FDC Bi-Monthly Update

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In This Issue ...

Nigerian bond issue 4 times over-subscribed but pricing expensive

The federal government of Nigeria successfully raised $4bn from the Eurobond market, surpassing its initial target of $3bn for the first tranche. The success of the issue is making the government consider tapping the Eurobond market for more funds. The $4bn issue was 400% oversubscribed, an indication of heightened investor confidence and interest in the Nigerian debt instrument and the yields for the issue were at 6.13% (7-yr tenor), 7.38% (12-yr tenor) and 8.25% (30-yr tenor). This is positive news for the government especially in the wake of the exchange rate brouhaha and policy uncertainty which have dampened investor sentiment.

Implications

The Eurobond proceeds will help to shore up the external reserves towards $40bn and this will help strengthen the naira at the parallel market in the short term. The downside of raising more debt however is the risk of falling into a debt trap as the Eurobond issuance will increase the government's external debt stock. As at Q2'21, Nigeria's external debt was approximately $36bn. The low interest rate environment globally has benefitted emerging markets who are rushing to raise funds from the international debt market before a tightening stance commences in advanced economies and borrowing costs rise. So far in 2021, Ivory Coast, Nigeria, Senegal, Ghana, Egypt and Kenya are some of the countries that have visited the Eurobond market. However, the catch there is that once global interest rates start to increase, the debt service burden will rise. For instance, the US Fed has stated that it may commence tapering in November and interest rate hikes may commence sooner than expected. Higher interest rates will make debt repayment more onerous for emerging markets. In addition, due to the positive relationship between higher interest rates and the dollar, we expect an appreciation of the green back, which will make commodities priced in the dollar more expensive to purchase by holders of other currencies. This is negative for Nigeria that is commodity dependent and has an imported inflation rate, which rose to 17.11% in August from 17.06% in July 2021. A rising imported inflation could alter the ongoing decelerating inflation in Nigeria.

The endless roller coaster of the naira in 2021

The spread between Nigeria's parallel market and the official (NAFEX) rates has risen significantly since the MPC stopped its forex sale to BDCs in July. The gap between the IEFX rate and the parallel market rate increased to N165.27/$ as of September 30, 2021 from N92.58/$ at the beginning of July. The widening spread can be attributed to several factors, one of which is the shift in forex demand from the IEFX window. The inability of manufacturers to access all their forex needs at the IEFX window has forced a shift to other markets, notably the BDCs. The increased demand for forex at this market coupled with the reduction in supply has led to a price fall and a depreciation of the naira.

The CBN's clampdown on forex infractions and the discontinuation of the publication of parallel market rates by a popular forex website has also created information asymmetry in the Nigerian forex market. In a perfectly competitive market, one of the major characteristics is information availability. Once this is taken out of the equation, the market becomes inefficient and is open to further abuse. An imperfect market where there is no price discovery will lead to more arbitrage opportunities. The good news is that the external reserves level is on the increase, supported by the recent Eurobond issuance of $4bn. This will further enhance the CBN's ability to increase and intensify its forex intervention to banks, which will help support the naira.

Insecurity and Agricultural productivity in Nigeria

Prior to the discovery of oil in the 1970s, Nigeria was self-sufficient in food production and a major exporter of cash and food crops like yam, maize, cassava, cotton, rubber, cocoa, and palm products. As recently as the 1970s, agriculture was the primary foreign exchange earner and contributed significantly to Nigeria's GDP. However, as oil rose in prominence, Nigeria's focus on agriculture decreased, leaving Nigeria as a food- dependent nation plagued by underinvestment, lack of access to credit, crime, climate change, religious crises, environmental degradation, and perhaps most pressing, insecurity.

Conflict among groups across Nigeria has been on the rise as about 77, 000 people have been killed and 2.6 million displaced in the past five years. The activities of herdsmen, kidnappers, bandits and Boko Haram have displaced farming communities, disrupted markets and limited agricultural production as most farmers desert their farmlands and abscond to other regions for safety. Farmers now have reduced access to regional markets and find it difficult to go to their farms due to fear of being kidnapped or even killed. Some of these unemployed farmers eventually turn to criminal acts in a bid to escape poverty.

Between 2011 and 2021, Boko Haram was responsible for 32.8 thousand deaths in Borno state alone, the country's largest wheat producing state.[1] While Borno's production used to account for 30% of the national wheat production, it now contributes almost nothing to the total of about 420,000 tonnes, which is 4.5 million tonnes short of national consumption.[2] Consequently, N258.3bn was spent on wheat importation in the first quarter of the year, up from N98.03bn in the corresponding quarter in 2020.

[1]Varrella, S., 2021. "Nigeria: deaths caused by Boko Haram by state". Statista. https://www.statista.com/statistics/1197570/deaths-caused-by-boko-haram-in-nigeria/

[2]CSL Research. 2021. "Insecurity and Food Production in Nigeria". ProShare Nigeria. https://www.proshareng.com/news/Agriculture/Insecurity-and-Food-Production-in-Nigeri/57585

The Fulani herdsmen have also posed a major threat to food production in Nigeria through their violent harassment of farmers, especially in states like Benue, Gombe and Taraba. For a period of four days in June 2017, herdsmen attacked farming communities in Taraba state and killed 732 people. They have engaged in so much violence and unrest that the Institute for Economics and Peace now classifies them as a terrorist group. Not only do these herdsmen invade and destroy farms and farm produce, they intentionally allow their cows to graze on crops that farmers have worked hard to cultivate. This resource-driven conflict between farmers and herdsmen has also resulted in decreased access to land for food production.

In recent times, farmers have become the main target for kidnapping by gunmen, bandits and armed herdsmen across various geopolitical zones in the country. In a rift between two communities in Kaduna this year, at least eight farmers were abducted and eventually killed. Kidnapping has become a common occurrence such that farmers in some Northern states even go ahead to pay tax and harvest fees to bandits in order to avoid attacks. The unusual rise in cases of kidnapping in states like Oyo, Ekiti and Osun, has limited the availability of labor for farming operation as farmers now dread going their sites. In addition to reduced access to credit facilities to purchase inputs, there is also an increase in the cost of logistic services in agrarian communities with frequent kidnapping incidents.

The glaring insecurity issues in the country have led to a sharp rise in food prices owing to the substantial reduction in food production. Since July 2020, basic food items like beans and tomatoes have seen a 253% and 123% price increase respectively, thus, putting a lot of people at the risk of starvation. Since the start of Boko insurgency in 2009, there has been a rise in starvation index. There has also been a 140% surge in Nigeria's food import bill, as present production levels cannot meet the country's ever-increasing demand for food. In light of all these pressures on the production of food, investors and entrepreneurs are discouraged from venturing into agriculture especially in areas bedeviled with these insecurity issues.

Solutions to insecurity in the agricultural sector

There exists a multi-dimensional relationship between human security, national insecurity, and food insecurity, as unemployment is both a contributing factor to and an effect of insecurity. The low level of agricultural production, due to attacks from Boko Haram or the herdsmen, for example, coupled with a rising population growth rate in Nigeria, is likely to lead to a food crisis and a higher unemployment level. The unemployed population becomes prime targets for recruitment into these insurgency groups whose actions further dampen food insecurity. Therefore, tackling unemployment is a prerequisite to curbing insecurity in the agricultural sector.

Properly implementing and executing a national industrial policy, which stimulates the growth and development in all sectors of the economy, would go a long way in creating jobs for the unemployed. Undertaking projects to build new infrastructure or improve already existing infrastructure would stimulate national production and provide employment opportunities. Policy makers should tailor agricultural policies towards transforming Nigeria's agricultural sector from its subsistent state to a mechanized sector. Policy realignment in the sector would not just revive the sector but also enhance foreign earnings and increase the sector's contribution to the GDP.

In addition to reinforcing policies, like the National Program for Food Security (NPFS), government should also ensure the availability of social protection services such as subsidies and relief options for farmers. Social protection would enhance farmers' resilience and reduce the impact of insecurity shocks on them. As part of their resilience strategy, farmers should also adopt the use of improved agricultural inputs, mechanized tools and mixed cropping techniques. Developing markets and improving farmers' access to these markets would encourage farmers to cultivate and produce more. Improved infrastructure, transport, logistics, storage and processing equipment would also go a long way to boosting food production, and buffering against insecurity shocks. Lastly, both the federal and state governments should be proactive and adequately fund, train and equip the military, police and other security agencies to effectively combat insecurity in the country

Nigeria's current food crisis is due to the government's lukewarm attitude towards insurgent groups and banditry. This devastation cannot be pinned on COVID-19. If these security issues are not resolved, it may propagate a vicious cycle of insecurity, leading to more complex issues in the nation. According to New Partnership for Agricultural Development, the agricultural sector is the engine of economic growth in Africa. Hence, steps need to be taken to deal with these insecurity issues, to revitalize agricultural productivity in Nigeria, and to harness its potential to increase farmers' incomes, generate employment opportunities and make Nigeria food secure once again.

