Volume 11, Issue 14

November 05, 2021

FDC MONTHLY ECONOMIC UPDATE

A Financial Derivatives Company Publication

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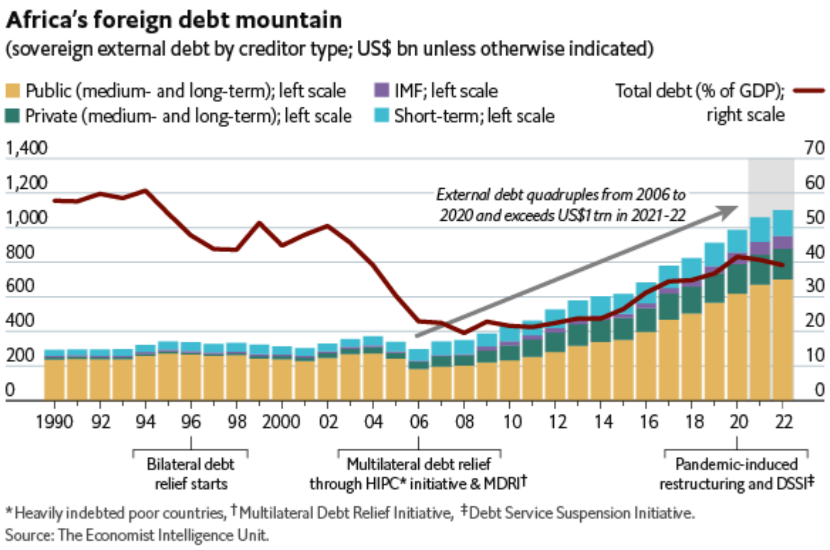
In This Issue ...

Africa's external debt mountain and looming debt crisis

African nations have continued to record an increase in their external debt despite their already huge debt burdens. So far this year, not less than 6 countries have visited the international debt market as subdued tax revenue and the need for sustained economic support measures raised the need for new lines of credit. Africa's external debt is projected to reach a record high of over $1trn in 2022, which could push the external debt to GDP ratio above 40%, an 18-year high.[1]



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[1]Economist Intelligence Unit (EIU). 2021. Africa chart of the week: external debt mountain. https://viewpoint.eiu.com/analysis/article/321336015/
[2]ibid

Pandemic-induced debt relief initiatives

Most African nations suffered severe fiscal setbacks following the outbreak of the covid-19 pandemic, particularly huge revenue shortfalls despite rising fiscal expenditures. Prior to the outbreak, many of these countries were already heavily indebted and running large fiscal and current-account deficits. This was however further exacerbated by pandemic-induced economic disruptions necessitating requests for financial assistance from multilateral organizations such as the IMF and the World Bank. In 2020, the G20 group of nations helped to defer up to $5.4bn of Africa's external debt into 2021-24 under its Debt Service Suspension Initiative (DSSI).[3] However, external borrowings by African countries have maintain an upward trajectory highlighting the risk of a looming debt crisis in the continent.

Africa's looming debt crisis

African economies are at risk of a debt crisis as their ability to service their already bloated external debts remains largely constrained. In H2'21, the International Monetary Fund (IMF) listed six countries that were already in external debt distress (Congo-Brazzaville, Mozambique, São Tomé and Príncipe, Somalia, Sudan and Zimbabwe).[4] In the absence of new debt relief measures or an extension of the DSSI, there is a high risk that 15 more countries (including Cameroon, Ethiopia, Ghana and Kenya) will join the list of debt distressed nations, according to the IMF.[5] This is due to the high risk of sovereign defaults upon the expiration of the debt moratoriums. Zambia emerged the first African nation to record a sovereign default in November 2020 and Angola is teetering on the brink, with sovereign external debt above 100% of GDP.[6]

Implications and Outlook

Africa's rising external debt is negative for investor confidence due to the attendant rise in the already huge debt service burdens in many countries. With many countries still severely constrained

[3]Economist Intelligence Unit (EIU). 2020. Things to watch in Africa in 2021: looming debt-service woes. https://viewpoint.eiu.com/analysis/article/1180201301
[4]The International Monetary Fund (IMF). 2021. List of LIC DSAs for PRGT-Eligible Countries as of June 30, 2021. https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf
[5]ibid
[6]Economist Intelligence Unit (EIU). 2021. Africa chart of the week: external debt mountain. https://viewpoint.eiu.com/analysis/article/321336015/

in their ability to meet up with debt repayments, there is the risk of exchange rate instability and credit rating downgrades. Many African countries already had their credit ratings downgraded in 2020 due to increased debt default risks. New external debt borrowings, in the absence of additional debt relief measures, will put these countries at risk of further credit rating downgrades. However, distressed countries are likely to start seeking debt restructuring, which will improve their fiscal outlook. Also, countries may be compelled to introduce fiscal consolidation measures, which could dampen the current nascent economic recovery.

