

Jittery Investors

&

Volatile Markets



Presented by Bismarck Rewane

CEO, Financial Derivatives Company Ltd.

October 6th 2021

Outline



**Global & Regional
Developments**



**Domestic
Highlights**



**Domestic Economic
Performance**



Policy Thrust



Stock Market Review



October Outlook

Global & Regional Developments



**Some Similar to Nigeria, Some
Different!**

Global Developments – Policy Shift to Stagflation

- Global policy makers shift attention from fear of inflation and overheating to stagflation and stalling growth
- In Q3, the debate was whether inflation was transitory or structural
- Policy remedies for inflation and stagflation are opposite
- Fed to commence monetary policy normalization next month
- The IMF in its September outlook retained projections of April
- Global growth will average 6% in 2021 and fall to 4.9% in 2022
- The fund views price pressures as mostly transient and pandemic related

Global Developments – Policy Shift to Stagflation

- It expects elevated inflation in some emerging markets
- Especially from high food prices and supply shocks
- Inflation among Nigeria's trading partners

	June	August	% Change
China	1.1	0.8	-0.3 
India	6.26	5.3	-0.96 
US	5.4	5.3	-0.1 
EU	1.9	3.0	1.1 
UK	2.5	3.2	0.7 

Global Developments – Oil at a 7-year High

- Oil and commodity prices spike in Q3
- Brent up 4.53% to a 7-year high (\$82.87pb)
- Stronger than anticipated recovery in growth and demand
- Goldman is forecasting \$90pb price in 2021
- JP Morgan is more bullish at \$100pb
- Is the oil price rally sustainable? – **No it is not**

Global Developments – Commodity Price Boom

- The surge in commodity prices is a global phenomenon in Q3
- Wheat, cocoa, aluminum and steel prices are at record highs

Nigerian imports

	Jan'21	Sept'21	% Change
Wheat	655.03	706.9	7.92
Sugar (50kg)	19,000	21,000	10.53
Rice (50kg)	29,000	30,000	3.45

Nigerian exports

	Jan'21	Sept'21	% Change
Oil	55.19	74.91	35.73
Natural gas	2.65	4.96	87.17
Cocoa	2,528	2,636	4.27

Spectre of the 2008 Subprime Mortgage Crisis

- Evergrande, China's 2nd largest property developer, runs a risk of default on its \$300bn debt
- Analysts fear it could turn into China's Lehman Brothers moment
- Sending shockwaves across the world's second largest economy
- Real estate accounts for as much as 30% of Chinese GDP
- Evergrande shares have crashed by almost 85% so far in 2021
- Fears of a contagion to global financial markets
 - Failure of one major financial institution can lead to *domino effect*



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Africa in 2022

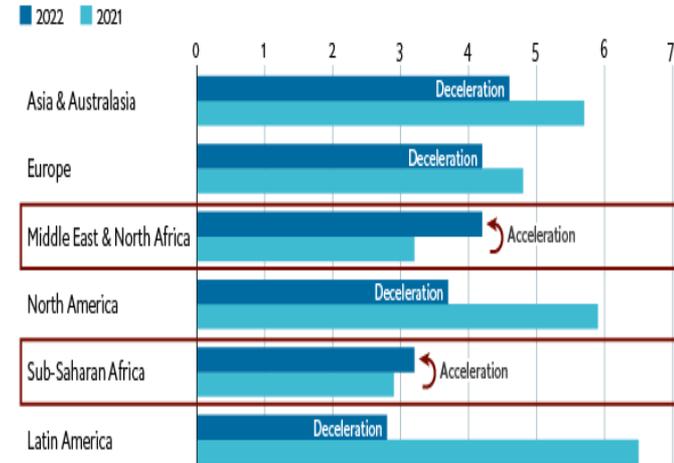
**Region in a race for vaccines, growth & debt
The EIU in its October 2021 outlook raises the
following issues...**

Africa: Slow & Fragile Recovery in 2022

- Economic recovery will be slow and fragile
- Due to lingering fiscal pressures, elevated debt levels, high unemployment and limited vaccine rollouts
- Nigeria, which accounts for 26% of Africa's GDP (\$1.81trn), is not expected to deviate from the regional trajectory due to
 - Higher oil prices but falling production volumes
 - And depleting oil reserves but new gas finds

Regional growth performance, 2022

(real GDP at market exchange rates; annual % change)



Source: EIU.

Africa: Slow & Fragile Recovery in 2022

- Commodity boom to continue in 2022
- Major exporters will receive a boost from strong demand and high prices
- But it will be insufficient to significantly boost GDP growth
- Partial recovery for travel & tourism

Africa: Debt Service Costs to Spike

- External debt to continue to rise in 2022
- Total sovereign foreign debt surpassed \$1 trn in 2021 and is projected to edge higher in 2022
- African countries rush to the Eurobond market

	Eurobond Sale (\$bn)	Interest rates (%)	Ratings & Outlook
Cameroon	0.81	5.95	B-Stable
Côte d'Ivoire	0.85	5.75	BB- Negative
Kenya	1.0	6.30	B+ Negative
Ghana	3.0	8.88	B Negative
Nigeria	4.0	8.25	B+ Stable
Rwanda	0.62	5.5	B+ Negative

Africa: Debt Service Costs to Spike

- Fiscal stimulus, subdued tax revenues and BoP pressures have increased the need for new lines of external loans
- Foreign creditors and investors still appear eager to provide loans and snap up African financial instruments
- External debt relief could become a more pressing concern for some countries

Africa: Mounting Exchange Rate Pressures

- Currency depreciation to pervade the African forex market
- Due to various counterbalancing factors that will engulf the region

including

- The lasting effects of the pandemic and modest economic recoveries
- Stretched national finances and bullish commodity markets
- Foreign investor search for yield
- An uptick in annual inflation to name but a few



Domestic Highlights

Nigerian economy in slow & steady growth

Domestic Highlights – Output

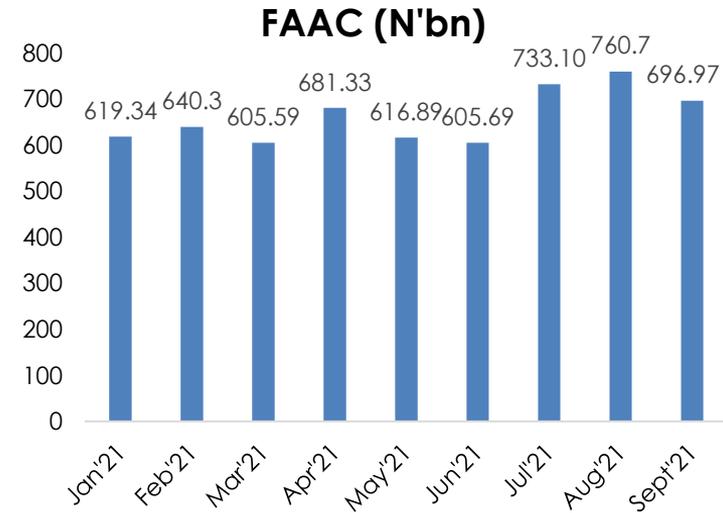
- Economy recovering but momentum slower than expected
- 2020 recession triggered by COVID-19 & oil price shocks
- Oil prices now at a 7-year high (\$82.87pb) but economy not firing on all cylinders
- Lessons learnt from previous recessions but there are underlying structural rigidities
- World Bank raised Nigeria's 2021 growth forecast by 0.6% to 2.4% from 1.8%
- Supported by accelerated growth in the service sectors

Domestic Highlights – Output

- Domestic oil production declined consistently for four months
 - Fell by 8.63% to 1.27mbpd in August
 - Under investment in the oil sector and high attrition rate
 - The rig count has jumped 57.4% since the PIA
- Royal Dutch Shell has put its land and swamp assets on the block
- Most international oil companies are shifting to green energy
- Higher oil prices, 31.3% in 6 months is making upstream loans qualify for restructuring

Domestic Highlights - Monetary

- Headline inflation at a 7-month low (17.01%) but will spike in September
- Due to imported inflation and energy costs
- Diesel is up 60.53% to N305/ltr from N190 in January
- As VAT controversy rages between states and FIRS
- Value of transactions rose by 6.08% to N26.5trn in September from N25trn in August



Channels	Aug'21 (N'bn)	Sep'21 (N'bn)	
Cheques	265.44	269.37	↑
POS	504.88	556.36	↑
NIP	22,849.98	24,291.20	↑
NEFT	1,381.8	1,405.06	↑

Domestic Highlights - Monetary

- Average opening position of banks increased marginally by 0.95% to N137.26bn
- Average NIBOR rates (OBB/ON) dropped by 98bps to 12.53%pa
- 364-day T/bill rates inched up (7.5%) as CBN continues to straddle between OMO rates and aggressive CRR debits
- 10-year and 20-year bond yields flat at 11.6% and 12.75% respectively
- But 30-year bond increased by 0.2% to 13%pa
 - Cheaper than the borrowing cost of ways and means by the FGn
 - Currently 2% pa above the MPR= 13.5%pa