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Tourism as a source of revenue for the Nigerian economy

In the year 2019, tourism contributed $1.5 billion to the Nigerian economy, which was scarcely 0.3% of the total GDP.[3] In 2020 this value dropped, largely thanks to COVID-19. Yet as the Secretary-General of the United Nations World Tourism Organization has observed, Nigeria has the potential to be one of the world's best tourist destinations.[4]

Tourism presents economic, social and technological opportunities for Nigeria. Economically, it serves as a channel for foreign reserves and investment in the economy, which by extension, leads to GDP growth and economic diversification. Socially, tourism serves to promote tolerance. In Nigeria, an increase in tourism could be a uniting force in an otherwise fractured country. As UN Secretary General Antonio Guterres stated, "tourism can … [bring] people together. Tourism can promote solidarity and trust – crucial ingredients in advancing the global cooperation that is so urgently needed at this time."[5] Technologically, as demand increases, the sector will be forced to evolve the technology it employs. This would enable those who work in tourism to be able to serve more people, reduce human errors and increase efficiency. However, to reap the benefits of the tourism sector, Nigeria needs to do more with regards to nature conservation, investment in tourism infrastructure and boosting domestic tourism.

[3]. World Bank: Data. (n.d.). "International tourism, receipts (current US$) - Nigeria | Data". https://data.worldbank.org/indicator/ST.INT.RCPT.CD?locations=NG.

[4]. Premium Times. (2018). Nigeria has potential to be best tourists' destination – UNWTO boss | Premium Times Nigeria. https://www.premiumtimesng.com/entertainment/travels/271233-nigeria-has-potential-to-be-best-tourists-destination-unwto-boss.html

[5]. UNTWO. (2020). "Tourism can be a platform for overcoming the pandemic. by bringing people together, tourism can promote solidarity and trust: UN Secretary-General Antonio Guterres". https://www.unwto.org/news/tourism-can-promote-solidarity-un-secretary-general-antonio-guterres

The Nigerian government has suffered from a budget deficit for many years with this year not being an exception. This constrain of resources has made it hard for the government to invest in tourism and the resources gained are focused on the oil sector which generates about 80% of the revenue in Nigeria. Evidently, in 2018, the Nigeria Extractive Industries Transparency Initiative (NEITI) stated that the government spent $1.8 million of fuel subsidy which was 4 times more than its expenditure on health, education and science. The level of insecurity in the country is also another factor that has dented growth in Nigerian tourism. Nigeria is one of the countries with the highest number of deaths from terrorism and this has affected the tourism sector through lower investments and loss of natural resources. With these factors in place, the Nigerian tourism sector is expected to have a stunted growth for a long time. In order to prevent this, the government should effect policies which would increase investment and reduce insecurity.

With regards to natural resource protection, Rwanda offers an example. Rwanda is a country which has taken great steps to preserving its natural resources and using it for the betterment of its tourism sector. The eastern African country holds an annual gorilla naming ceremony with its main aim being to curb the killing of gorillas. The ceremony has already led to positive effects in the country as the IUCN have renounced the animals being endangered and the number of tourists has increased over the years. It is to be noted that one gorilla has the capacity to generate an average of $3million during its lifetime so by preserving them the revenue goes to the government and can be used to grow the society. In line with this, the Rwandan government allocated 10% of the revenue gotten from the tourism to develop the surrounding neighborhood increasing the standard of living of its habitants. With this good example given by Rwanda, Nigeria still stands a chance at developing its tourism sector and its economy as a whole.

Another area of focus for Nigeria ought to be in tourism infrastructure, specifically sporting infrastructure. By investing in this area of the economy, the dependence on oil would be reduced and the economy would operate a more diversified economy. Countries like England and France have come to realize the value of sports in tourism. Wimbledon, which is the oldest tennis tournament in the world, is held in England every year. It has served as a great source of revenue for England and has also helped to develop its tourism sector. In the year 2019, the 13 days event was attended by 500,397 people and watched by 96 million people. To this cause, the Wimbledon tournament has received various donations worldwide which have helped to increase the foreign reserve and GDP in England. In the case of France, the country holds a yearly cycling event known widely as Tour de France. This event is used as a channel for tourism as the contestants travel through different areas in France and even neighboring cities. The cycling event is said to be watched by an estimate of 3.5 billion people on TV while 12 million people attend it physically. The Tour's revenue according to experts is estimated to be between $60-$150 million which can go a long way in the tourism sector.

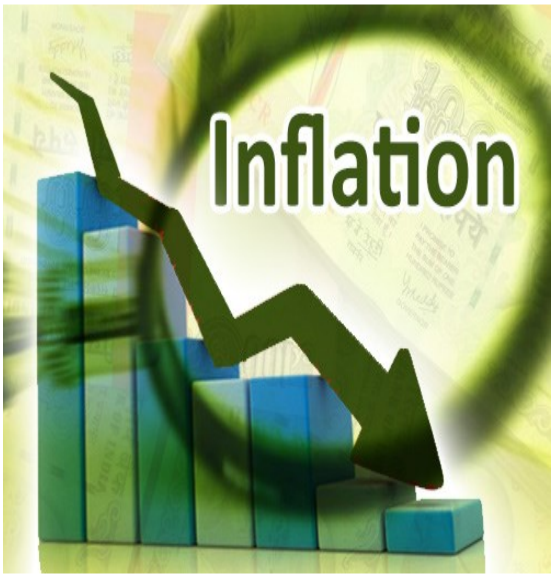
Insecurity as stated before, is a challenge affecting the tourism sector. The government of Nigeria has to then increase its expenditure on security services as this would help to promote peace and stability in the country. Egypt is also another country that has significant issues with insecurity but has taken measures to curb this action and improve its tourism. While Nigeria's military expenditure in 2020 was $2.403bn, Egypt increased its military expenditure to $4.016bn in 2020 from $3.744bn in 2019 (7.26%)[6]. Due to this action tourism now serves as one of the leading factors contributing to Egypt's national income as the number of tourists visiting has been increasing after the restrictions were removed (an average of 500,00 people per month since April).[7]

It can then be concluded that some developing and developing countries such as Morocco, Egypt, England and Poland have used tourism to boost their economy, and Nigeria can follow suit as tourism can be used to revive the part of the economy that COVID-19 subdued. This can only be achieved by curtailing insecurity, increasing government expenditure to tourism and diversification from traditional tourist attractions of game reserves and national parks to activities such as sports.

6. TradingEconomics. (n.d.)."MilitaryExpenditure-ByCountry". https://tradingeconomics.com/country-list/military-expenditure.

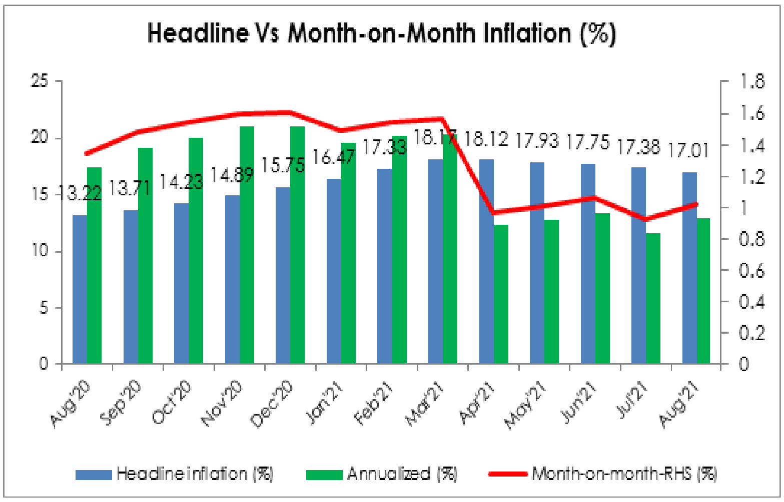
7. AfricaNews. (2021). "Tourists return to Egypt's resorts after months of restrictions". https://www.africanews.com/2021/08/29/tourists-return-to-egypt-s-resorts-after-months-of-restrictions/

Inflation down again in August but remains astronomically high



The National Bureau of Statistics released its August CPI report this morning, two days ahead of the MPC meeting. As widely expected, Nigeria's headline inflation declined again to 17.01% from 17.38% in July. This is the 5th consecutive decline and the lowest inflation rate in the last 7 months. The ease in inflationary pressures and the spike in Q2 real GDP growth (albeit due to base year effects) will empower the doves in the MPC to fight for a reduction in the MPR as a complement to the fiscal stimulus efforts of the FGN.