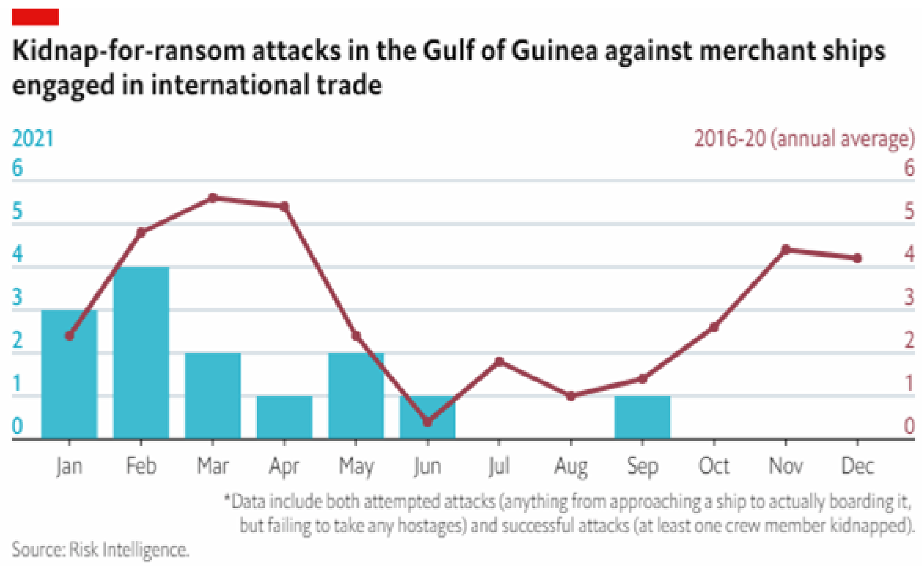
Piracy in the Gulf of Guinea

The frequency of pirate attacks against ships in the Gulf of Guinea including crew kidnappings have declined significantly in the first nine months of 2021. This is according to data released by the International Maritime Bureau (IMB) in mid-October. This has been down to increased effort on the part of maritime security in recent months in response to the mounting threat presented to parts of the global shipping industry that operate there by "pirate action groups" (PAGs).

For many years, shipping companies operating across the Gulf of Guinea grappled with a rise in piracy in the region. According to the Piracy Research Center report, the Gulf of Guinea accounted for over 95% of the 135 crew members kidnapped in 2020. The pirates are located around the lightly patrolled waters off Nigeria—the vast Gulf of Guinea, stretching from Gabon to Liberia. The kidnappers are reportedly based in Nigeria's oil-rich Niger Delta and the crimes are connected to other criminal activities such as fuel smuggling and dry-land kidnappings. The risk of piracy across the Gulf of Guinea has discouraged shipping activities, undermined investor confidence and has hugely disruptive to a vital supply chain for the region. It has also raised shipping costs, which trickle down to higher consumer prices in affected countries.

In June, Nigeria launched the 'Deep Blue' Maritime Security Project while European Navies have also stepped-up activity in the region. This was sparked by calls from shipping companies for an international naval coalition to crack down on pirates and their nefarious activities. On the 4th of November, the Nigerian Navy in collaboration with the French Navy and allied partners also just flagged off "Exercise Grand African NEMO 2021" to tackle attacks by oil thieves in the region. The exercise will involve a total of 13 ships, involving about 1,500 Navy personnel.

However, it remains unclear if the decline in the number of attacks is fleeting rather than permanent as the average number of attacks in the region is typically at its lowest in the May-September period. It could also be that the pirates are simply playing the waiting game, with the hopes that the international and regional security presence fizzle out in time. In 2017, attacks recorded in the Gulf by the IMB dropped in other years before quickly returning to their prior levels.



This concern remains largely because international partners and shipping industry organizations have been at the fore-front of counter-piracy efforts rather than the region's (often small) countries. It is unlikely that this will eventually be sufficient to thwart a resurgence of piracy in the Gulf. While co-operation between regional authorities and the shipping industry continues to deepen, there are more deep-seated criminal patterns in the region ranging from illegal fishing, fuel smuggling to wildlife trafficking. These activities rake in several billion dollars which dwarfs what is typically paid as ransom yearly.

Africa's Tech & Telco industry – Making a strong recovery

Africa's technology and telecommunications industry has emerged from the coronavirus pandemic almost unscathed when compared to other industries. In 2020, Nigeria, Africa's largest telecommunications markets in terms of subscribers, reported a temporary decline in connections. Similarly, South Africa and Kenya recorded a decline in mobile subscriptions growth during this period. While the pandemic has had broadly parallel effects on their telco sectors in key players – Nigeria, Kenya as well as South Africa, robust recovery is underway

Rising investment inflows driving growth prospects

Given the SSA's improved near term economic growth prospects and the accelerating demand for broadband and mobile services, an offshoot of the pandemic, the region's telecommunications market is expected to expand significantly in the near to medium term. Furthermore, there is growing foreign and domestic investment into the sector. For example, annual investment in South Africa's ICT is expected to increase to $1.9bn by 2025. Of which a major proportion would be towards the launch of commercial 5G and expansion of fibre networks. Similarly, Facebook and Google have announced plans to invest over $1bn in Africa's in subsea cables to drive broadband expansion across the continent.