Domestic Highlights – External (Higher Reserves & Debt)

- Nigeria raised \$4bn from the international capital markets
 - 33.3% above the government's initial target of \$3bn – ‘Creditors’
enthusiasm not to be mistaken for investor confidence

External reserves increasing but debt levels climbing

- Gross external reserves up 3.48% to \$36.6bn (YTD)
 - Total external debt now above \$37bn
 - Up 270% from 2015's level of \$10bn
- Forex rationing also supporting external reserves accretion

Naira a Victim of Market Distortion & Imperfection

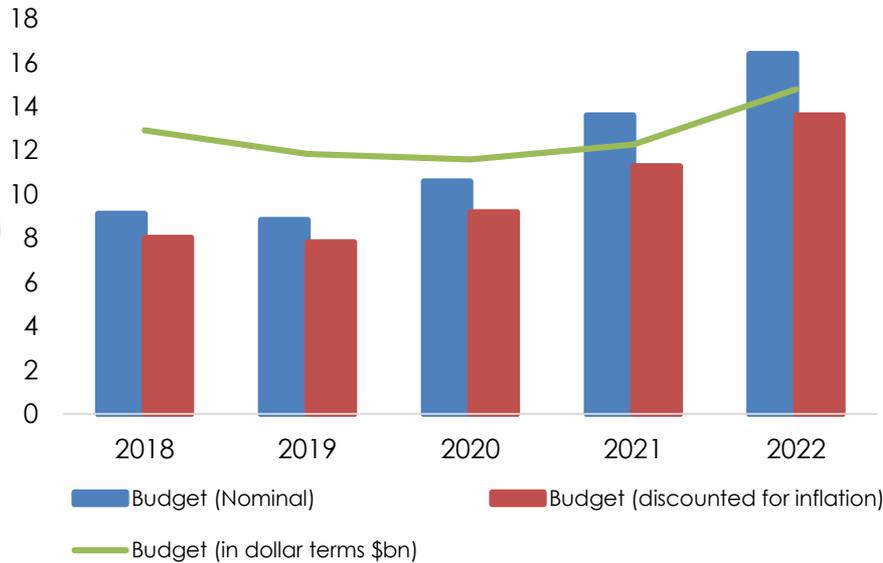
- Lost 12.71% in 8 weeks from N515/\$ to N590 before recovering to N574/\$
- CBN mulls adding wheat to its import restriction list
 - \$2bn spent on wheat importation annually – **CBN**
 - Price of flour up 44% to N21,500 and N23,500 on November 1
- MTEF for 2022-2024 approved by House of Reps

2022 Budget Submitted to NASS

- President Buhari has submitted the 2022 budget to the National Assembly
 - Seeks a 17.24% increase to N16.39trn
- When discounted for inflation (17.01%), it translates into zero growth
- In dollar terms, it means a decline in expenditure
- Relative to peers, Nigeria may be spending less
- But if consolidated with state government expenditure, fiscal impact is much higher

Budget Dynamics

Budget (Nominal & Real Values)

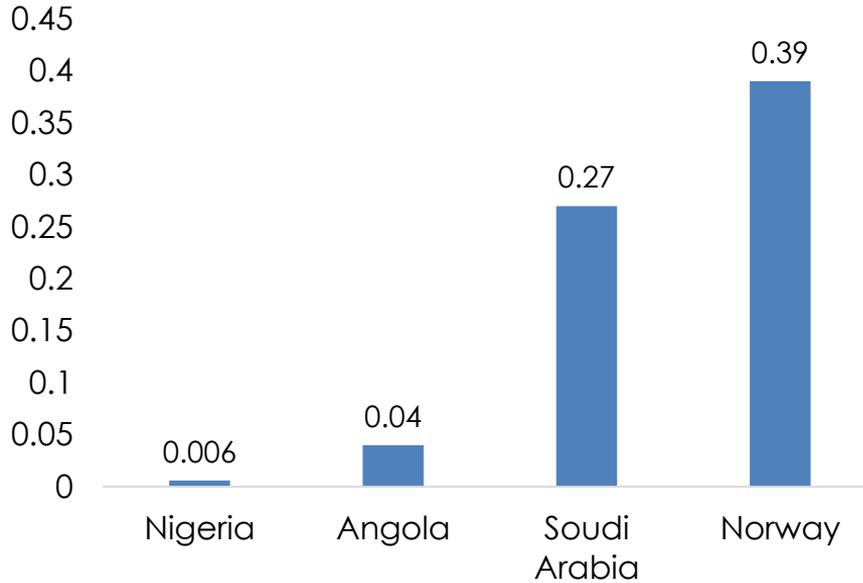


	Budget (Nominal value – Ntrn)	Budget (Discounted for inflation – Ntrn)	Budget (Dollar value – \$bn)
2018	9.12	8.02	25.12
2019	8.83	7.82	23.01
2020	10.59	9.19	22.53
2021	13.59	11.28	23.84
2022	16.39	13.6	28.75

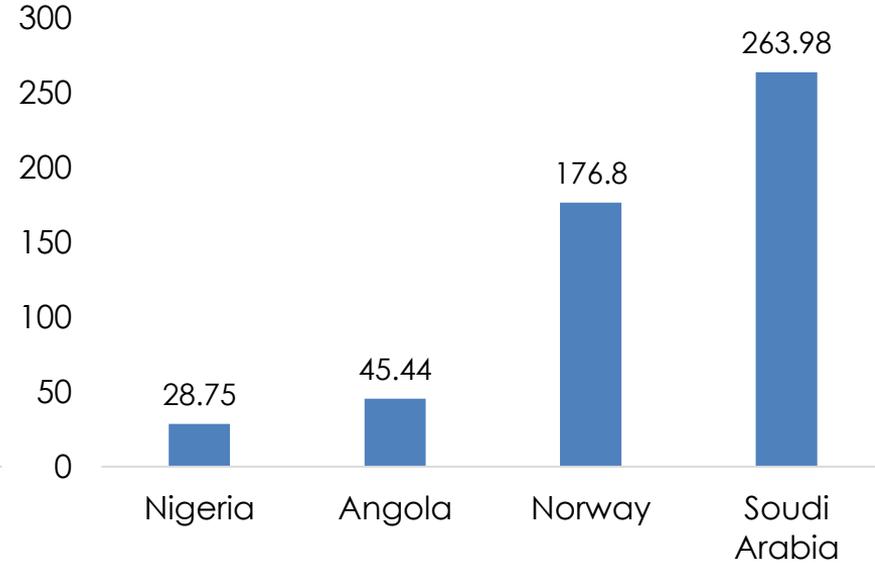
‘Effective exchange rate = N557.17/\$’

Budget Size Comparison – Big Country But Not Rich Country

Barrels per head



Budget size (\$bn)



‘Nigeria is asset rich and cash poor’

Budget Assumptions

	2022 Budget assumptions	Comments
Oil price (\$pb)	57	Realistic – oil prices are currently above \$80pb
Oil production (mbpd)	1.88	Optimistic – Domestic oil production has declined steadily in the last 4 months (currently at 1.27mbpd)
Exchange rate (N/\$)	410	Ambiguous – Official exchange rate likely to depreciate on a crawling peg
Inflation (%)	14.2	Unrealistic – Inflation is currently 17.01%
GDP growth (%)	4.2	Optimistic – GDP growth likely to be lower

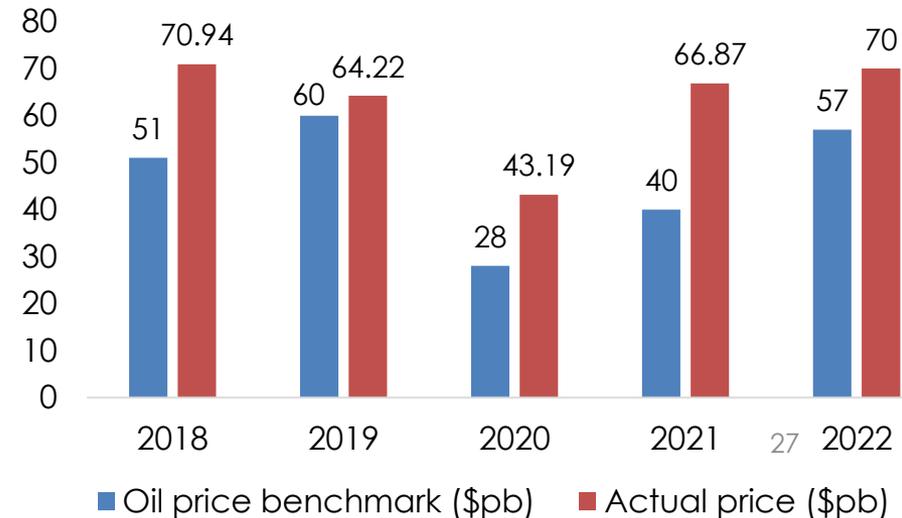
Theoretical Deficit & Actual Surplus

- Average budget benchmark price is 25.78% below actual price
- The rule is that excess crude account benefits from the headroom revenue
- In theory, Nigeria has been running a nominal deficit and an actual surplus
- Question is where is the surplus?



