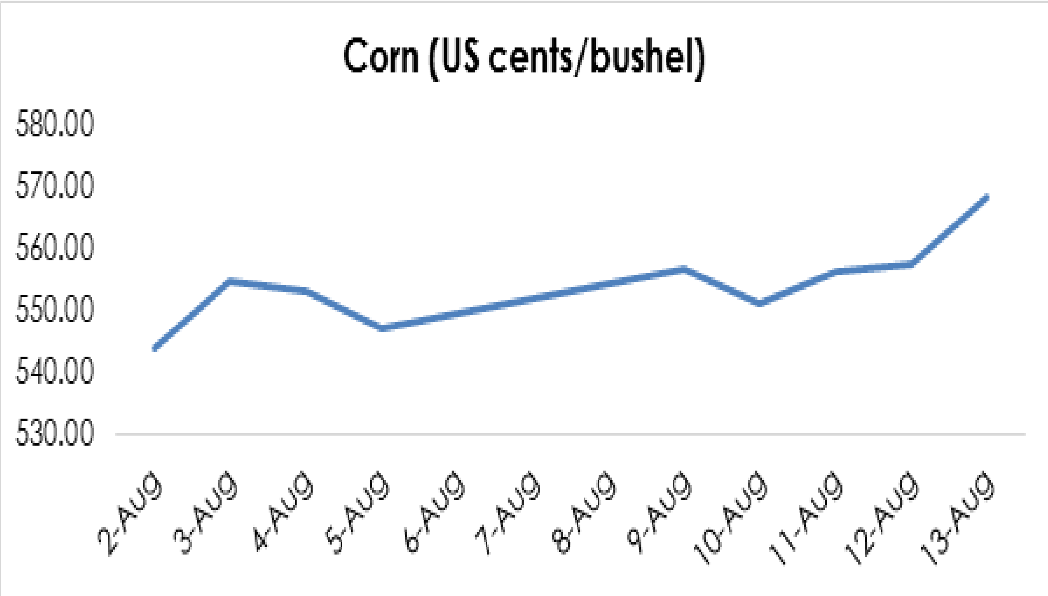
Corn

The price of corn rose by 7.41% to $761.25/bushel from $708.75/bushel at the beginning of the review period. The uptick in price was driven by unfavourable weather conditions in the US.



[16]

Outlook

We expect the increase in corn prices to remain elevated in the near term as unfavourable weather conditions in the US dampen supply prospects.

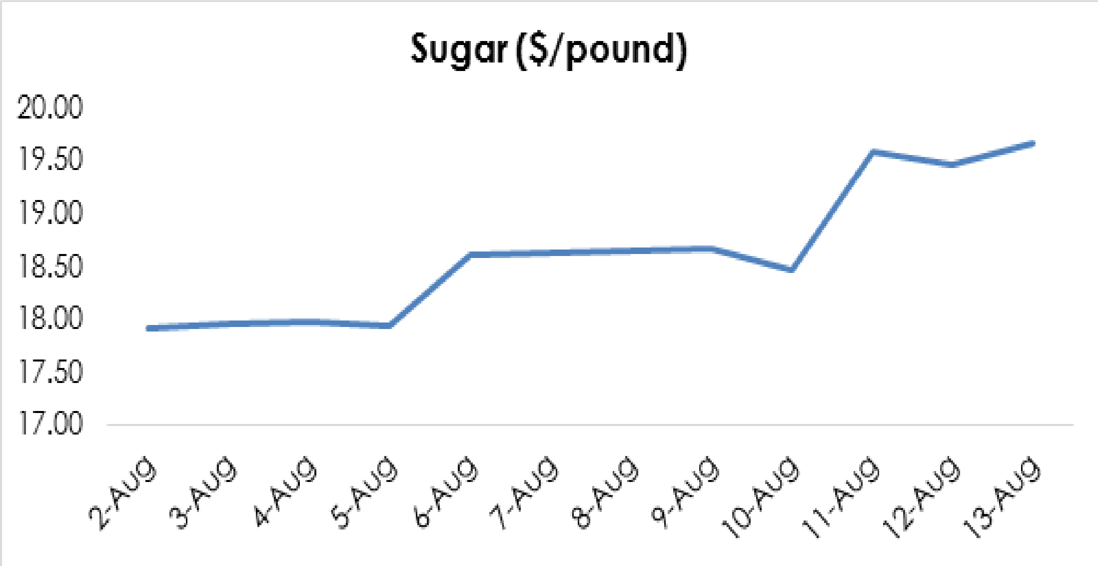
Impact

An increase in the price of corn has a negative impact on the import bill which will in turn be reflected in the price of cereal products and animal feeds.