Implications and Outlook

Currently, the continent's average broadband access stands at 35.9% (compared to a global average of 56.1%). Given the sector's importance to the region's long-term growth trajectory, its positive outlook is expected to have a positive impact on Africa's broader economic growth due to the positive multiplier effect of improved connectivity. MTN group, a major telco player in the region recently completed a $481.93mn bond issuance programme in Nigeria. According to the company, the inflows from the funding will be deployed to further expand its capacity. The International Finance Corporation (IFC) estimates that improved broadband access can increase the continent's GDP by $180bn by 2025. Africa is an emerging technology hub, with Kenya and Ghana as the leading destination for tech startups and established tech companies like twitter. Therefore, in the long term, increased access to broadband connections will boost connectivity and can establish the continent as a major technology hub globally

OPEC+ maintains supply output of 400,000bpd in December

At its just concluded meeting, the organization of the petroleum exporting countries and its allies (OPEC+) again retained its monthly oil output of 400,000bpd in December. This is occurring despite the white house's appeal to increase supply. Prior to this, the oil cartel had, in July, agreed to gradually ramp up oil production on a monthly basis by 400,000bpd starting from August 2021 until the 5.8 million barrels per day (mbpd) production adjustment is phased out. The decision was premised on improved global oil demand as the economic recovery continued in most parts of the world. However, the threat of a new wave of COVID and another mutation of the virus hangs precariously over the global economic outlook.

Individual production quotas were also reviewed upwards as Nigeria's quota was increased to 1.67mbpd from 1.65mbpd. This is happening at a time when oil prices are at multi-year highs due to a demand-supply deficit. In response to OPEC+'s decision, brent rose 2.74% to $82.75pb. Analysts believe that it could touch $100pb by year-end. However, the strengthening of the US dollar as the US Fed begins tapering in addition to the prospects of increased global supply from Iran as nuclear talks with the US resume will put downward pressure on oil prices.

Implications

Oil is Nigeria's major export (over 80%) and revenue earner for the government. Higher oil prices and production translates to increased fiscal and forex receipts which is positive for Nigeria's external balances and financing needs. It will strengthen the CBN's ability to support the naira at the forex market. However, Nigeria may be unable to take advantage of the rise in its quota as its oil output (1.45mbpd in September) has remained below quota for several months and could continue to limit its oil earnings.

Global energy crunch: A perfect storm

Oil prices have surged beyond the $80pb ceiling (a 7-year high) on rising energy demand in response to the post-pandemic economic recovery in China and other major economies across the world. However, global supply chain constraints mean that energy supply is unable to rise as quickly and match the rise in demand. With winter on the horizon, energy demand is expected to rise even further with major consequences for electricity, gasoline and LPG prices across the world (which have already spiked), leaving many countries in search for cheaper alternatives. While the global energy market is grappling with a perfect storm, oil producers like Nigeria are grappling with higher petrol subsidy payments amid the dire need to raise revenues or at least block leakages.

Subsidies...Done with at long last?

A breakdown of Nigeria's 2022 budget reveals (by their absence) the elimination of regressive subsidies on petrol and electricity as part of efforts aimed at addressing revenue leakages and improving remittances to the government. Fuel subsidy payments have been a major drag on public finance in Nigeria and have been estimated at just under N1trn in the first eight months of 2021. Its removal will free up funds (at the 3 tiers of government) which could be diverted to plug Nigeria's gaping infrastructure gap. However, the consequent rise in fuel prices and its ripple effect on logistics costs could be damaging – both economically and politically. Its removal is also crucial to the liberalization of the downstream sector of Nigeria's petroleum industry and the establishment of a new profit-oriented national oil company, NNPC Ltd, as is currently contained in the Petroleum Industry Act (PIA) which was signed into law in August. The transition of NNPC Ltd's (which currently bears the weight of the subsidy) to a commercial entity hinges crucially on a shift to market-pricing.

NNPC ltd will be incorporated and will employ the use of Incorporated Joint Ventures (IJVs) to fund its operations. This would mean the elimination of the Federal Government Cash Call obligations. According to the NNPC, the FGs cash call arrears are currently estimated at $1.46bn after a negotiated repayment of $3.22bn so far. In 2016, the state oil company agreed to a cash call repayment plan with its JV partners to offset its arrears over a five-year period following years of consistently failing to meet its obligations, leading to rising indebtedness. This move helps to de-risk the sector and boost investor confidence while also creating financing opportunities for private sector lenders.