- 4 possibilities
 - Excess crude account
 - Extra budgetary spending (subsidies)
 - Leakages
 - All of the above
- The jury is out as to what is happening

Oil price benchmark Vs Actual price (\$pb)





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Leading Economic Indicators



- Q2'21 – 5.01%,
- Q3'21* -3.5%
- Real GDP growth to remain positive but decline slightly as base year effects gradually wane



- Aug'21-17.01%
- Sept'21*-17.20%
- Inflation likely to reverse its downward trend due to currency pressures and higher logistics costs



- Primary T-Bills (364-days) up by 0.4%
- T/bill yield to continue its upward trend
- Negative rates of return to widen as inflation increases

Leading Economic Indicators



- Brent price increased by 5.25% to \$74.27pb in September
- To remain within a range of \$70-75pb on supply shortages amid stronger than expected demand



- Oil production down 8.63% to 1.27mbpd in September
- Could maintain this trend on persistent disruptions to oil pipelines



- FAAC allocation fell by 8.2% (N697bn) in Sept from N760.7bn in August
- Likely to decrease further to N650bn in October as controversies on VAT collation linger

Leading Economic Indicators



- Naira crashed to an all-time low of N580/\$ in the parallel market
- I&E window also depreciated to N415.43/\$
- Naira likely to appreciate in Q4 on increased dollar inflows from visiting friends and families
- Will eventually move from an abnormal rate to effective rate



- External reserves gained 7.2% in September (currently at \$36.78bn)
- Likely to increase further to \$38bn due to IMF's SDR (\$3.35bn) and Eurobond issue (\$4bn)
- Steady accretion in gross external reserves on higher oil prices



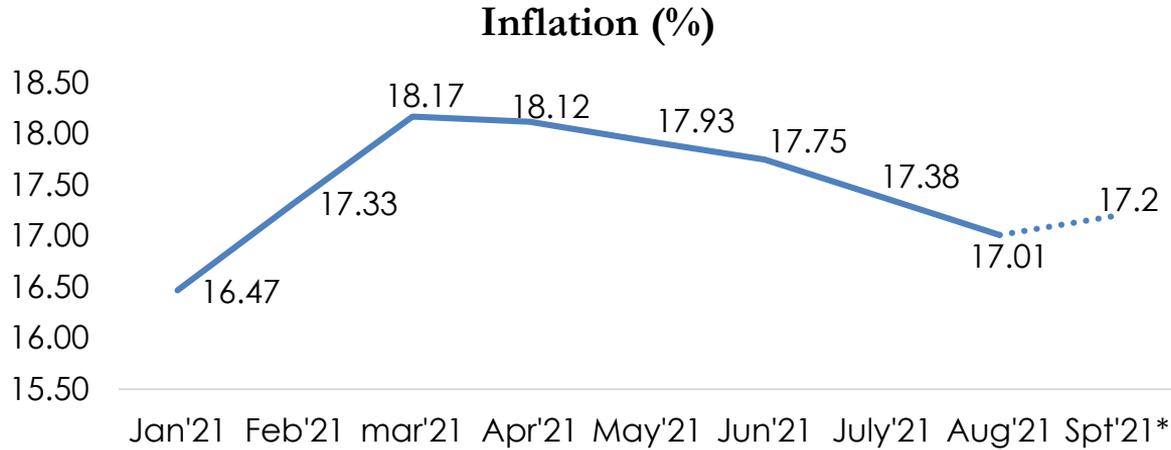
- Total public sector debt up 1.85% to \$33.47bn in Q2'21
- Likely increase in interest rates to push up debt service costs

Expanding Sectors – What to Expect

Sectors	Q3 Growth (%)	Comments
Electricity	25.8	Gradual move towards cost reflective tariff to boost investment in the sector
Transportation	19.8	Higher logistics costs could slow sector performance
Construction	4.5	Increased government constructions ahead of 2023 elections
Trade	15.6	Improved informal sector activities. Forex scarcity will remain a major challenge
Manufacturing	2.5	Increased intervention will boost sector growth. Forex challenges, higher energy and logistics costs will push up operating expenses and could compress margins. Aggregate demand will also remain low as disposable income falls

'Most sectors will witness slow growth as base effects gradually wane'

Inflation Down – Inflection Point Soon



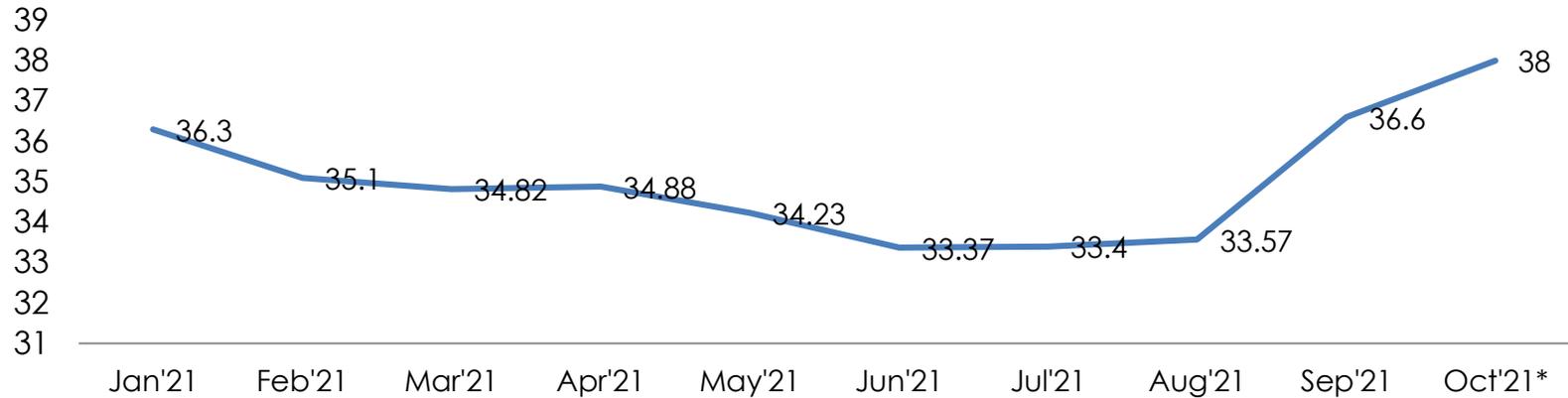
- Headline inflation likely to reverse its downward trend in Q4'21
- Currency pressures will be the principal driver – **blended rate spiked by 18.6% to N571.65/\$ from N482/\$ in June**
- Compounded by higher energy costs

Rising Inflation Could Trigger a Tighter Monetary Policy Stance

- CBN likely to increase the MPR by 50bps to 12.0%pa in November
- As inflation reverses its downward trend

External Reserves Accretion to Continue

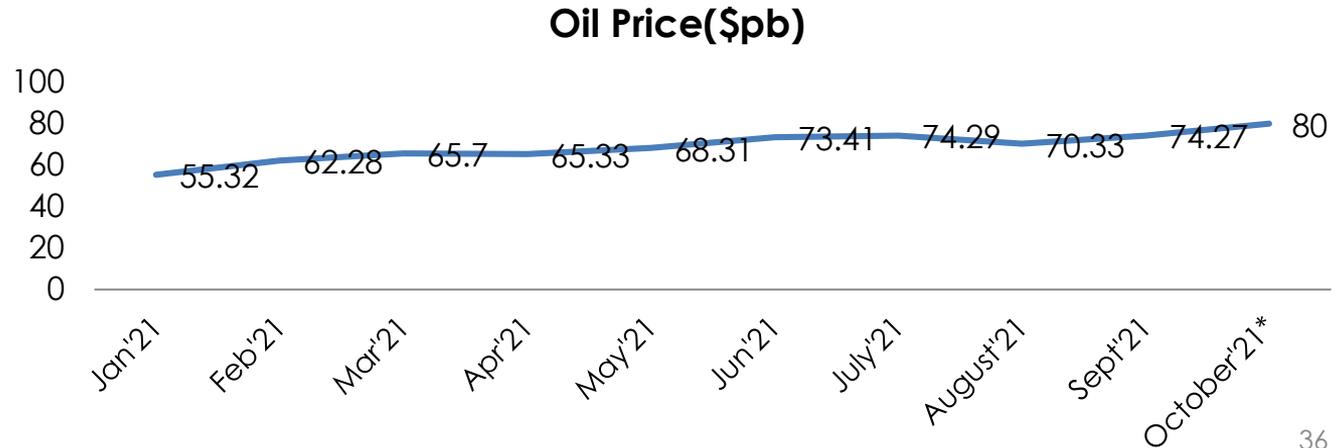
External Reserve (\$'bn)