Sugar

In the first fortnight of August, the global price of sugar rose by 9.77% to $19.66/pound from $17.91/pound. The fall in price was driven by projections of lower supply of raw sugar as frost conditions continue to persist in Brazil, the largest exporter of sugar in the world. Meanwhile, Dangote plans to spend $1bn to expand his sugar refinery in Nigeria. This is coming after CBN selected Dangote Sugar and two other companies (BUA and FMN) as the only three companies allowed access to forex to import raw sugary.

[16]Bloomberg, FDC Think Tank



[17]

Outlook

The upward trend in the price in sugar will remain supported by limited supply of raw sugar from Brazil. We expect a decline in the domestic price of sugar as Dangote injects $1bn into the expansion of his refinery. However, this is a long-term outlook.

Impact

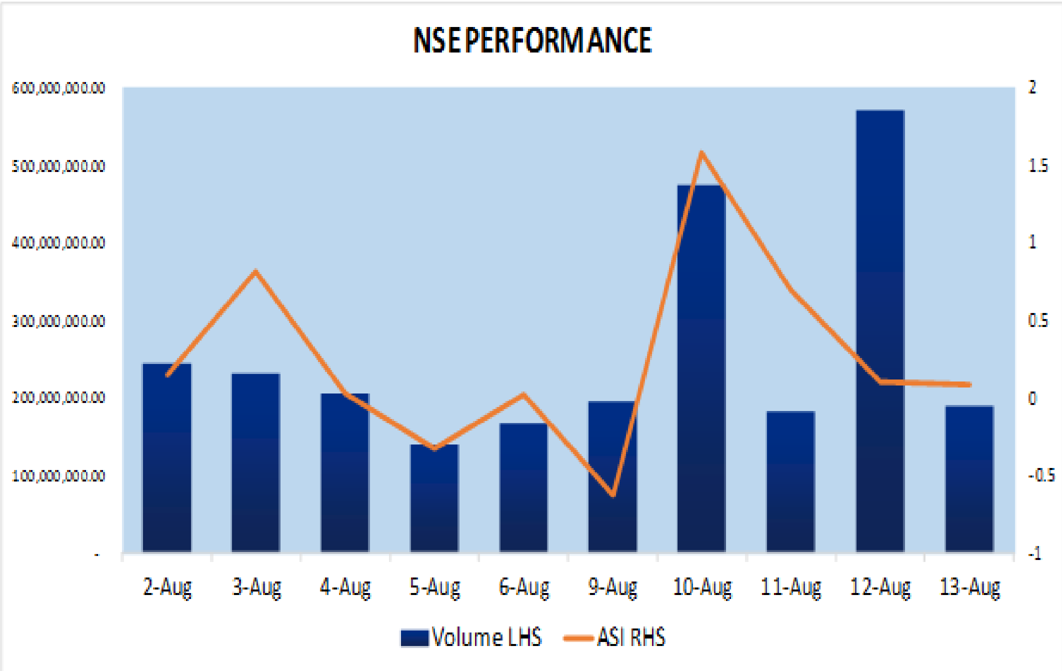
High global prices of sugar are negative for the import bill of Nigeria. We expect production to rise as a result of Dangote's expansion which should taper the price of domestic sugar in Nigeria.

[17]Bloomberg, FDC Think Tank

Stock Market Review

The NSE recorded a positive performance in the review period, as it gained 2.53% to close at 39,522.34 points on August 13th from 38,547.08 points on July 30th. In the same vein, market capitalization rose by 2.54% (N51bn) to N20.59trn on August 13 relative to its close of N20.08trn on July 30th. The market YTD return improved sharply to -1.86% from -4.28% in the review period. The market gained in 8 of the 10 trading days of the review period with a cumulative gain of 2.52%.

The market breadth was negative at 0.62x as 28 stocks gained, 83 remained unchanged while 45 lost.



[18]

Market activity level was negative in the review period. The average volume traded declined by 8.40% to N259.95mn from N283.80mn. Similarly, the average value of trades fell by 7.96% to N2.08bn from N2.26bn in the review period.