PIA – Not Without its Snags

The PIA, as currently configured, is huge in its significance and explicit in its intent to drive investment and competitiveness in Nigeria's oil industry. It introduces a more progressive fiscal structure, with an emphasis on royalties over profits. Nonetheless, some of the Act's provisions are still major sources of acrimony and could present significant challenges if not amended. Certain sections of the law requires that 3% of oil companies' budgets be allocated to Host Community development (down from 10% demanded) while 10% of rents on oil prospecting and oil mining licenses in addition to 30% of the profits from the state oil company – NNPC – be allocated to a Frontier fund, targeted at oil prospecting

Host community, militancy and the treats to Stability

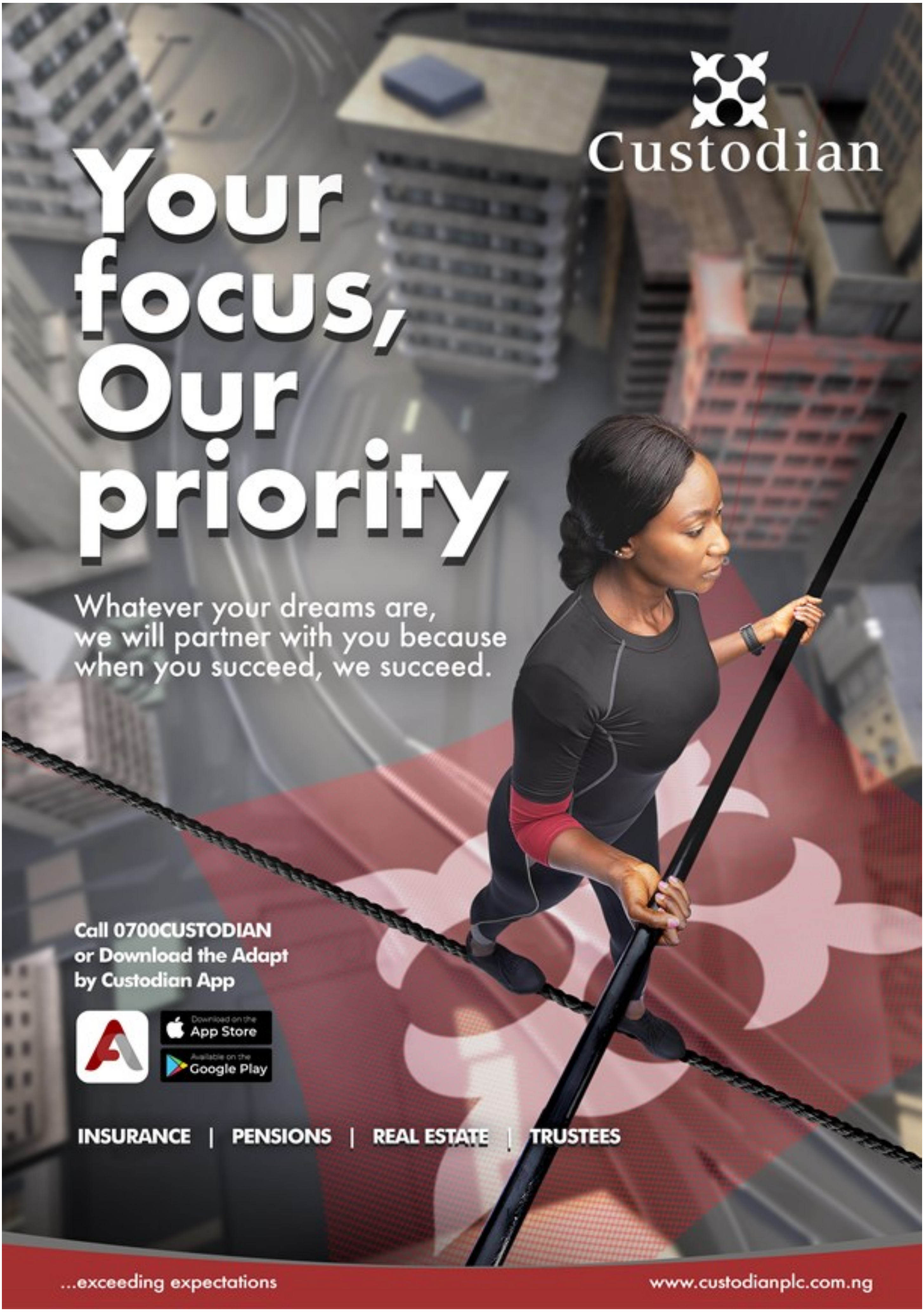
The Host Community Development (HCD) is vital to stability in the oil producing communities. In 2016, Nigeria entered a recession which was triggered by an oil price shock, an oil production shock and compounded by policy response that was belated, sluggish and incomplete. Nigeria's oil production shock was a result of incessant attacks by militants (Niger Delta Avengers) on oil facilities causing output to plunge to 1.5mbpd. Nigeria's oil production, while limited by its OPEC quota, hinges crucially on huge investments by private and mostly International Oil Companies (IOCs). As the events of 2016 in the creeks of the Niger Delta clearly established, peace, security and stability remain a primary consideration of the IOCs. Its mitigation has led to a significant rise in the average cost of producing a barrel of oil (between $21 – $30 per barrel) – the highest unit cost of production globally.