- External reserves to continue its steady accretion as forex rationing lingers
- Supported by increased inflows from Eurobond issue (\$4bn) and
 - External debt rising

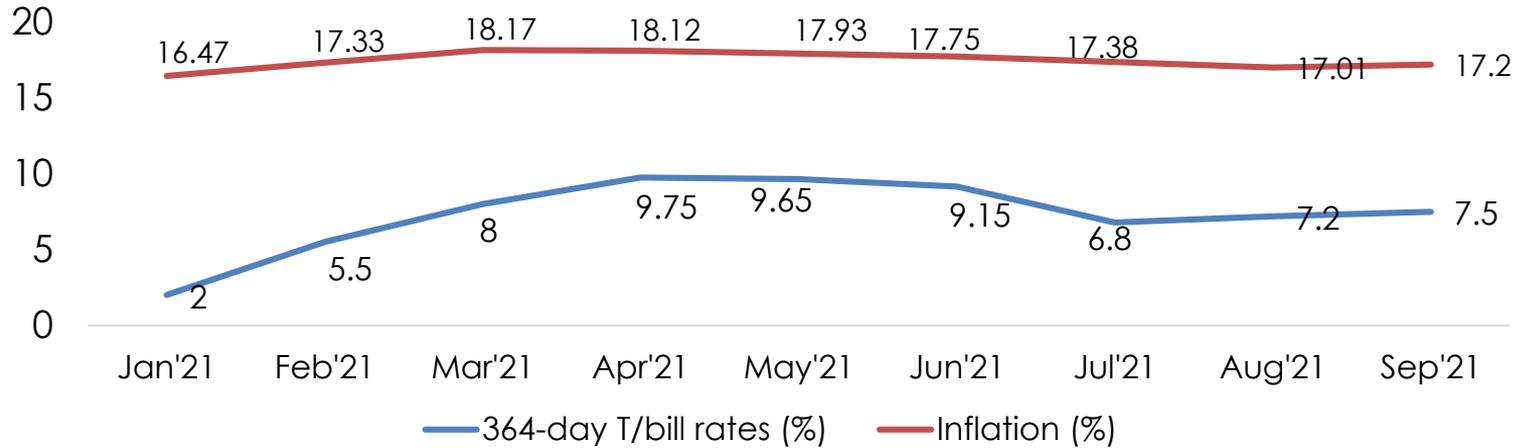
Oil Price to Remain Bullish

- Brent crude crossed the \$80pb threshold in September
- To remain within a range of \$70-75pb in the coming month
- Goldman Sachs projects oil prices to rise to \$90pb by year end on rising vaccination rates
- But presence of a new covid variant poses a major threat to global oil demand



Negative Real Rates of Return could Widen

Interest Rates & Inflation



- Negative rates of return narrowing (9.81%) as interest rates climb
- 364-day t/bill rate increased to 7.5%pa
- Negative rates of return to widen as inflation increases
- Inflation rate growing faster than interest rate

Why is the Naira Still Languishing Despite...

- IMF SDR \$3.35bn
- World bank \$ 1.75bn
- World Bank Power support \$750m
- New Eurobond issue of \$4bn

The Nigerian Forex Market – Change in Market Structure?

- The structure of the Nigerian forex market has emerged into that of a price discriminating monopoly
- Different prices for the same product (currency) - CBN is the main supplier
- The halt in forex sales to BDCs has altered the forex market structure without a significant change in demand and supply

The Nigerian Forex Market – Change in Market Structure?

- Increasing fear, panic and sabotage in the forex market, leading to inefficiencies and distortions
- BDCs are middlemen
- Banks processes are cumbersome
- Consumers are in a hurry & nervous

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The Embattled Naira & The Path towards Fair Value

Exchange Rate Determinants: Strong Fundamentals & Weak Naira



	2021*	2022*
Avg. Oil price (\$'pb)	68.50	71.00 
Oil production (mbpd)	1.45	1.50 
Balance of trade (\$'bn)	-10.70	-1.20 
Terms of trade	44.90	49.70 
Current account (\$'bn)	-9.50	1.90 
External Reserves (\$'bn)	36.60	37.00 

- The key drivers of the exchange rate are positive
- Balance of trade is expected to improve to - \$10.7bn in 2021 and -\$1.2bn in 2022
- Market equilibrium = **Crawling peg**
- Forex market needs ample increase in dollar supply
- Forex policy should mirror external competitiveness based on trading partners' currencies

“Investors want to see clear, consistent and predictable exchange rate policy”

Naira Overvalued by 31.69% on a PPP Basis

Purchasing Power Parity			
	=N=	Oct-21	
		US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	150	2.50	60.00
Beer (60cl)	700	0.90	777.78
Hamburger (Johnny Rockets)	4,800	4.59	1045.75
Indomie (1 unit)	100	0.68	147.06
Toyota Corolla	18,000,000	21,000	857.14
Nestle Bottled Water (60cl 1 unit)	100	0.12	833.33
Big Loaf Bread	650	2.50	260.00
Irish Spring Soap (1 cake)	375	0.47	797.87
Chicken Breasts (1 kg)	2,700	8.00	337.50
Trolley	2,500	6.00	416.67
Peak evaporated milk (pack of 12)	4,800	34.40	139.53
Uncle Ben's rice (5.44kg 1 pack)	8,500	14.85	572.39
Eggs (15 large eggs)	1,950	2.30	847.83
Average PPP			545.60
Naira Price at IEFX			414.30
PPP (%)			
Decision: Naira is		Overvalued	31.69%
Spot Rate (Parallel)			574

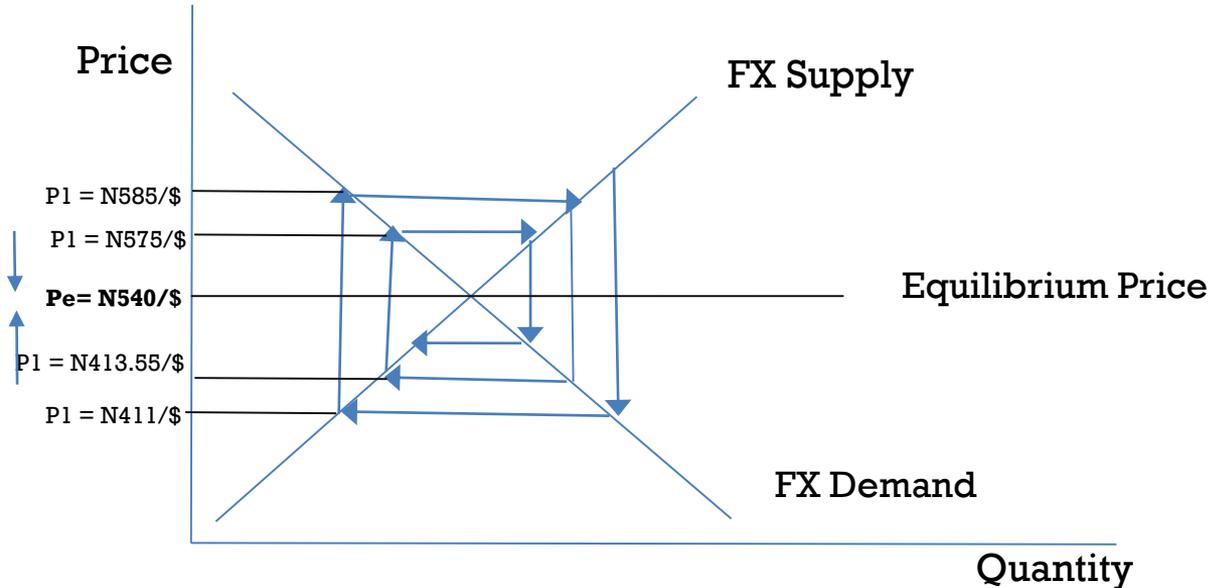
Outcome: Compared to IEFX rate of N114.30/€1, the Naira is Overvalued by 31.69%

- The CBN will have to allow the I&E rate to depreciate on a crawling peg basis
- The external debt overhang and payment obligations & counter party deposits for projects will strain the reserves level

- IMF estimates a 20% overvaluation
- CBN thinks there is a 5-10% overvaluation

Is the Naira Heading Towards Fair Value?

- I & E window rate touched its lowest level ever (N415/\$) in September before appreciating to N413.55/\$
- Exchange rate to eventually move from an abnormal rate to effective rate (convergence)



“A 1% depreciation at the I&E window led to a 3% appreciation at the parallel market”

Exchange Rate Gap to Narrow

	October (N/\$)	November (N/\$)	December (N/\$)
I&E	415	420	420
Parallel Market	580	570	560
Gap	165	150	140

- Gap expected to shrink from N165/\$ to N140/\$ (15.15%)

How can we get here?