Northern Nigeria Flour Mills Plc topped the gainers' list with a 22.76% increase in its share price. This was followed by Honeywell Flour Mill Plc (22.02%), Airtel Africa Plc (21.95%), Conoil Plc (20.81%) and Julius Berger Nigeria Plc (11.11%).

[18]NBS, FDC Think Tank

TOP 5 GAINERS				
Company	**Jul-30 (N)**	**Aug-13 (N)**	**Absolute Change**	**Change (%)**
NNFM	6.15	7.55	1.40	22.76
HONYFLOUR	1.68	2.05	0.37	22.02
AIRTELAFRI	615.00	750.00	135.00	21.95
CONOIL	18.50	22.35	3.85	20.81
JBERGER	22.50	25.00	2.50	11.11

The laggards were led by Juli Plc (26.02%), Wapic Insurance Plc (12.73%), AIICO Insurance Plc (12.04%), Eterna Plc (10.56%) and SFS Real Estate investment Tru. (9.99%).

TOP 5 LOSERS				
Company	**Jul-30 (N)**	**Aug-13 (N)**	**Absolute Change**	**Change (%)**
JULI	0.91	1.23	-0.32	-26.02
WAPIC	0.48	0.55	-0.07	-12.73
AIICO	0.95	1.08	-0.13	-12.04
ETERNA	6.35	7.10	-0.75	-10.56
SFSREIT	61.75	68.60	-6.85	-9.99

Outlook

The stock market's performance during the review period reflects investors' bullish stance, which was driven partly by the release of mostly positive corporate results. The top performers by sector include oil and gas, telcos and manufacturing. We expect this to continue in the next fortnight on continued positive market sentiment and the release of more corporate results especially in the banking sector.

Corporate Focus : MTN Nigeria

Analyst's note

Data, Digital and Fintech Revenue Spurs Top line Performance

Following regulatory restrictions on new sim sales and activations, MTN Nigeria's mobile subscriber base declined by 3.1% to 68.9 million in H1'2021. Despite, the decline in subscriber base, the company's performance remained resilient with a 24% growth in revenue to N791 billion relative to N638 billion in H1'2020.

The impressive performance was driven by a 61.8% and 48.2% surge in digital and fintech revenue respectively. MTN Nigeria expanded its MoMo agent network with an addition of 121,000 MoMo agents in H1 2021. Also, data revenue was up by 48.3% to N228bn supported by increased 4G rollout and enhanced network capacity. In addition, voice and other service revenues increased by 13% and 35.6% to N487.6bn and N34.6bn respectively.

The surge in data, digital and fintech revenue reflects the increased adoption of the modern use of telecommunication. The gradual shift from the orthodox resulted in a slow growth in voice and other service revenue.

Operating Leverage Drives EBIDTA Growth

Operating expenses soared in tandem with revenue growth to N241 billion. The accelerated site rollout, currency weakness and Covid-19 related expenses, all weighed on MTN's operating cost. Despite the rise in operating expenses, operating profit grew faster than cost by 33.8% to N273.7 billion. This performance was achieved on the back of a robust revenue figure and MTN's cost discipline strategy.

In addition, EBITDA margin increased by140 basis point to 52.7%, and EBITDA was up by 27.6% to N417 billion. This impressive performance is attributable to the company's continued effort to drive operating leverage.

Market Cap : N3.50trn
Share Price : N172

Moderation in finance cost aids bottom line growth

MTN Nigeria reported a 49.5% growth in profit after tax to N141.8 billion in H1'2021, underpinned by an impressive top line performance coupled with an 11.4% reduction in finance cost. Interest on borrowings declined by 43.6% to N17 billion, due to a 4.39% reduction in long term borrowings to N342 billion.

During the period, the company issued a N110 billion bond, which is the first telecoms and largest corporate bond in the Nigerian debt capital market. The successful bond issuance gives MTN Nigeria the opportunity to further diversify funding sources and also extend its debt portfolio and profile to match investment in infrastructure. The net proceeds will be used to refinance existing debt and enhance the roll out of its network infrastructure.

MTN Nigeria -Notable Milestones at Twenty

MTN Nigeria, a subsidiary of MTN Group is Africa's leading cellular telecommunications company and largest mobile operator in Nigeria with over 68 million subscribers and 32.5 million active data users. MTN Nigeria accounts for 39.28% of the telecoms market share in Nigeria.

The company provides a wide range of products and telecommunication services and offers roaming, Internet, bills payment, device financing, data management, SIM registration, and other related services. Following the increased demand for digital services and evolution from voice to data, the company has spread its wings to take advantage of opportunities across the streaming, digital and fintech space.