A breakdown of the data shows that the continued moderation in inflation is largely due to base year effects. This is because the rate of annual inflation in all baskets declined whilst monthly sub-indices increased. The increase in monthly inflation suggests that naira weakness in the forex market is being transmitted into domestic prices. Most manufacturers claim they are only able to source 10% of their forex demand from official sources. With the autonomous rate at record lows of N565/$, the blended rate has depreciated by 13.5% to N549.71/$ from N482/$ in June. This means that headline inflation might be approaching a point of inflection, which will translate into higher inflation in September/October.



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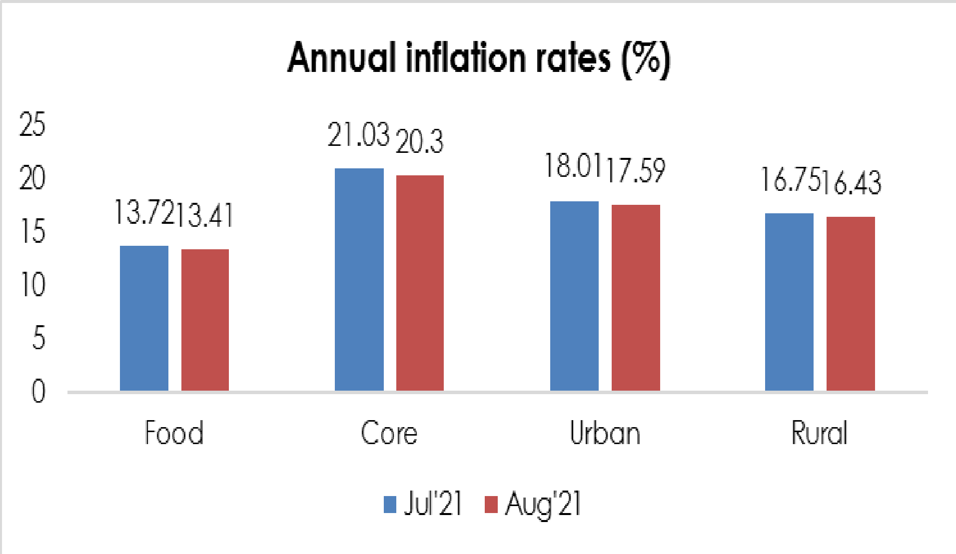
[8] NBS, FDC Think Tank

Inflation breakdown

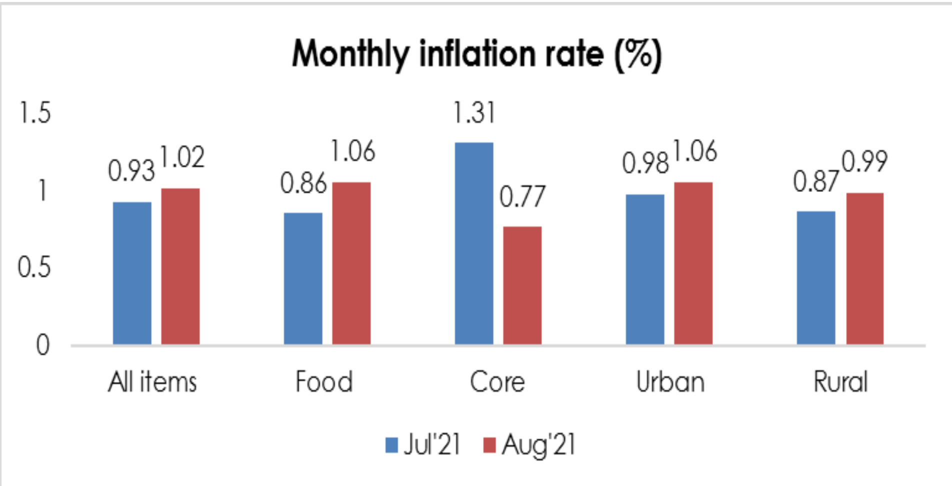
All annual inflation sub-indices moderated

All annual sub-indices declined in August. Food fell by 0.73% to 20.3%, core (inflation less seasonalities) dipped 0.31% to 13.41%, urban slowed by 0.42% to 17.59% while rural dropped by 0.32% to 16.43%. The decline in core inflation coincides with an increase in the 364-day t/bill rate to 7.2%. This reduced the negative real rate of return to 6.21% from 6.92% in July.



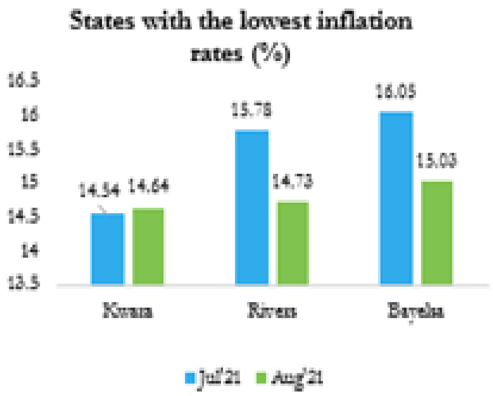
Monthly inflation – Only the core monthly sub-index declined

The all-items monthly inflation rate increased by 0.09% to 1.02% (annualized at 12.98%) in August from 0.93% (annualized at 11.64%), food rose by 0.2% to 1.06%, urban was up 0.08% to 1.06% and rural edged up by 0.12% to 0.99%. However, the monthly core sub-index fell by 0.51% to 0.77%. The increase in monthly inflation suggests that naira weakness in the forex market is being transmitted into domestic prices and headline inflation might be approaching an inflection point.

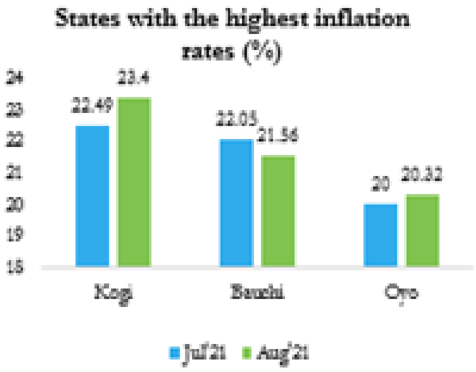


State-by-state analysis

The states with the lowest inflation rates were Kwara (14.64%), followed by Rivers (14.73%) and Bayelsa (15.03%). Kogi remained the state with the highest inflation rate (23.40%) due to supply constraints, followed by Bauchi (21.56%) and Oyo (20.32%).



Mostly in the south-south



Mostly in the North

Sub-Saharan Africa: Mixed inflation trend

Inflation trend across SSA was mixed. Six of the countries under our review have released their August inflation data, of which three recorded declines and three posted increases. The average rate of increase was 0.36% while the average rate of decline was 0.26%. Average inflation rate in Sub-Saharan Africa is estimated to remain flat at 9.8% in 2021 before declining to 9.0% in 2022. Inflation trends within the region will vary and largely depend on monetary policy responses. Countries with more stable currencies will record lower inflation rates as imported inflation tapers. However, inflation risks remain elevated in commodity dependent economies and those experiencing currency pressures.

Most central banks in SSA will be cautious in adopting a tighter monetary policy. Unlike the advanced economies, inflation in Africa is often cost-push and less a reflection of overheating.

Country	August Inflation (%)		Most Recent Policy rate (%)	
Nigeria	17.01	↓	11.50	↔
Angola	26.09	↑	20.00	↑
Kenya	6.57	↑	7.00	↔
South Africa	4.6 (July)	↓	3.50	↔
Ghana	9.7	↑	13.50	↔
Uganda	1.9	↓	6.50	↓
Zambia	24.4	↓	8.50 [9]	↔

Outlook

Inflation is expected to continue its downward trend in the near term but risks remain elevated due to heightened insecurity in some of the food producing states (which could limit the impact of the harvest), exchange rate pass through and higher energy costs especially with the imminent removal of fuel subsidy. The continued moderation in inflation and the spike in Q2 real GDP growth will empower the doves in the MPC to fight for a reduction in the MPR as a complement to the fiscal stimulus efforts of the FGN.

[9] Trading economies , FDC Think Tank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As inflation bites, is it now time to buy that house?