While the HCD trust is aimed at promoting a peaceful co-existence between oil companies and their host communities, its reduction to 3% could be perceived as a major injustice and trigger a renewal of hostilities by militants, thereby compromising the relative peace and security that currently exists in the region. Shell has outlined its plans to divest from such assets as it recalibrates its global strategy with a renewed focus on green energy. Other IOCs are likely to follow suit, leaving domestic oil companies who are unlikely to have the capacity to match the investing-power of the outgoing IOCs. As a result, Nigerian oil output is likely to remain below 2011-14 highs of 2mbpd.

Frontier fund – is the gamble worth it?

The Frontier Exploration fund, estimated at about $275mn-$300mn annually, is to be funded by 10% rents on licenses and leases in addition to 30% of NNPC profits. The creation of this fund implies that revenues that would previously have been remitted by the NNPC to the Federation Account Allocation Committee (FAAC), to be shared by the three tiers of government, would now be diverted to the frontier fund which gives little to no guarantee of future returns. This is particularly worrying for state governments' finances, and they have been vocal about the clause. Allocating this much to frontier exploration is particularly curious especially as it comes at a time when there is an accelerated shift away from the use of fossil fuels and towards renewable sources of energy globally. In addition, oil finds in some northern frontier basins could have little commercial value, considering elevated costs attached to a lack of infrastructure and a high degree of insecurity. NNPC limited is likely to be listed on the stock exchange, making it more efficient, transparent and competitive. In the event of this, the allocation of 30% to the frontier fund could undermine NNPC Ltd's valuation.

The revamping of the refineries along with the expected output from the Dangote refinery could push Nigeria to oil hub status in the west African subregional market. This will ease pressure on Nigeria's external balance and the naira during the middle of the forecast period. However, Dangote and NNPC Ltd are likely to need a minimum of $10bn- $20bn of pipeline infrastructure across West Africa and Nigeria. This, in our opinion, is a much more viable investment which will support output rather than gambling on oil exploration with the frontier fund.



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President presents 2022 budget to Senate

The 2022 expenditure budget has been presented on to the National Assembly by president Buhari. The budget termed "budget of economic growth and sustainability" was presented at a joint sitting on October 8. Aggregate expenditure is up 17.24% to N16.39trn from N13.59trn initially stated in the MTEF 2022-2024 and 12.5% higher than the approved 2021 budget. The 2022 budget is based on certain assumptions. It assumes a GDP growth of 4.2% in 2021, a crude oil price and production benchmark of $57pb and 1.88mbpd (inclusive of condensates) and an exchange rate of N410.15/$. Headline inflation is also projected at 13%.

A breakdown of the budget shows capital expenditure of 32.7% (N5.35trn) while recurrent expenditure is estimated at 63.7% (N10.44trn) of total expenditure. In 2021, the aggregate amount made available for capital expenditure and recurrent expenditure was N5.23trn and N8.76trn. Nigeria is currently grappling with security challenges amid the impact of the pandemic threatening economic recovery. This has compelled the government to spend additional funds on security equipment and vaccine procurement. The defense and security sector accounts for 15% of the 2022 budget. Similarly, when compared with the 2021 budget, aggregate capital expenditure increased by 29.85% to N5.35trn due to increased number of infrastructural projects.

Furthermore, the 2022 budget debt service is estimated at N3.61trn, an increase over 2021 (N3.12trn). As at August 2021, the country's debt to revenue ratio was high at 73%, a proof that the country barely generates enough revenue. In addition, the Debt Management Office puts Nigeria's total debt at N35.47trn.

Aggregate revenue is projected at N10.13trn, 24.8% higher than the 2021 (N8.1trn). N3.15trn (31.10%) of the revenue will come from oil while N2.13trn (21.03%) will be from non-oil sources. When compared to the 2021 budget, the share of oil revenue was N2.01trn (24.81%) while non-oil revenue was N1.49trn (18.40%). The 2022 fiscal deficit is N6.26trn, 11.39% wider than 2021 budget deficit of N5.62trn. This amount represents 3.39% of GDP and above the 3% threshold specified in the fiscal responsibility act. The deficit will be partly funded through borrowings from external and domestic sources of (N5.02trn) and multilateral/Bilateral loans of N1.16trn.