Increase
forex supply + Adopt a crawling
peg strategy = Leading to more
convergence

Possible Forex Policy Options

OPTION1

- Hard choices now but there are political & social unrest risks

OPTION2

- Kick the can down the road and postpone the risk

OPTION3

- Adopt administrative controls and create more rent
 - Clear and predictable forex policy will be adopted in 2022/23



Market Proxies

Market Proxies – Outlook

Market proxies	October Outlook	Comments
FAAC	N650bn	<ul style="list-style-type: none">FAAC disbursements declined significantly by 8.2% (N697bn) in Sept from N760.7bn in AugustDriven by decline in petroleum profit tax companies income tax, oil and gas royalties and excise dutyLikely to decrease further to N650bn in October as controversies on VAT collation lingers
Ships Awaiting Berth	15 vessels	<ul style="list-style-type: none">Vessels awaiting berth rose sharply by 120% from 5 to 11 in SeptemberCould increase further as international trade improves on increased festive season imports

Market Proxies – Outlook

Market proxies	October Outlook	Comments
Value of Transactions	N30trn	<ul style="list-style-type: none">Value of transactions rose by 6.08% to N26.5trn in SeptemberExpected to continue its upward trend in Q4<ul style="list-style-type: none">Due to inventory build-up ahead of the festive season
Rig Counts	12 rigs	<ul style="list-style-type: none">Rig count was flat at 11 rigs in SeptemberExpected to increase to 15 rigs as oil production increases in Q4



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Power Update – September 2021 Energy Summary

 **5,159MW**
Peak Energy
Generated

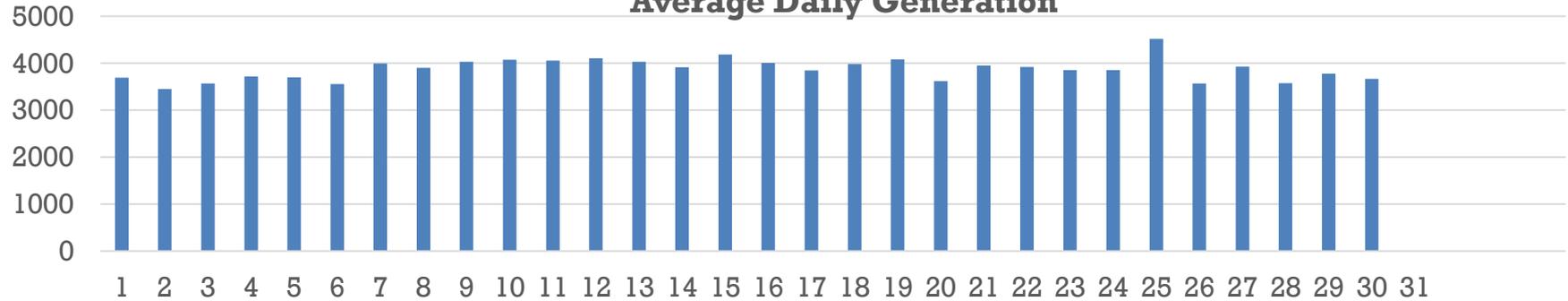
 **3,870MWH/H**
Average Energy
Generated

 **-**
Total Grid
Collapses

 **-**
Constrained
Revenue
(Million Naira)

 **1,553MWH/H**
Total
constrained
energy

Average Daily Generation



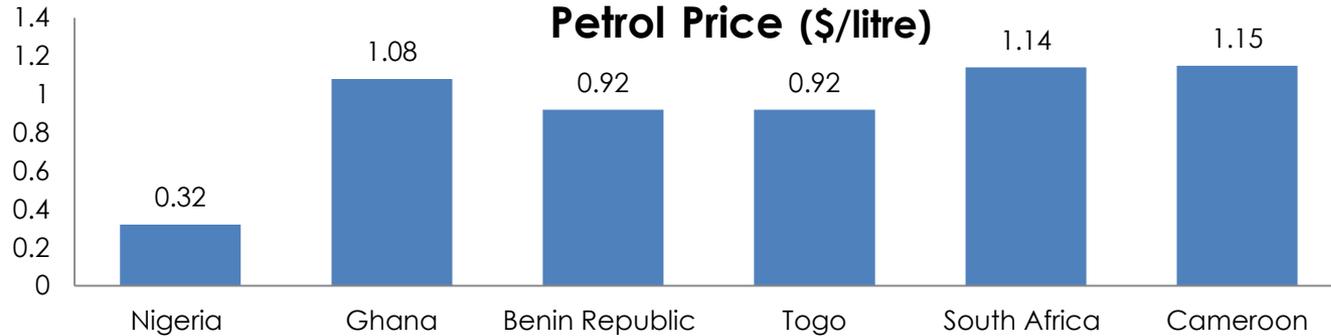
Source: **Lavayo Advisors**

Policy Response...Rationing, Borrowing



...But Uncertainty Lingers!

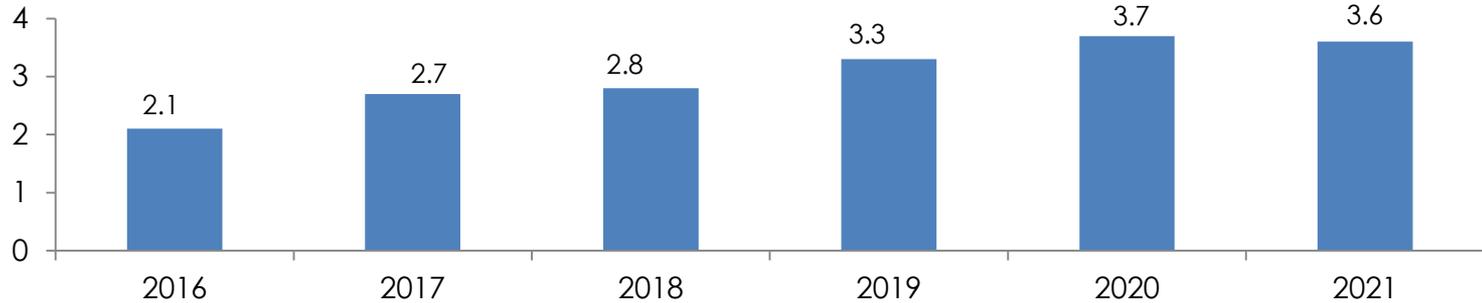
Petroleum Subsidy Deregulation & Pricing Mechanism



- Petrol consumption increased to 72mn liters daily
- Subsidy payment hits N541.66bn
- Fiscal deficit increased by 0.98% to N33.12trn (\$87.24bn) in Q1'21
- Markets raising doubts about unaudited NNPC financial statement

Nigeria at a Fiscal Cliff

Fiscal deficit to GDP (%)



- Debt sustainability ratios healthy but deteriorating
- Debt service increasing and total productivity flat
- Gap widening as government revenue continues to fall short of total expenditure
- Deficit-to-GDP up 3.7% in 2020 from 2.1% in 2016

Nigeria at a Fiscal Cliff

- Total public sector debt up 0.98% to N33.12trn (\$87.24bn) in Q1'21
 - Approximately 35% of GDP
- On an annual basis, external debt gulps 70% of FGN revenue
- Loans from multilateral creditors account for 57% of total debt stock
- Growing concerns over debt sustainability indicate Nigeria is quickly falling into a debt trap

Nigeria at a Fiscal Cliff

- Debt service will spike when artificially low interest rate policy is discarded
- Increased domestic debt issuance to mop up liquidity
 - Securitization of Ways and Means Advances (N15trn)
- And push up interest rates

Policy To-Do List

- Time to reconstitute CPI basket
- Time to rebase GDP
- JP Morgan & EIU revised downwards their growth projections for 2021 to 1.5%
- Basis for computing unemployment data to be revised

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Stock Market

Jittery Investors turning Optimistic as stock prices rally

Wobbling Investor Sentiment

- Nigeria's foreign direct investment slides to \$77.19mn in Q2'21
 - Exacerbated by currency devaluation, inflationary pressures, insecurity, political instability
- Nigerian equities market highly exposed to concentration risk
 - 5 bellwethers account for about 70% of NGX total market capitalization

Wobbling Investor Sentiment

- 20 delisted companies and 6 new listed in 4 years
- Reflecting weak and unattractive economic environment

Increased divestment from Nigeria

- MTN group to offer 14% of holding to local investors
- MTN has gained 2.94% in 2021, trading at N172.10 with a P/E ratio of 14.1x
- Tiger brand sells its stake to UAC