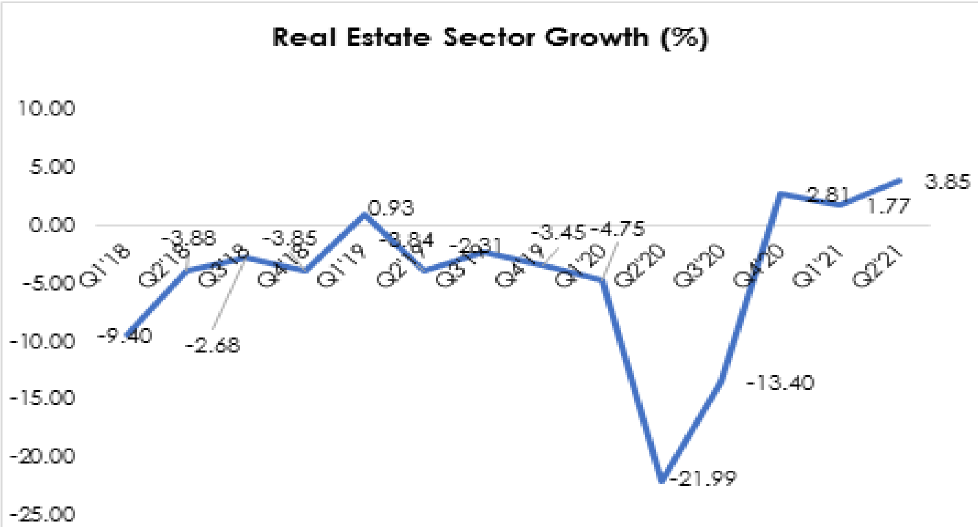
The aggregate supply of housing in any market is usually a function of housing starts (new housing) and completion of the inventory of unfinished houses. Nigeria and Lagos in particular has a huge stock of uncompleted buildings, approximately estimated at 30%. In 2020, housing starts remained stagnant because of low interest rates and the inverse relationship between interest rates and real estate values. Developers rotated their portfolios from financial instruments into other asset classes including real estate, thereby leading to an increase in the supply of housing starts. During the lockdown, rents remained flat and the growth in the real estate and construction sectors fell sharply. In Q2'20, the real estate sector recorded the sharpest contraction in the last 14 quarters to -21.99%. The construction sector also recorded a negative growth of 31.77% in the same period.

In recent times, we have noticed that developers have gone back to site but are constrained by the sharp rise in the cost of building and finishing materials e.g., aluminium windows, roofing sheets, iron rods and cement. Also, more companies have resumed physical work, thereby leading to an increase in demand for shared residential and office spaces. This has now triggered a decline in the vacancy factor in some areas, particularly on the island. Vacancy factor is defined as the number of empty houses compared to occupied buildings. For example, in a street where there are about 50 houses, if 10 are empty that means a 20% vacancy factor.

Real Estate Sector Breakdown

The real estate sector is a lagging economic indicator. This means that growth in the sector takes place after a period of sustained GDP growth. With a population of about 200mn, the house ownership rate in Nigeria is about 25% compared to regional peers like Kenya (75%) and South Africa (56%). It is widely believed that Nigeria has a housing deficit of about 17 million units. So far in

2021, as economic activities rebound, real estate has maintained a positive growth for two consecutive quarters, with its best performance in Q2'21 (3.85%). On average, the real estate sector has grown by 2.81% in 2021 compared to -9.3% in 2020.

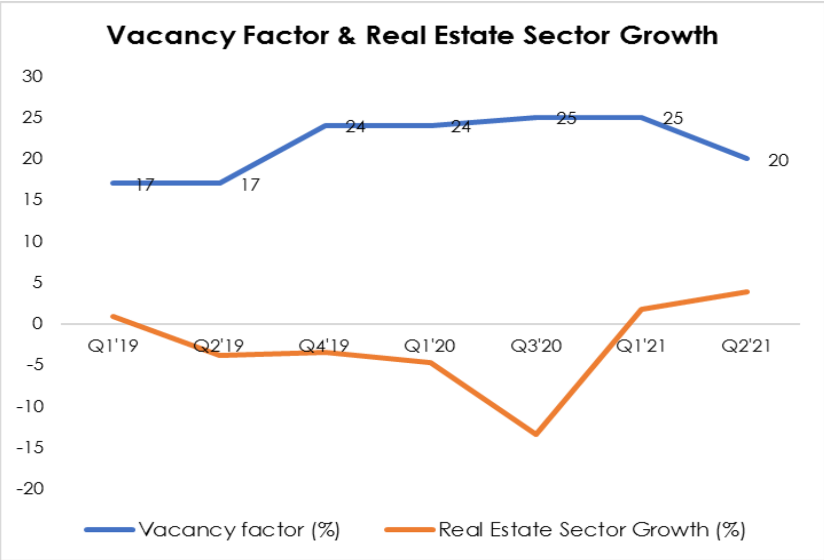


Aggregate demand & supply trends of real estate

The demand for and supply of real estate is currently driven by a number of factors including:

Demand	Supply
• Economic recovery • Back to work • International travel ◊ Increased hotel occupancy rates ◊ Availability of Airbnb, short lets • Inflation	• Low interest rates • Exchange rate • High cost of building and finishing materials

Q3'21 FDC Real Estate Survey



[10]

There is an inverse relationship between real estate sector growth and vacancy factor. When sector activities improve, vacancy factor declines and vice versa.

Our survey this quarter revealed that the vacancy factor declined to 20% from 25% in Q2'21. This indicates an improvement in sector activities driven by increased investment as interest rates in the fixed income space declined. 364-day tenor t/bills have fallen by 295bps to 6.8%pa from its peak of 9.75% in April.

Market Breakdown

Hot market: Lekki	Flat Market: Ikoyi	Soft Market: VI
• Vacancy factor index fell to 13% from 21% in Q2'21 • Due to an increase in demand for commercial real estate • Increased supply of short-lets and serviced apartments • Rents marginally down in some areas with close proximity to business districts	• Vacancy factor index increased to 33% from 32% in Q2'21 • Due to high rents for big corporate buildings • Some rents are priced in dollars • Multiple use properties. In the same building you have residential, office spaces, and shopping complexes • Landlords have staying power, meaning that they can leave their properties empty for some time	• Vacancy factor index declined to 19% from 27% in Q2'21 • Driven by rising demand for residential housing units and new shared office spaces springing up • Rents marginally down in some areas with close proximity to business districts • Multiple use buildings • Residential + commercial

[10] NBS, FDC Think Tank

Important trends

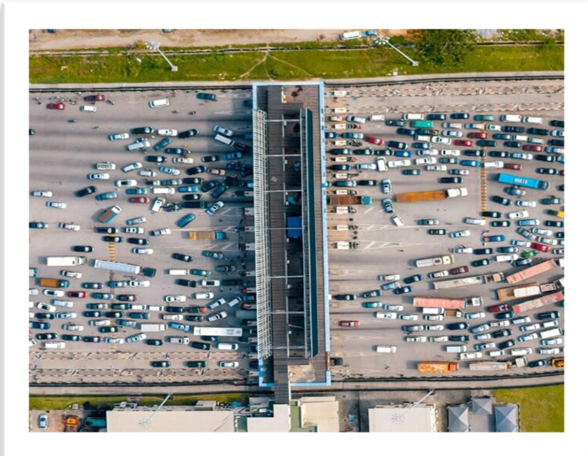
- Replacement costs of properties are far in excess of their market values
- Developers are cashing in on long sub-leases
- Landlords are beginning to jack up rents and values especially due to high cost of finishing materials
- Agents and land owners are developing luxury homes while neighboring states, especially Ogun are receiving more settlers from Lagos state on cheaper housing units
- New housing units (mostly 2 & 3 bedrooms, serviced & shared apartments and duplexes) are crowding out self-cons
- People are moving towards more gated estates due to rising insecurity
- Investors are aggressively delving into commercial real estate on the island particularly shared office spaces
- Short-lets & Airbnb are a threat to hotels and are leading to shortage of residential real estate buildings

Threats

- **Re-establishment of tollgates:** The Lagos State government is likely to reopen the Lekki tollgate for the first time since the October 20, 2021 EndSars protest incident. This will worsen traffic congestion in that axis and possibly taper demand for new housing units.

- **High price of building materials:** Quite a number of building materials especially finishing materials like aluminum, roofing sheets, and iron rods used in Nigeria are imported due to insufficient local supply to meet demand. The price of aluminum has spiked by 33% to $2,650/mt YTD, and it is imported from China. Once importers factor in the weaker exchange rate (at a record low of N532/$ at the parallel market), the domestic price of these commodities will also rise accordingly. In addition, the price of locally priced commodities like cement is also up 150% to N4,000 per bag.

- **Poor rail networks:** There is need for good rail systems in Nigeria, especially in Lagos state. This will reduce demand for housing units and invariably divert demand to neighboring states (Ogun & Oyo). This will taper congestion and support the development of these other states. Experts have estimated Nigeria's infrastructure gap to be $3trn.



Real estate sector outlook

We expect the improvement in economic activities and low interest rate environment to support the real estate sector growth in Q3. The demand for commercial real estate, especially office space, will continue to rise as more companies resume physical work. The demand for residential housing units is likely to fall as consumer disposable income remains squeezed. Luxury real estate like hotels will keep springing up in highbrow areas. However, there is the increasing need for more government interventions to address the housing deficit in the country.