Outlook

There has been a tendency to underperform revenue projections in and exceed expenditure budgets in the past leading to wider than expected fiscal deficits. This continues to be a major risk to the budget. We expect a quick implementation of the capital component of the budget as the government seeks to make a dent on the infrastructure gap as the 2023 elections approach. This will further drive the economic recovery.

The shortage economy

Global Perspective: Culled from the Economist

Scarcity has replaced gluts as the biggest impediment to global growth

For a decade after the financial crisis the world economy's problem was a lack of spending. Worried households paid down their debts, governments imposed austerity and wary firms held back investment, especially in physical capacity, while hiring from a seemingly infinite pool of workers. Now spending has come roaring back, as governments have stimulated the economy and consumers let rip. The surge in demand is so powerful that supply is struggling to keep up. Lorry drivers are getting signing bonuses, an armada of container ships is anchored off California waiting for ports to clear and energy prices are spiraling upwards. As rising inflation spooks investors, the gluts of the 2010s have given way to a shortage economy.

The immediate cause is covid-19. Some $10.4trn of global stimulus has unleashed a furious but lopsided rebound in which consumers are spending more on goods than normal, stretching global supply chains that have been starved of investment. Demand for electronic goods has boomed during the pandemic but a shortage of the microchips inside them has struck industrial production in some exporting economies, such as Taiwan. The spread of the Delta variant has shut down clothing factories in parts of Asia. In the rich world migration is down, stimulus has filled bank accounts and not enough workers fancy shifting from out-of-favour jobs like selling sandwiches in cities to in-demand ones such as warehousing. From Brooklyn to Brisbane, employers are in a mad scramble for extra hands.

Yet the shortage economy is also the product of two deeper forces. First, decarbonization. The switch from coal to renewable energy has left Europe, and especially Britain, vulnerable to a natural-gas supply panic that at one point this week had sent spot prices up by over 60%. A rising carbon price in the European Union's emissions-trading scheme has made it hard to switch to other dirty forms of energy. Swathes of China have faced power cuts as some of its provinces scramble to meet strict environmental targets. High prices for shipping and tech components are now triggering increased capital expenditure to expand capacity. But when the world is trying to wean itself off dirty forms of energy, the incentive to make long-lived investments in the fossil-fuel industry is weak.

The second force is protectionism. As our special report explains, trade policy is no longer written with economic efficiency in mind, but in the pursuit of an array of goals, from imposing labour and environmental standards abroad to punishing geopolitical opponents.

This week Joe Biden's administration confirmed that it would keep Donald Trump's tariffs on China, which average 19%, promising only that firms could apply for exemptions (good luck battling the federal bureaucracy). Around the world, economic nationalism is contributing to the shortage economy. Britain's lack of lorry drivers has been exacerbated by Brexit. India has a coal shortage in part because of a misguided attempt to cut imports of fuel. After years of trade tensions, the flow of cross-border investment by companies has fallen by more than half relative to world GDP since 2015.

All this might seem eerily reminiscent of the 1970s, when many places faced petrol-pump queues, double-digit price rises and sluggish growth. But the comparison gets you only so far. Half a century ago politicians got economic policy badly wrong, fighting inflation with futile measures like price controls and Gerald Ford's "whip inflation now" campaign, which urged people to grow their own vegetables. Today the Federal Reserve is debating how to forecast inflation, but there is a consensus that central banks have the power and the duty to keep it in check.

For now, out-of-control inflation seems unlikely. Energy prices should ease after the winter. In the next year the spread of vaccines and new treatments for covid-19 should reduce disruptions. Consumers may spend more on services. Fiscal stimulus will wind down in 2022: Mr Biden is struggling to get his jumbo spending bills through Congress and Britain plans to raise taxes. The risk of a housing bust in China means that demand could even fall, restoring the sluggish conditions of the 2010s. And an investment boost in some industries will eventually translate into more capacity and higher productivity.

But make no mistake, the deeper forces behind the shortage economy are not going away and politicians could easily end up with dangerously wrong-headed policies. One day, technologies such as hydrogen should help make green power more reliable. But that will not plug shortages right now. As fuel and electricity costs rise, there could be a backlash. If governments do not ensure that there are adequate green alternatives to fossil fuels, they may have to meet shortages by relaxing emissions targets and lurching back to dirtier sources of energy. Governments will therefore have to plan carefully to cope with the higher energy costs and slower growth that will result from eliminating emissions. Pretending that decarbonization will result in a miraculous economic boom is bound to lead to disappointment.