FPIs Exit as Devaluation Risk Heightened



FPI's Top Picks	Sept'2018		Sept'2021		Capital Appreciation	
	Share Price (N)	Share Price (\$)	Share Price (N)	Share Price (\$)	N	\$
Dangote Cement	205	0.568	280	0.483	37%	-15%
Nestle	1400	3.878	1480	2.552	6%	-34%
MTN	108.9	0.302	174.9	0.302	61%	-0.04%
Airtel	359.4	0.996	715	1.233	99%	24%
FBNH	8.9	0.025	8.2	0.014	-8%	-43%
GTCO	36.55	0.101	28.1	0.048	-23%	-52%
Zenith	21.5	0.060	23.5	0.041	9%	-32%

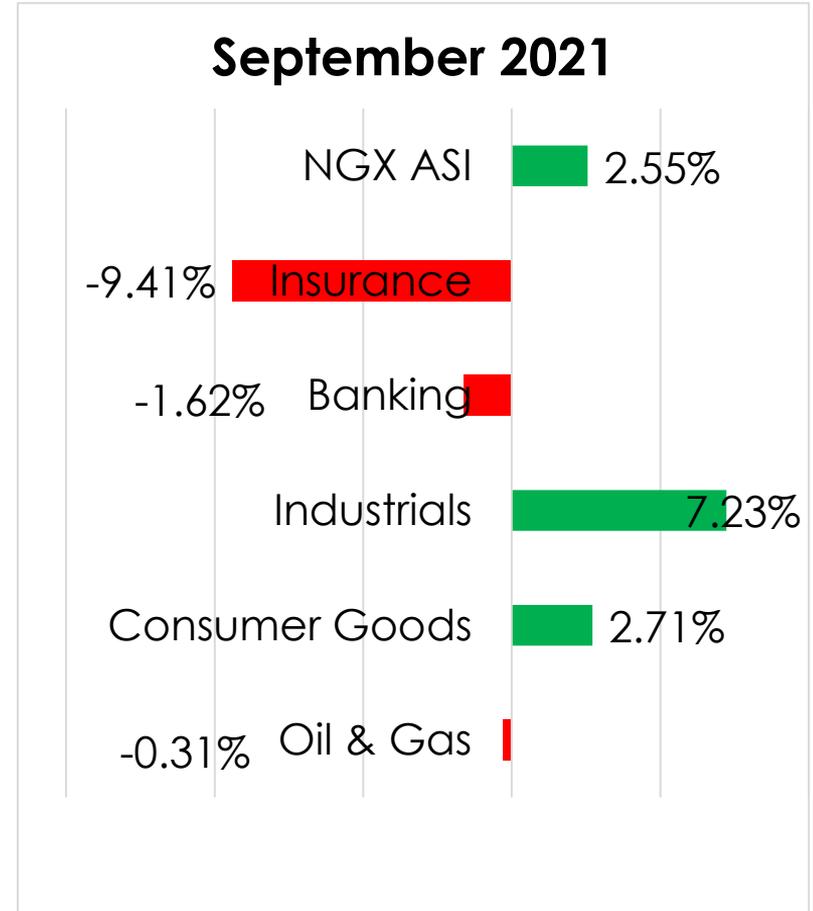
- Foreign portfolio investors sensitive to currency volatility
- FPI Investment in bellwethers returned an average of -22% in 3 years
- Net foreign outflow expected to linger

Equity Market in September

- Two indices recorded an improvement from their August performance

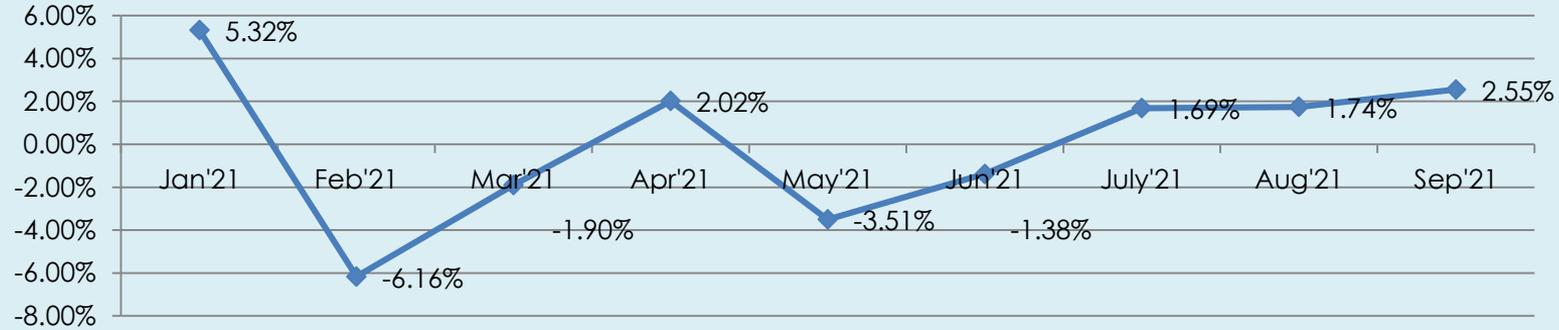
Loss in insurance space is driven by weak investors' appetite

- Industrial index tops gainers list
 - Driven by 15% gain in Dangote Cement



Will the Sizzle Fizzle?- Dead Cat Bounce??

NGX ASI



NGX ASI recorded its highest gain since February 2021

- Investors gained N1.2 trillion in three months
- YTD loss moderated to -0.12%
- Bolstered by rally for capitalized stocks
- Renewed investor confidence amid the successful \$4bn Eurobond issuance

Will the Sizzle Fizzle?- Dead Cat Bounce??

- Possible reversal in bullish trend driven by
 - Profit taking by speculators
 - Rotation of funds by institutional investors
 - Possible uptick on yields on fixed income instruments

Net foreign outflow to persist due to currency weakness

- Naira slumps by 16% in 3 months
- Negative real rate of return
- Rally driven by large capitalized stocks with strong fundamentals to fizzle out as they approach target price
- Higher oil prices and resilient corporate result could boost market liquidity

Earnings Expectations

- Analysts expect strong earnings in Q4
- Especially in the telecommunications and building materials space

Expected mixed result for Q3'21 earnings

Q3'2021 corporate earnings will be responsive to macro economic vulnerabilities

- Expected slow growth relative to Q2'21 (base year effect)

Earnings Expectations

- But H1 '21 impressive performance will further boost 9M'21's performance
- Currency depreciation and forex scarcity expected to weigh on corporate margins
- But higher prices will fuel top line performance
- Cost optimisation strategy likely to keep bottom line positive



Aviation Update

Global Update

- Global aviation industry gradually recovering from the pandemic
- Presence of a new variant and renewed COVID cases continue to dampen international travel
- Capital raise and state bailout still the options for major airlines
- Government support jumped astronomically since the lockdown, approximately \$24bn

Global Update

- Lufthansa eyes \$2.5bn from new capital raise to strengthen its equity position and repay state bailout
- Gross proceeds will be used to repay \$1.74bn (€1.5bn) of Lufthansa's participation in Germany's Economic Stabilization Fund
- Bullish domestic passenger travel demand raising prospects for an earlier than expected pre-pandemic recovery

Global Update

- Air cargo has recovered above pre-pandemic levels as global trade climbs
- Improved vaccination rates globally could allow governments to relax travel restrictions
- The US allowing EU passengers into the US from November
- Global travel could reach 61% of 2019 levels by 2022
- But airlines will continue to cut costs as passenger traffic rises

Global Update

- Major airlines increasing their African footprint
- United Airlines will commence four Lagos-Washington flights per week as of December 1, 2021

- United Airlines is a key player in the Star Alliance
- Will also operate Accra- Washington services
- Its operations in African countries will boost options for travelers and also taper ticket prices
- It is in partnership with a local carrier in South Africa