Global Perspective: culled from Financial Times

Digital currencies: Global payments could bypass legacy banks

The problem for central banks and private institutions alike is that the emerging technology may impose an infrastructure of its own

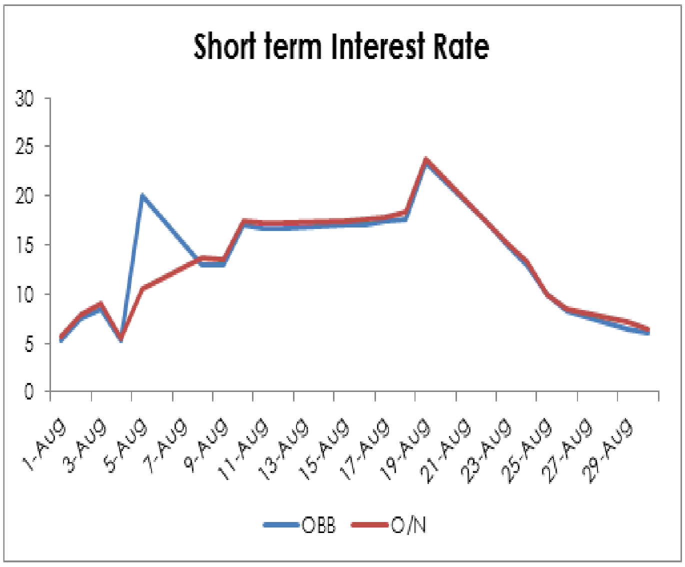
Central bank digital currencies generate a lot of noise for an innovation that is still largely theoretical. The Bank for International Settlements is adding to the buzz with an experiment to use multiple CBDCs for international payments. It hopes transactions using blockchain-based currencies can cut out intermediaries and leapfrog legacy systems. Commercial banks can be forgiven for feeling alarmed. Sprawling correspondent banking networks allow them to take a small cut at every stage of many cross-border payments. The total cost for some small transactions can exceed 10 per cent, according to the World Bank. Fintechs are already colonizing busy payment corridors. Fast, low-cost dealings using blockchain-based CBDCs would represent an even deeper disruption. Under the BIS scheme, central banks in Australia, Malaysia, Singapore and South Africa will jointly design platforms for cross-border payments in CBDCs. The BIS expects to publish results next year and demonstrate prototypes that November. The paradox is that most central bankers fear digital currencies as much as traditional private sector financiers do. They are brainstorming about CBDCs because they fear cryptocurrencies more. These threaten to sidestep regulation protecting retail customers and financial stability. Most central banks are working on some variant of the idea. China's e-Rmb trial had 21m personal and 3.5m corporate wallets as of July. Ideally, central banks would prefer old-fashioned private sector banks to keep their role distributing and managing money flows. This is a fiddly, expensive business. The problem for central banks and private institutions alike is that the emerging technology may impose an infrastructure of its own. Glomming CBDCs on to the existing financial system may be awkward and lack credibility.

That tension is apparent in EU plans for central banks to hold retail deposits of CBDCs. This would reduce their current account provider to a funnel for funds. A proposed cap on the amount deposited reflects fears that money would avalanche into central bank deposit accounts at times of stress. There will be no overnight revolution. It is notable that bitcoin, the crypto which alarms central bankers most, is used primarily for speculation. Despite the hype, it is an awkward and insecure medium for payments. Chief executives of large universal banks would meanwhile be making more fuss about their own trials of blockchain currencies if these were going brilliantly. Even so, once a technological genie gets out of the bottle, it stays out. This one is beginning to push harder on the cork.

Macroeconomic Indicators August 1st—31st

Money Market

The average opening position of banks fell by 25.13% to N135.97bn in August from N181.62bn in July. This was despite a net OMO inflow of N232.01bn. Total OMO sales during the review period was N169.23bn while OMO repayment amounted to N401.24bn. The reduction in market liquidity led to an increase in the short-term interbank rates. On the average, NIBOR rate (OBB, O/N) increased by 56bps to 13.51%pa from 12.95%pa in July.



[11]

A total of N463.63bn was auctioned at the primary market in August, up 11.66% from N415.2bn in July. T/bill yield for the 364-day tenor declined by 55pbs to 6.8%pa while 91-day and 182-day remained flat at 2.5%pa and 3.5%pa respectively. At the secondary market, t/bill yields declined across the three tenors by an average of 119bps.

Tenor	Primary market (August 11th, 2021) (%)	Primary market (August 25th, 2021) (%)	Secondary market (August 2nd, 2021) (%)	Secondary market (August 31st, 2021) (%)
91-day	2.50	2.50 ↔	3.67	3.27 ↓
182-day	3.50	3.50 ↔	5.74	4.25 ↓
364-day	7.35	6.8 ↓	8.00	6.31 ↓

Outlook

Increased forex inflow from SDR ($3.5bn) and Eurobond issue ($6.2bn) is likely to reduce government borrowing from the domestic economy. This will reduce crowding out effect on private borrowing and keep interest rates lower.

[11]FMDQ, FDC Think Tank

Impact

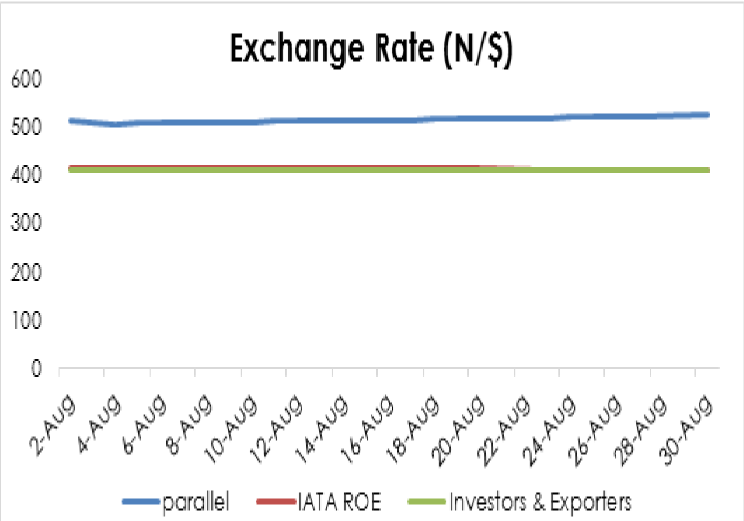
Lower interest rates will reduce cost of borrowing. This will boost investment and support business expansion. Consumer spending is also likely to increase.

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

Currency volatility continued during the review period. At the parallel market, the naira weakened to a record low of N527/$ on August 30 before appreciating slightly to N526/$ the following day. This was partly due to a drop in activity level at the IEFX window. Average turnover at the window fell by 7.89% to $129.59mn from $140.69mn in July. Meanwhile, the currency was relatively stable at the window, trading within a tight band of N410.8/$ -N412/$.



[12]

Outlook

Currency volatility is likely to persist in the near term. However, increased dollar inflows from SDR ($3.5bn) and Eurobond issue ($6.2bn) would taper demand pressures in the long run.

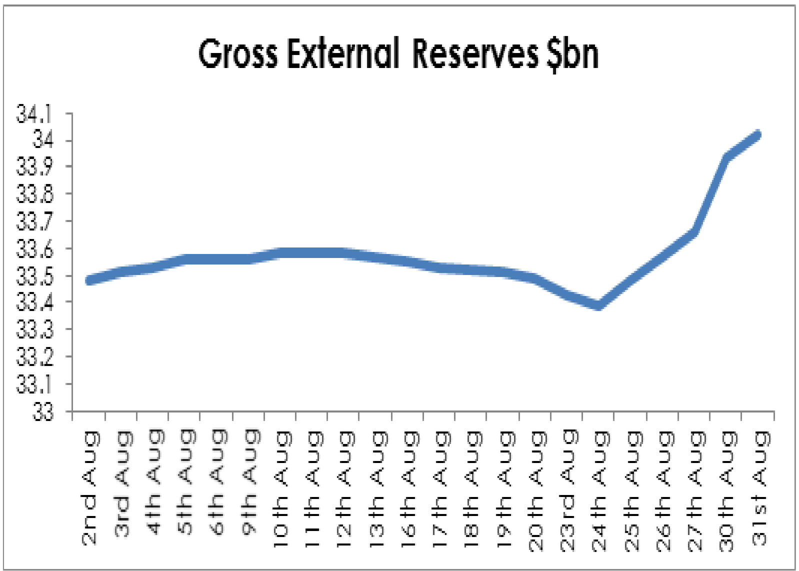
[12]CBN, FDC Think Tank

Impact

Currency weakness and forex restrictions will remain major threats to manufacturers and other entities that are highly import dependent or have dollar exposures. This will push up import costs and increase imported inflation. Also costs of servicing dollar obligations will increase.

External Reserves

The gross external reserves recorded a choppy movement in the month of August. It fell to $33.40bn (4-week low) on August 24th before increasing to close the month at $34.02bn. This was partly due to the lagged effects of higher oil prices (currently trading at $73.27pb). The country's import cover increased by 1.8% to 8.35 months from 8.2 months at the end of July.



[13]

Outlook

We expect the accretion in the external reserves to continue in the near term due to increased inflows from SDR, Eurobond issue and higher oil revenues.

Impact

Higher gross external reserves will increase the ability of the CBN to support the naira.