The shortage economy could also reinforce the appeal of protectionism and state intervention. Many voters blame empty shelves and energy crises on the government. Politicians can escape responsibility by excoriating fickle foreigners and fragile supply chains, and by talking up the false promise of boosting self-reliance. Britain has already bailed out a fertilizer plant to maintain the supply of carbon dioxide, an input for the food industry. The government is trying to claim that labour shortages are good, because they will raise economy-wide wages and productivity. In reality, putting up barriers to migration and trade will, on average, cause both to fall.

The wrong lessons at the wrong time

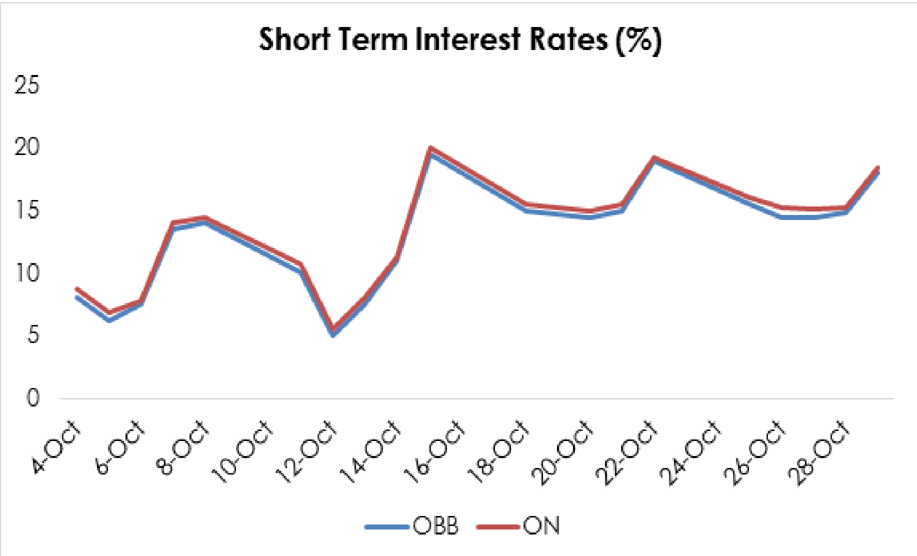
Disruptions often lead people to question economic orthodoxies. The trauma of the 1970s led to a welcome rejection of big government and crude Keynesianism. The risk now is that strains in the economy lead to a repudiation of decarbonization and globalization, with devastating long-term consequences. That is the real threat posed by the shortage economy.

Macroeconomic Indicators - October (1st – 30th)

Money Market

The average opening position of banks in October declined by 41.48% to N80.33bn from N137.26bn in September. This was in spite of a total OMO repayment of N203bn. During the period, short-term interbank interest rates averaged 13.04%pa compared to 12.53%pa in September.

OMO repayments during the review period totaled N203bn, while total OMO sales was N99bn. Short-term interbank rates averaged 13.04%pa rising by 51bps when compared to 12.53%pa in August. OBB and O/N rates closed the review period at 18%pa and 18. 5%pa respectively.



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Total treasury bills auctioned at the primary market was N422.25bn, 29.96% higher than September (N324.91bn). T/bill yields in the primary market remained flat across the 91 and 182-day tenors, while the 364-day tenors fell by 51bps to 6.99%p.a. T/bill yields at the secondary market decreased by an average of 37bps across all tenors.

[7]**CBN, FDC Think Tank**

T/bills Tenor	Primary Market rate as at September 15th, 2021 (%p.a.)	Primary Market rate as at October 29th, 2021 (%p.a.)	Direction	Secondary Market rate as at September 30th, 2021 (%p.a.)	Secondary Market rate as at October 29th (%p.a.)	Direction
91	2.5000	2.5000	⟷	4.53	4.18	↓
182	3.5000	3.5000	⟷	4.02	5.04	↑
364	7.5000	6.9900	↓	7.00	6.70	↓

Outlook

We expect the direction of interest rates to be impacted by the CBN's stance at the next MPC meeting in November. There is the likelihood that they may maintain status quo again which will have a neutral impact on interest rates.

Impact

With the projection of CBN maintaining status quo, this would have a neutral impact on interbank interest rates and market liquidity

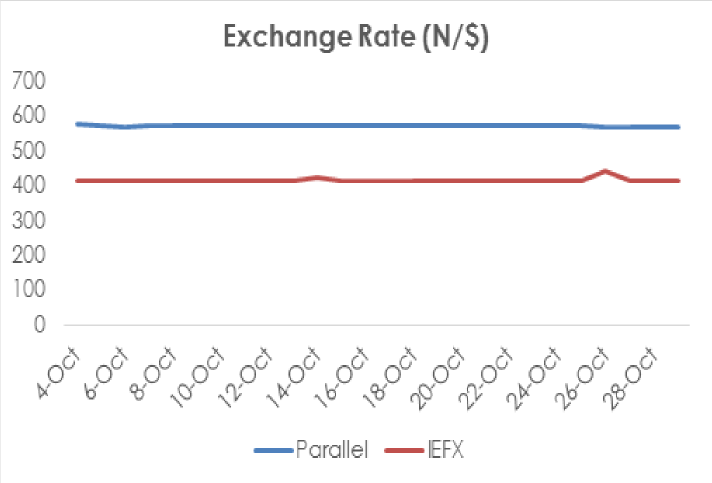
Forex Market

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

In October, the naira hovered around N567/$-N577/$ in the parallel market, appreciating by 1.76%. At the IEFX window, it traded within a tight band of N413.5/$-N415.1/$, as it depreciated by 0.37%b in the month of October.