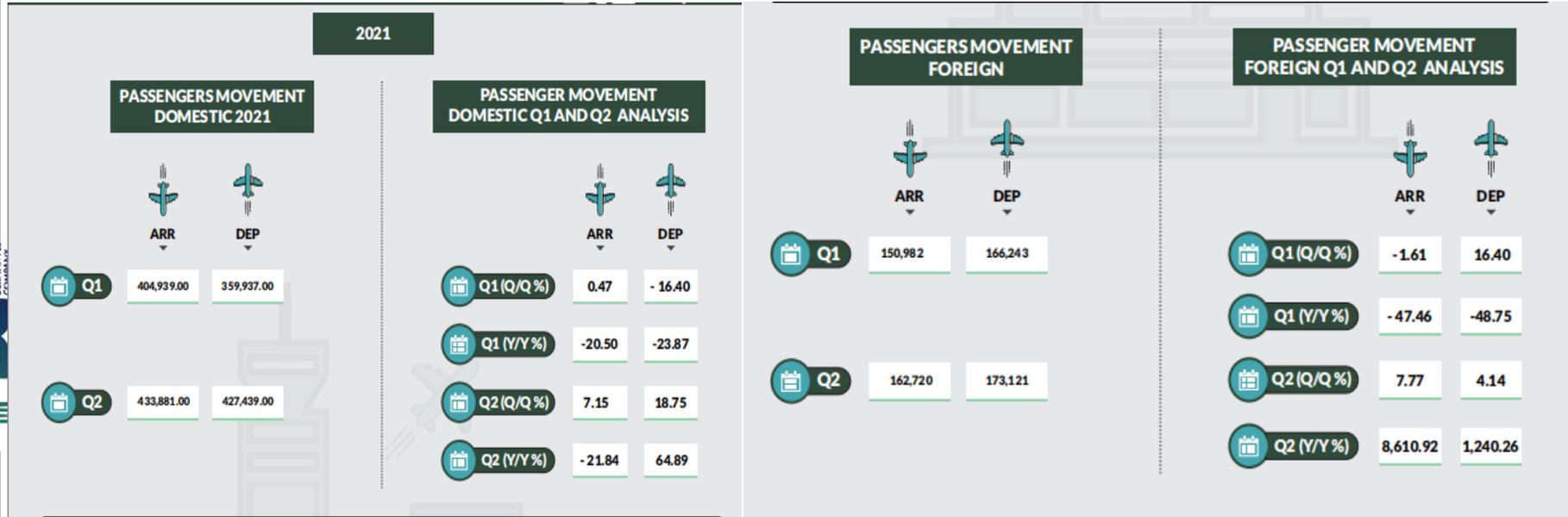
Africa: Partial Recovery for Travel & Tourism in 2022

- Prospects for the travel and tourism sector to improve in some African countries
- But business activities are unlikely to return to pre-pandemic levels across Africa's tourism hotspots
- Countries with the highest vaccination rates will lead the recovery in the tourism sector
- Tourism outlook in Africa also depends on economic recoveries in major markets – Europe & Asia
- Leisure travel is more likely to recover faster than business travel
- Some airlines are stripping out business class and expanding premium economy



Largest markets pre-pandemic	\$bn
South Africa	8.4
Morocco	8.2
Tanzania	2.6
Tunisia	2.1
Mauritius	1.8
Nigeria	1.4
Ghana	1.4
Uganda	1.4
Kenya	1.0

Domestic Update - Air Transport Data



- Domestic aviation industry gradually recovering from the negative impact of the pandemic
- Q-o-Q growth slower than the annual jump
- Regional traffic growing especially Lagos-Abidjan, Lagos-Accra and Lagos-Doula

Domestic Update

- As travel restrictions ease and airline operations improve
- Abuja and Lagos airports account for approx. 68% of domestic travel activities

(H1'21)

- But currency pressures are heightening operating costs and flight tickets are still astronomical
- Concession of four major airports underway
- Aviation sector to benefit from N15trn infrastructure fund - **CBN**

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Real Estate

Real Estate Sector H1'21



- Residential and commercial real estate markets plagued by
 - Difficulty in rent collection
 - And declining investment yields
- Poor drainage and waste disposal systems in Lagos state driving the rise of slums
- Rent and sales value rising for commercial real estate
- Demand and supply of land for commercial purposes also climbing

Real Estate Sector H1'21



- Robust pipeline of residential development projects
 - In H1'21, demand for cement was largely private-demand induced
- Rent for residential assets in high-end locations increased at a slower rate
 - Indicating existing economic conditions
- Conversely, lease prices in gated communities grew at a faster rate
 - Attributable largely to “flight-to-safety” as consumers seek improved security



Strong Fundamentals But Investors Are Jittery

National Income Identity

$$Y = C + I + G + X - M$$

\$459.1bn

\$301.2bn

\$145.3bn

\$40.3bn

\$51.5bn

\$82.8bn

- Investment is the 2nd most important component due to its multiplier effect
- Its share of GDP increased by 16.92% to 31.65% in 2021 from 14.73% in 2016
- But investment in Nigeria is largely dominated by 'hot-money'
- Investment led strategy is crucial for accelerated and sustainable growth
- Public-private partnership should be embraced with clear policy framework

Why Investors are Jittery?



Poverty



Insurgency



Proneness to crisis



Policy ambivalence



Political uncertainty



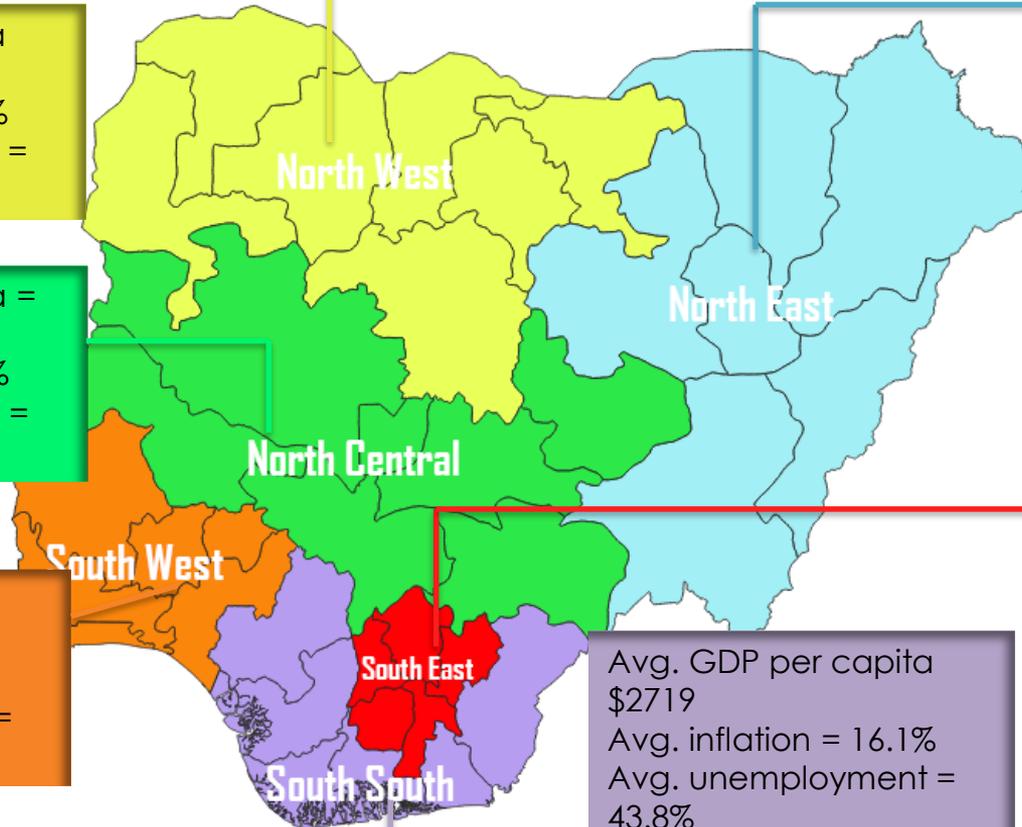
Negative real rate of return

Poverty, Insurgency & Proneness to Crisis

Avg. GDP per capita
\$846
Avg. inflation = 17.8%
Avg. unemployment =
25.5%

Avg. GDP per capita =
\$2546
Avg. inflation = 18.1%
Avg. unemployment =
27.1%

Avg. GDP per capita
\$2704
Avg. inflation = 17.6%
Avg. unemployment =
22.1%



Avg. GDP per capita
\$859
Avg. inflation = 18.3%
Avg. unemployment =
41.3%

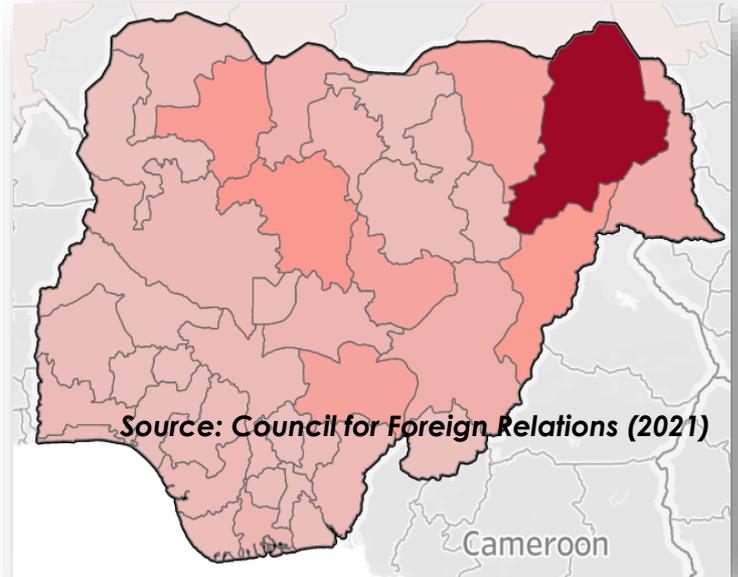
Avg. GDP per capita
\$859
Avg. inflation = 18.3%
Avg. unemployment =
41.3%

Avg. GDP per capita
\$2719
Avg. inflation = 16.1%
Avg. unemployment =
43.8%

Insecurity

- Nigeria ranks 4th globally in the number of terrorist attacks
- Currently the 14th most unsafe country to live in globally (fragile states index)

Deaths by States (2011 to 2021)



How Attractive is the Nigerian Market?