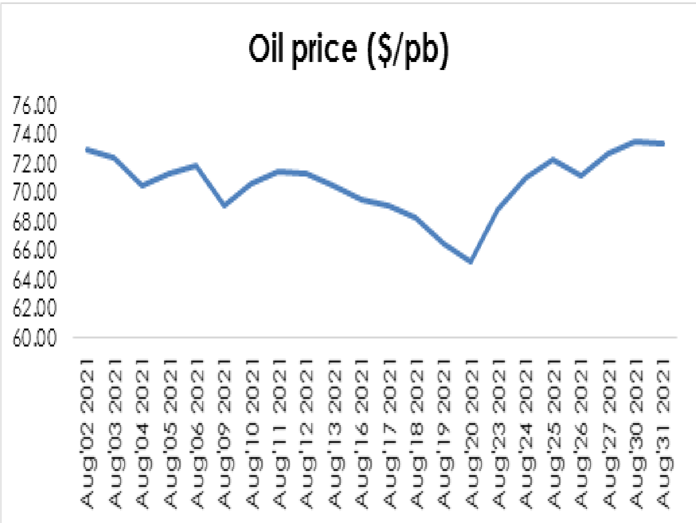
[13]CBN, FDC Think Tank

Commodities Market - Exports

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

Oil Prices

The average price of oil declined by 5.72% to $70.50pb in August from $74.78pb in July. For the first time in the last two months, oil prices fell below the $70pb threshold as rising covid cases dampened market sentiments. However, prices rebounded above $70pb towards the end of the month on news of a fire outbreak on a Mexican oil platform and Hurricane Ida that led to a precautionary shutdown of the US Gulf oil production.



[14]

Outlook

At the recently concluded meeting, OPEC and its allies have agreed to continue with the plan to ramp up oil supply. This means that Nigeria's oil production is likely to increase in line with its new OPEC quota (1.83mbpd) and offset the possible reduction in prices.

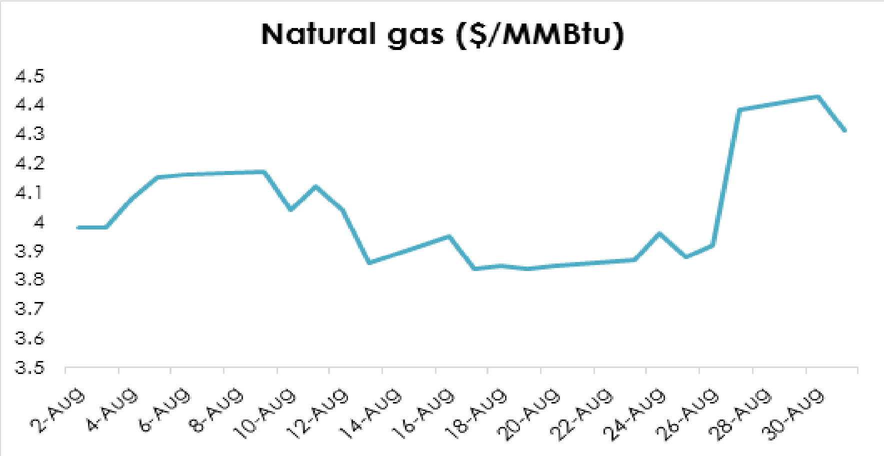
Impact

Nigeria is more oil production sensitive than price. Higher oil revenue will increase government revenue and boost foreign exchange earnings

Natural Gas

The average global price of Natural gas stood at $4.03/mmbtu in August, 5.77% higher than $3.81/mmbtu recorded in the preceding month. This alongside the FG's implementation of cooking gas import tax, led to a 100% spike in prices to N6,000 (12.5kg).

[14]Bloomberg, FDC Think Tank



[15]

Outlook

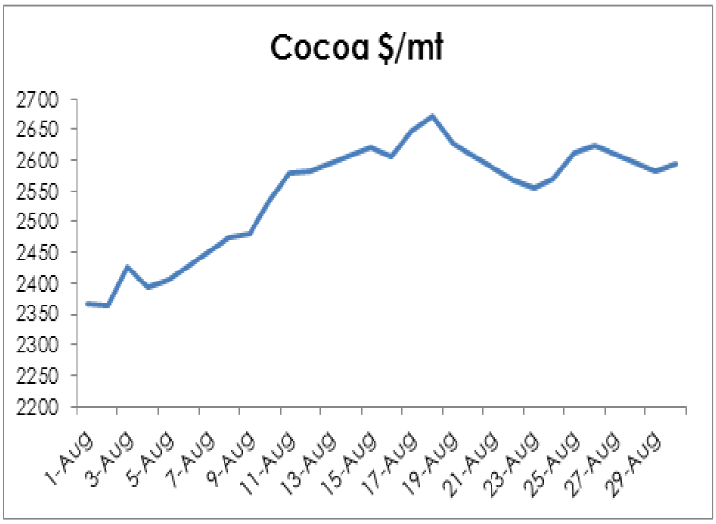
We expect LNG price to increase further in the coming months as the hurricane Ida has dented the supply of natural gas in countries such as Mexico and US, the largest economy in the world but would fall slowly as the economies recover from the damages.

Impact

Higher LNG prices will boost Nigeria's LNG export revenues, as natural gas is Nigeria's 2nd highest export commodity.

Cocoa

During the review period, the average price of cocoa increased by 7.30% to $2,529/mt from an average of $2,357/mt in July. The rise in prices was driven by increased demand as pandemic related restrictions are further eased and forecasts of lower supply in top producing countries like Ghana and Ivory Coast due to adverse weather conditions.



[16]

Outlook

We expect cocoa prices to remain bullish in the near term based on higher global demand amid supply constraints.

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

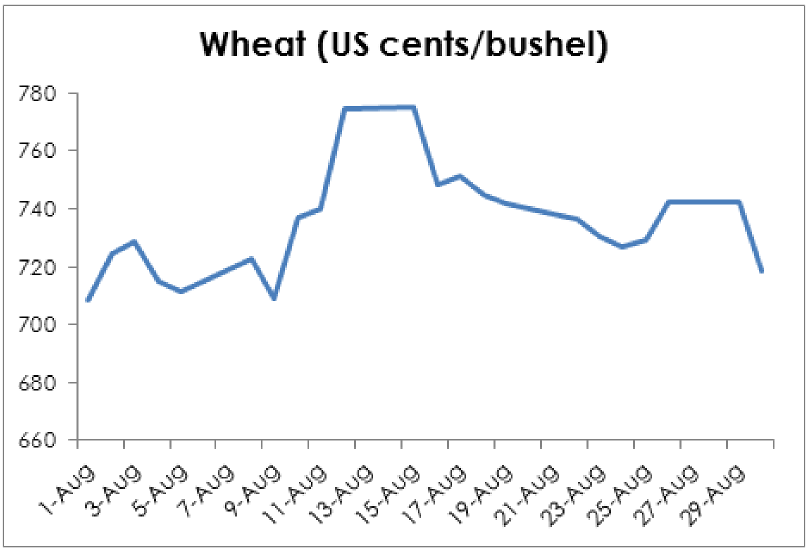
Impact

Cocoa is one of Nigeria's major non-oil export commodities. An increase in price implies that the country's export revenue will rise.

Imports

Wheat

On the average, wheat prices increased by 10.23% to $732.7/bushel in August from $664.7/bushel in the prior month. This was partly driven by the USDA's reduction in the US (49mn bushels) and global (16.8mn tons) wheat supply forecast.



[17]

Outlook

We project a continued rally in wheat prices on global supply concerns.

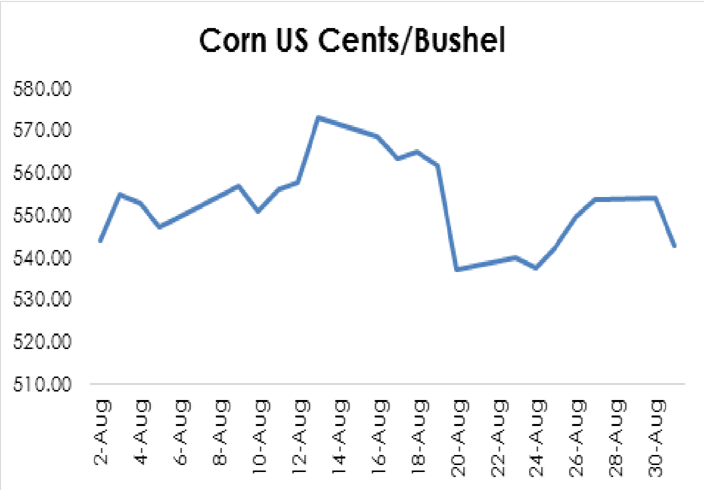
Impact

Wheat is one of Nigeria's major import commodities. Higher wheat prices will push up Nigeria's import bill with a ripple effect on wheat related products like flour.