Since its listing on the Nigerian Stock Exchange in 2019, the bellwether has maintained its position as the second largest capitalized stock on the exchange (N3.50trn market cap), with strong fundamentals and growth potentials. The share price has returned about 27% to investors since it listed.

From inception in 2001, the telecom giant has remained at the forefront of telecommunication innovations in Africa having the most extensive network coverage and robust network infrastructure. About 65%, 83% and 90% of MTN's population is covered by 4GLT, 3G, and 2G services respectively with a fibre network of over 29,500km across Nigeria.

In 2019, MTN Nigeria became the first network to conduct trials for 5G technology in West Africa. However, to meet up with the surge in demand for telecom services during the pandemic, the telecom giant suspended its plans on the adoption of 5G technology.

To further boost its network capacity, MTN Nigeria recently completed the acquisition and activation of an additional 800MHz spectrum. The company is also planning to invest over N600 billion (about $1.46 billion) over the next three years to expand broadband access and penetration. Rural connectivity remains key priority for MTN Nigeria, as the industry giant recently committed approximately 1,000 rural sites launching service in locations with zero telecommunications service.

Though faced with stiff regulations, the company has remained resilient and determined to deepen its relationship with the Nigerian government. The top player has paid over N2 trillion in taxes and levies to the Nigerian government since inception and has announced its participation in the Road Infrastructure Tax Credit (RITC) Scheme, particularly in the restoration and refurbishment of the Enugu-Onitsha Expressway. This commitment will foster the rehabilitation of critical road infrastructure in Nigeria

In addition, the market leader has initiated plans to commission a purpose-built, state of the art head office in Nigeria, designed to act as a central hub and a catalyst for creativity and innovation.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What the bulls and bears say

Bulls say

* Strong brand name
* Largest market share -39.28%
* Strong parental support
* Extensive spread across Africa
* Diversified revenue source
* Favourable demographics
* Increased demand for digital and fintech services
* Sound management team

Bears say:

* Harsh operating environment
* Stiff regulations
* Foreign exchange challenges
* Stiff competition from other players

Outlook

The increasing demand for data, digital and fintech services cannot be over emphasized considering its positive impact on various sectors of the economy. MTN Nigeria is expected to boost its customer base and revenue generated in this space.

MTN Nigeria will remain at the forefront of technological development and take advantage of opportunities presented by the global evolution of 5G technology, the emerging trend of artificial intelligence and Internet-of-things (IOT).

The company is well positioned for growth to capture opportunities within the market as outlined in its Ambition 2025, which is hinged on the primary objective of accelerating growth and value embedded in infrastructure assets and platforms.

Economic Outlook for the next two to four weeks

Speculative activities at the parallel market will keep the exchange rate volatile in the next few weeks. However, upon receipt of the IMF's SDR credit of $3.35bn expected on August 23rd, we expect gross external reserves to increase to about $34bn. This will provide more support for the CBN to support the currency and lead to a further convergence of the exchange rate around the I & E window.

We expect oil prices to strengthen in the coming weeks on tight market supply. However, the renewed spike in covid cases coupled with the reimposition of lockdowns in some major economies will pose a major risk to this forecast. This could negatively affect Nigeria's oil export earnings and gross external reserves accretion.

In the coming weeks we expect to see a sustained increase in global commodity prices particularly for Wheat and Sugar. This will be driven by strong global demand and adverse weather conditions in Russia, Northern America and Brazil. This would have a negative impact on the operating cost of wheat and sugar dependent companies such as Dangote and Flour Mills of Nigeria Plc.

For the next couple of weeks, short term interbank rates will be determined by the CBN's ability to manage system liquidity through its traditional monetary policy tools. This will keep interest rates elevated.

In September, we expect a further boost in economic activities following the resumption of Covid vaccinations. Nigeria has flagged off its second phase of vaccination and has received

4mn doses of Moderna vaccine and an additional 176,000 doses of Johnson & Johnson vaccine. The Federal Government has also disclosed that more doses of the Oxford-AstraZeneca vaccine will be received by November 1. Increased vaccination would reduce the chances of Nigeria reimposing a lockdown. This will boost economic activities and investor confidence. Nigeria's Q2'21 GDP growth numbers will be released on August 26 and we estimate a growth rate of 2.6%. The expansion of the GDP growth data coupled with falling inflation could lead to the MPC leaving its interest rates unchanged at its September meeting.