- Income per-capita in Nigeria is \$ 2,172
 - Declining steadily over the years
- Huge income and opportunity inequality (gini-coefficient 43%)
 - Abuja has the highest income per-capita (\$10,799)
 - Borno has the lowest (\$700)
 - Income concentrated in certain regions
 - Stoking resentment and conflicts

Income & Opportunity Inequality

Region	GDP(\$bn)	GDP/Capita (\$)	Number of Bank Branches	% Bank Branches
S/West less Lagos	37	1684	681	12.3
S/East	33	1448	655	11.8
S/South	73	2719	912	16.4
N/Central less Abuja	32	1171	423	7.6
N/West	42	846	560	10.1
N/East	23	859	271	4.9
Lagos	105	7800	1645	29.5
FCT Abuja	35	10799	421	7.6

- Lagos and Abuja are outliers
 - Account for 37.23% of total GDP size & 37.1% of bank branches
 - GDP per-capita in these states is greater than each of the 6 regions
 - Banks are located where turnover and activity levels are high
- Largest market size and investment potential

Income & Opportunity Inequality

Region	Inflation	Unemployment	Misery Index	Poverty
S/West	17.6	22.1	39.7	12.1
S/East	15.9	44.5	60.4	42.4
S/South	16.1	43.8	59.9	21.3
N/Central	18.1	27.1	45.2	43.4
N/West	17.8	25.5	43.3	64.8
N/East	18.3	41.3	59.6	74.5

- SW has the lowest level of poverty and unemployment
 - It is the most attractive region
- Zones with high level of poverty (NW & NE) are prone to high level of insecurity
- Unemployment is concentrated in SE, SS and NE
 - High dependency ratio and crime rate
 - Population growth is larger than GDP growth rate

VAT Generation & Allocation

Region	VAT Generated	VAT Allocated
S/West	518.9	276.5
S/East	23.5	109.6
S/South	135.8	162.6
N/Central	19.5	129.2
N/West	56.7	219.8
N/East	27.7	130.4

- VAT is a proxy for consumption
- SW generates 66% of total VAT
- Lagos accounts for 54.8% of total VAT earnings while 13% is allotted to the state
- Implying over 50% of the national consumption comes from Lagos state while 66% is from the South West

NIGERIA - A Tale of two cities



Prone to growth & wealth

Prone to crisis & poverty

Prone to Crisis VS Prone to Wealth

NE, NW & SE are prone to crisis

- Low per-capita GDP
- Small GDP size
- High unemployment & poverty
- High rate of insecurity
- No access to quality education
- Mostly rural communities with no urbanization
- Population growth is larger than GDP growth rate

SW, NC & SS are prone to Wealth because:

- High per-capita GDP
- Large GDP size
- Accessible to the market
- Low rate of illiteracy
- High level of market rivalry and competitiveness
- Market proximity and access
- High chance of better profit margins owing to lower labor cost

Investor Concerns: Policy Ambiguity

- Policy uncertainty and ambiguity raising investor concerns

Policy Directions	Comments
Cost reflective tariff	Undone
Removal of fuel subsidy	Approved but ineffective
Exchange rate	Unclear
Fertilizer subsidy	Unclear
Trade restrictions & bans	Conflicting signals

Smart Solutions. Intelligent Result.

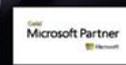
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PARTNERS





Politics

Fear of the Unknown & Reaction of the Oppressed

Politics

- One year anniversary of ENDSARS protest, what has changed?
- Shortly after – Police started treating citizens with respect, FG engaging respectfully with citizens
- Now the apparent gains from the protest seem to have faded away
- There has been a Slow increase in dictatorial tendencies
- Nigeria now much worse than it was before the protest
- Twitter blamed for facilitating ENDSARS, police brutality on the rise

Politics

- FG clamping down on anything perceived as pro-intergenerational change or wealth transfer
 - Cryptocurrency, Fintechs, Aboki FX, Twitter
- Perceived as an assault on young people
- The fear of what they don't understand and cannot control is fuelling paranoia
- A relic and carry over of military thinking
- What lessons have been learnt?

Politics

- Govts overthrown in Chad, Guinea and Mali
- Those who make peaceful change impossible make violent change inevitable
- Another protest could be brewing, this time much bigger and more disruptive
- All eyes on FG to see how they prevent or handle it

Politics

- FG threatens to impose a state of emergency in Anambra state
- What happens in a state of emergency?
 - NASS takes over, a military leader is appointed
 - Will oversee the November elections and determine the outcome
- Why no threat of state of emergency in Imo where much fewer people have died in the past few months? Or even in Borno?
- APC Governor?
- Could this be a dictatorship?

Politics

- Types of primaries is crucial
 - Direct primaries
 - Electoral college
- The major political parties are in a game of poker
- The PDP has zoned the chairmanship to the north
- Tacitly the APC is doing same
- By implication the presidential ticket could be for the south
- The jettisoning of the zoning arrangement is a likely outcome for both parties

Politics

- The signing of the Electoral Act allowing for transmission of results from polling stations will be a gamechanger
- INEC is under pressure to ensure credible elections and processes
- Especially from the international community
- The Anambra elections could be derailed or postponed by the spate of violence
- The internal squabbling and spiralling assassinations make it highly vulnerable

Politics

- Based on straw polls and data, Soludo seems an odds on favourite
 - Followed closely by Val Ozigbo
- The APGA machine is very strong in the state
- Its main limitation is that it is a one-trick pony
- The VAT legal tussle and the open grazing bill are turning into a basis for the restructuring debate
- The APC as the party in power must consolidate its hold

Politics

- Elections are 500 days away and the clouds are gathering
- Critical decisions on zoning, grazing, the Electoral Act and tweaking the PIA must be made in Q4
- Apart from Anambra, elections in Ekiti and Osun are fast approaching
- The poverty, prosperity and crisis map shows unequal income and opportunities as a potential Molotov cocktail

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October Outlook

In the end...



the recovery will be sustainable

Outlook for October/November

- Inflation for September to show an increase to 17.2%
- Mainly food and imported inflation
- CBN will clampdown on the forex market
- The parallel market will become more difficult to regulate and control
- Forex supply will increase and the I&E window will creep up towards N420/\$
- Parallel rates will slowly appreciate but will remain sticky downwards

Outlook for October/November

- CBN will allow interest rates to climb marginally but not enough to cover the inflation gap
- As elections approach the potential risk premium will increase putting more pressure on the naira
- The e-naira will be launched with slow and gradual adoption in the retail market
- The CBN will maintain status quo in November
- The stock market rally will fizzle in November after a brief correction

Corporate Humour

The only thing you can get in a hurry is trouble.

– *Anonymous*

It is better to travel hopefully than to arrive, cos the fun is in the journey.

– *Anonymous*

A life spent making mistakes is not only more honourable but more useful than a life spent doing nothing.

– *George Bernard Shaw*

Corporate Humour

Behind every great fortune there is a crime.

– *Honore de Balzac*

How to cross the roads in Nigeria, look left & right for cars, look up for planes and look down for bombs, then you are good to go.

NB: Please look back for kidnappers!

– *Anonymous*

Doing business without advertising is like winking at a girl in the dark because she cannot see you.

– *Anonymous*

Corporate Humour

Early to bed and early to rise probably indicates unskilled labour.

– *John Ciardi*

In the business world, everyone is paid in two coins: cash and experience. Take the experience first, the cash will come later.

– *Harold Geneen*

The only person who listens to both sides of a husband and wife argument is the woman in the next apartment.

– *Sam Levenson*

Corporate Humour

Be true to your teeth or they'll be false to you.

– *Anonymous*

Give a civil servant a good case and he'll wreck it with clichés, bad punctuation, double negatives and convoluted apology.

– *Alan Clark*

Balancing the budget is like going to heaven. Everybody wants to do it, but nobody wants to do what you have to do to get there.

– *Phil Gramm*

Corporate Humour

First rule to leadership: everything is your fault.

– *Anonymous*

Religion is like a blind man looking in a black room for a black cat that isn't there, and finding it.

– *Oscar Wilde*

Money is like manure, If you spread it around it does a lot of good, but if you pile it up in one place it stinks like hell.

– *Clint Murchison*

Corporate Humour

Luck is a dividend of sweat – the more you sweat, the luckier you get.

– *Ray Kroc*

Good tactics can save even the worst strategy. Bad tactics will destroy even the best strategy.

– *George S. Patton*

The only limit to our realization of tomorrow will be our doubts of today.

– *Franklin Roosevelt*

*Thank
you*



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