Corn

Corn prices averaged $552.7/bushel in August, 0.13% higher than an average of $551.96/bushel in July. This was primarily driven by reduced supply due to increased rainfall across the US Mid-west and destruction of key transport channels for corn in the US by hurricane Ida. Forecasts of lower corn production in Argentina also supported the bullish price trend.

[17]Bloomberg, FDC Think Tank



[18]

Outlook

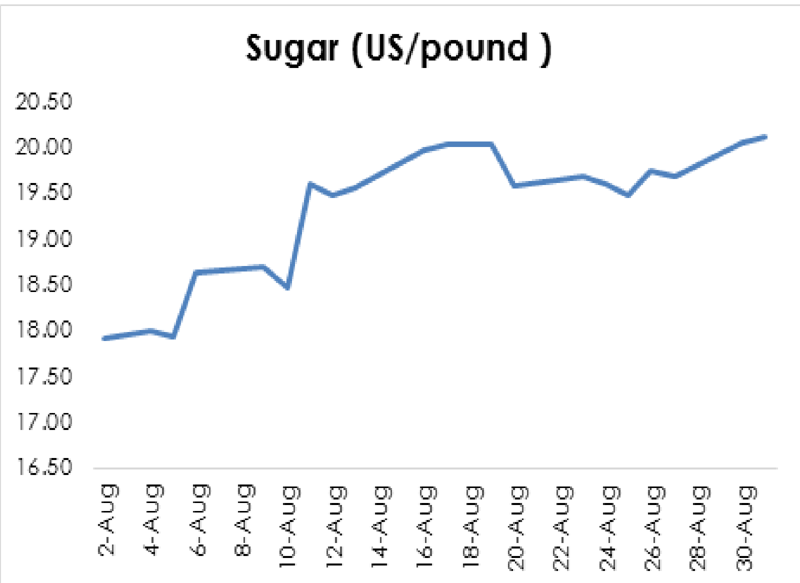
Corn prices are likely to remain bullish as unfavorable weather conditions raise supply concerns.

Impact

Nigeria is one of the largest importers of grains in the world. Therefore, an increase in prices mean a higher import bill and increased production costs for firms that use these commodities as raw materials in their production process such as cereals.

Sugar

In August, the average price of sugar increased by 8.83% to $19.23/pound, up from $17.67/pound in the previous month. The bullish price trend was largely due to supply shortages in Brazil (world's largest producer) as a result of bad weather conditions.



[19]

Outlook

Supply constraints will continue to keep sugar prices elevated in the near term.

Impact

Higher sugar prices to increase Nigeria's import bill and push up the price of confectioneries.

[18]Bloomberg, FDC Think Tank
[19]Bloomberg, FDC Think Tank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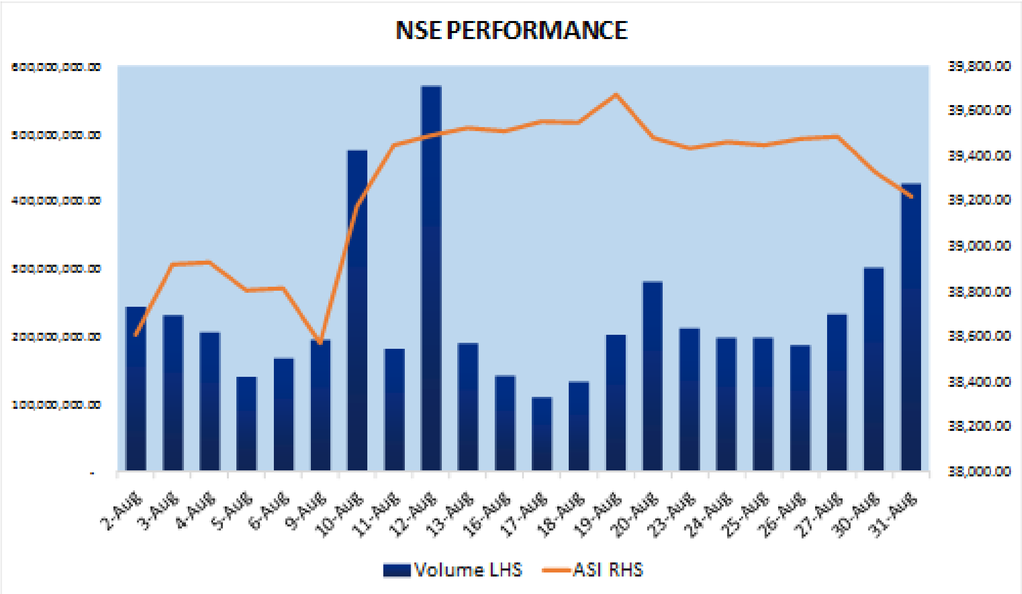
Stock Market Update

The NSE recorded a positive performance in the review period, as it gained 1.74% to close at 39,219.61 points on August 31st from 38,547.08 points on July 30th. In the same vein, market capitalization rose by 1.74% (N35bn) to N20.43trn on August 31st relative to its close of N20.08trn on July 30th. The market YTD return improved to -2.61% from -4.28% in the review period. The market gained in 13 of the 22 trading days of the review period with a cumulative gain of 1.75%.

The NSE traded at a price to earnings (P/E) ratio of 12.15x as of August 31st, 1.08% higher than the close of July 30th (12.02x). The market breadth was negative at 0.80x as 40 stocks gained, 66 remained unchanged while 50 lost.



[20]

Market activity level was negative in the review period. The average volume traded declined by 5.90% to N237.20mn from N252.06mn. Similarly, the average value of trades fell by 9.4% to N2.03bn from N2.24bn in the review period.

Honeywell Flour Mill Plc topped the gainers' list with a 154.76% increase in its share price. This was followed by UPDC Real Estate Investment Trust Plc (55.00%), Pharma-Deko Plc (48.62%), Morison Industries Plc (45.00%) and Transcorp Hotels Plc (44.82%).

[20]NSE, FDC Think-Tank

TOP 5 GAINERS				
Company	Jul-30 (N)	Aug-31 (N)	Absolute Change	Change (%)
HONYFLOUR	1.68	4.28	2.60	154.76
UPDC	1.20	1.86	0.66	55.00
PHARMDEKO	1.09	1.62	0.53	48.62
MORISON	1.40	2.03	0.63	45.00
TRANSCOHOT	3.57	5.17	1.60	44.82

The laggards were led by Meyer Plc (66.10%), SCOA Nigeria Plc (26.15%), Juli Plc (26.02%), University Press Plc (15.38%) and Nigerian Breweries Plc. (14.00%).

TOP 5 LOSERS				
Company	Jul-30 (N)	Aug-31 (N)	Absolute Change	Change (%)
MEYER	0.59	0.20	-0.39	-66.10
SCOA	1.95	1.44	-0.51	-26.15
JULI	1.23	0.91	-0.32	-26.02
UPL	1.43	1.21	-0.22	-15.38
NB	57.5	49.45	-8.05	-14.00

Company	Topline	PBT	PAT	EPS
Sterling Bank Plc	N68.61 billion (2.49%) ↑	N6.06 billion (6.69%) ↑	N5.69billion (4.98%) ↑	N0.20 (5.26%) ↑
MTN Nigeria Plc	N409.95 billion (31.42%) ↑	N112.14 billion (79.91%) ↑	N68.09 billion (59.09%) ↑	N3.35 (59.52%) ↑
Unity Bank Plc	N9.87 billion (8.92%) ↑	N1.50 billion (34.08%) ↑	N1.38 billion (34.08%) ↑	11.82 kobo (34.01%) ↑
AIICO Insurance Plc	N28.86 billion (13.29%) ↑	N472.51 billion (73.15%) ↓	N3.46 billion (45.10%) ↑	N0.03 (91.18%)
Mutual Benefits Assurance plc	N6.52 billion (82.12%) ↑	N25.71 million (96.15%) ↓	-N9.34 million (98.53%) ↓	
Conoil Plc	N67.64 billion (17.72%) ↑	N1.56 billion (213.23%) ↑	N1.06 billion (212.68%) ↑	N1.53 (212.24%) ↑
Guinness Nigeria Plc	N160.42 billion (53.52%) ↑	N5.77 billion (133.80%) ↑	N1.26 billion (110.02%) ↑	57 kobo (109.93%) ↑
Zenith Bank Plc	N345.56 billion (0.15%) ↓	N117.06 billion (2.58%) ↑	N106.12 billion (2.21%) ↑	N3.38 (2.42%) ↑

Outlook

We expect the release of more corporate reports, especially in the banking space, to influence investor sentiment and overall market performance this month.

Equity Report: Guinness

Market Capitalization: N64.84bn

Current Price: N29.6

Industry: Food, beverage and tobacco

Analyst Note

Guinness Nigeria Plc's stock is currently trading at N30 at the NGX, which represents a YTD growth of 63.04%. Although the company's EPS is yet to recover to its pre-pandemic levels, it however recorded a sharp growth of 109.93% to N0.57 in the reporting year ended June 30 2021. Similarly, the company's ROE returned to positive territory of 1.70x from -17.22x last financial year. Guinness Nigeria Plc reported a strong top line growth of 53.52% to N160.42bn for the full year ended June 30, 2021 from N104.38bn in the previous year, supported by an improvement in off-trade channels sales and increased at-home consumption as well as higher prices. Despite challenges posed by the coronavirus crisis including supply chain disruptions and a spike in cost of raw materials, the company's performance reflects its resilience and adaptability. In the same vein, its gross profit rose by 37% to N45.71bn in the just ended full year from N33.33bn in 2020.

Guinness reported an operating profit of N9.87bn compared to the N12.83bn loss incurred in the previous year. This is largely attributable to the strong growth in its topline and other income coupled with a decline in its administrative expenses. The company recorded a 40.77% increase in its marketing and distribution expenses to N26.07bn and a 26.78% decline in administrative expenses to N10.50bn resulting in an 11.26% growth in the net operating expenses to N36.56bn.

Guinness Nigeria Plc's bottom line performance mirrored its top line impressive performance despite the surge in the company's loss on the re-measurement of foreign currency balances as a portion of finance cost. The loss on the re-measurement of foreign currency balances spiked by over 240% to N2.53bn from N741mn in 2020. The company's profit before tax returned to positive territory at N5.77bn from a loss before tax of N17.07bn in FY'2020. Similarly, the company reported a profit after tax of N1.26bn in FY'2021, a 110.02% improvement from the loss after tax of N12.58bn in FY'2020.

Industry and Company Overview

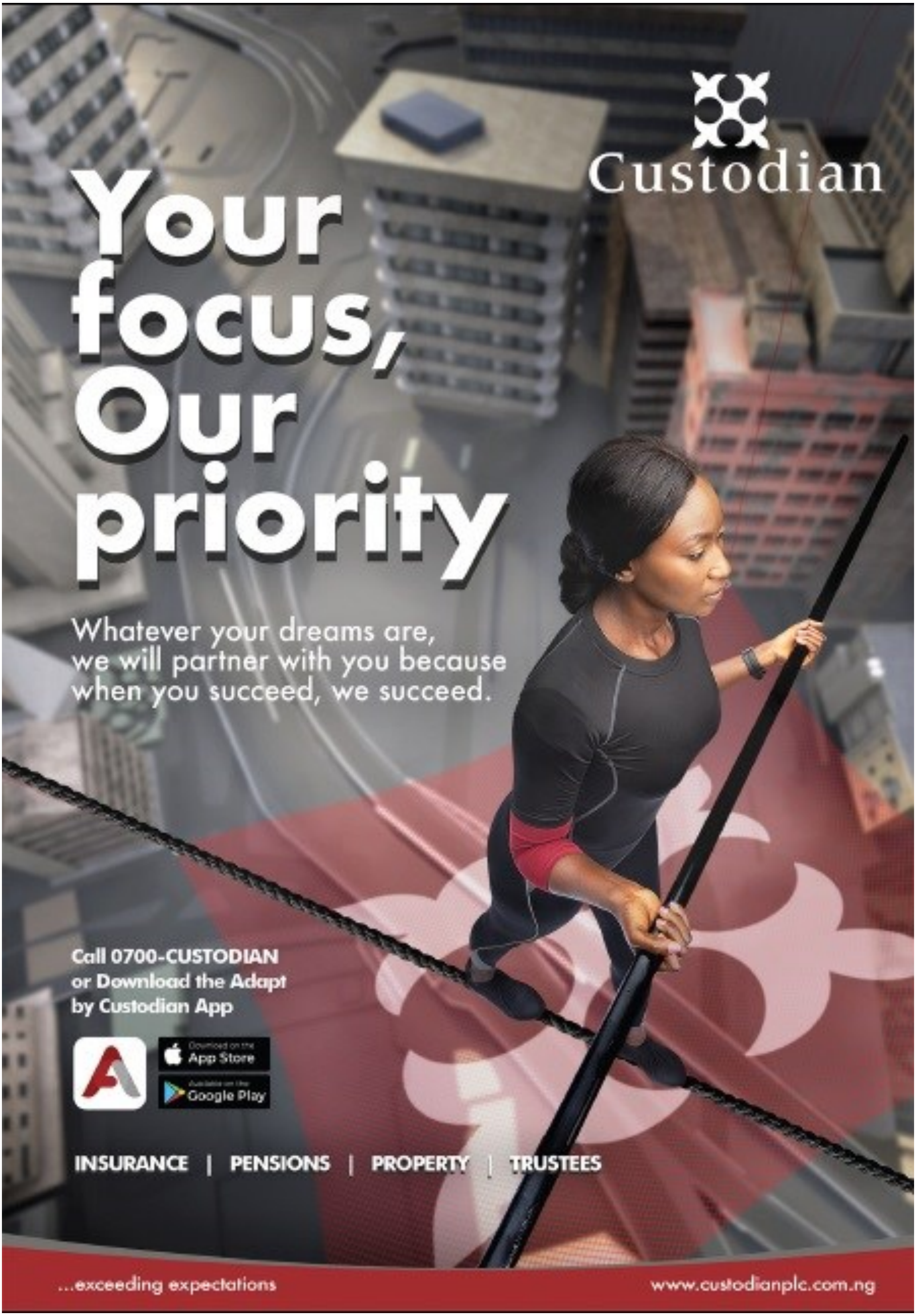
A subset of the food, beverage and tobacco (FBT) industry, the breweries industry is categorized under the manufacturing sector. In 2020, the growth of the FBT sub-sector eased to 1.5% from 2.17% in the prior year with a five-year average of 0.54%. Conversely, the manufacturing sector recorded a negative growth of -2.75% in 2020 compared to a slight expansion of 0.77% in 2019. The sector has a five-year average of -0.88%.[21] The manufacturing sector, which is a major employer of labour, contributes an estimated 12.83% to GDP.[22]

The pandemic-induced global economic downturn along with containment measures and disruption continues to have a negative impact on the brewery industry and the broader market. While increased fiscal regulation and rising cost pressures have massive influence on the sector's performance, the gradual easing of global supply bottlenecks and improving macroeconomic fundamentals are expected to weigh on the sector's near-term outcomes. However, the industry's significant reliance on imports amid a weaker naira and forex illiquidity has exerted further pressure on production costs for breweries.

Nonetheless, in the medium to long term, the breweries industry is anticipated to deliver great value, driven largely by Nigeria's growing population and favourable demographics, low consumption per capita and increasing trade opportunities through exports under the African Continental Free Trade Area Agreement (AfCFTA).

Because of the limited headroom for pricing, brand visibility is vital to improving market share. Industry players will continue to leverage on product innovation to maintain competitiveness in the face of constrained pricing actions.

[21]NSE (2016-2020)
[22]NSE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Company Overview

Guinness Nigeria, a subsidiary of Diageo Plc of the United Kingdom, was incorporated in 1962 with the building of a brewery in Ikeja, the heart of Lagos. The brewery was the first Guinness operation outside Ireland and Great Britain. The group's products include primarily spirits, vodkas, beer and malted beverages. Its products comprise of Guinness Foreign Extra Stout, Malta Guinness, Harp Lager, Dubic Lager, Smirnoff Ice, Snapp, Orijin Bitters brands, etc. The company has approximately three breweries, which are located across the southern cities of Lagos, Benin and Aba and has operations primarily in Nigeria.

Guinness Nigeria controls 18% of the industry's market share in Nigeria. The company has been adversely affected by a wide range of macroeconomic conditions including a decline in consumers' disposable income, increased excise duty, inflation, increase in VAT from 5% to 7.5%, as well as sustained pandemic-induced restrictions on business places (clubs, bars, hotels), which contribute to over 60% of its revenue. Despite these, the company's stock price has gained 63.04% YTD.

The company's business fundamentals remain strong and sustainable.

The Bulls Say and the Bears Say

Bulls say:

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

Bears say:

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

Economic outlook for the next two to four weeks

We expect the Q3'21 GDP growth numbers to come in much lower at 3.5%, as base effects would have fizzled out. Nonetheless, the increase in Covid-19 vaccinations should support output and economic growth in the near term.

The MPC maintained status quo on monetary policy parameters, and we believe that their decision will have no significant impact on economic activities in the coming weeks. Meanwhile, currency pressures will persist in the forex market.

External reserves will likely continue its upward trend supported by the anticipated Eurobond issue of $3bn in October.

OPEC+ agreed to maintain its planned production increase of 400,000bpd to the market. This will keep oil prices trading above $70pb. The impact of the Hurricane Ida coupled with the torrential storm in the US golf could tighten supply and support global oil prices in the near term.