At the parallel market, the naira gained and closed the review period at N567/$ from N577/$ at the beginning of the month. Average daily turnover rose by 7.12% to $203.18mn from $189.68mn in September. Meanwhile, the currency depreciated slightly by 0.37% at the IEFX window, trading within a band of N410.8/$ -N415.10/$.



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Outlook

Oil prices are now above $80pb, this is expected to boost the CBN's ability to defend the naira and this may lead to convergence of the IEFX and parallel market rates in the near term.

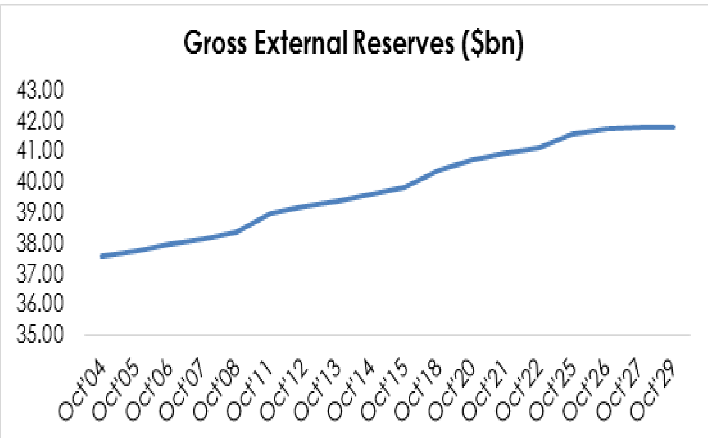
Impact

The convergence of the parallel and IEFX rates would reduce arbitrage and bolster investor confidence in the forex market, which is positive for FPI inflow.

External Reserves

Nigeria's gross external reserves continued its steady accretion in October. It gained 11.33% to close at $41.83bn on October 29 from $37.57bn on Oct 4.

This was partly due to higher oil prices, which rose by 12.23% to an average of $84.07pb in October from $74.91pb in September. The country's payment and import cover increased by 13.73% to 10.27months from 9.03 months at the end of the previous month.



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Outlook

We expect the gross external reserves to maintain its upward trend in the near term as oil prices remain high.

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

Impact

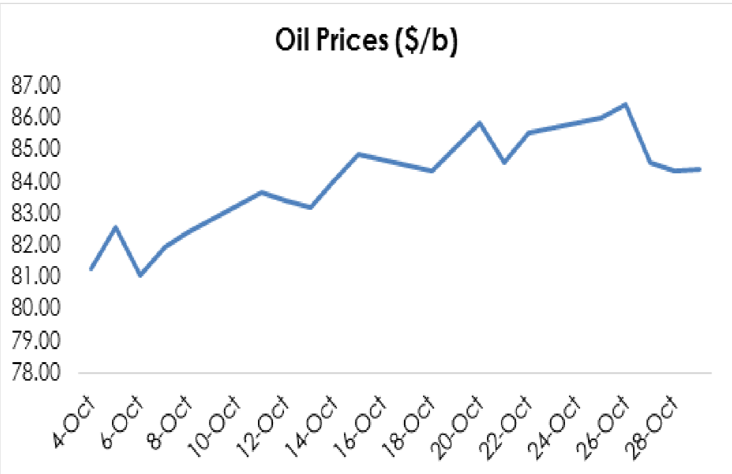
Higher gross external reserves will increase the ability of the CBN to support the naira and ease off pressures at the forex market.

Commodities Market- Exports

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

Oil Prices

In the period under review, oil price was volatile, trading above $80pb. Oil price rose 3.84% to $84.38pb. This was primarily attributable to supply-demand bottlenecks as more economies recovered from the pandemic. The rally in oil prices was further triggered by a global increase in the demand for substitutes (Natural Gas and Coal) for heating purposes ahead of winter. Pending any significant increase in supply by OPEC+, the shortage in global supply will keep oil prices above $80pb in the coming weeks. However, the downside of rising oil prices is the increase in the landing cost of PMS and the attendant increase in subsidy payments. Rising energy prices may also stoke inflationary pressures for Nigeria, reversing the downward trend of inflation.



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Outlook

Oil prices are expected to remain elevated, trading above $80pb, in the coming months due to the supply-demand deficit.

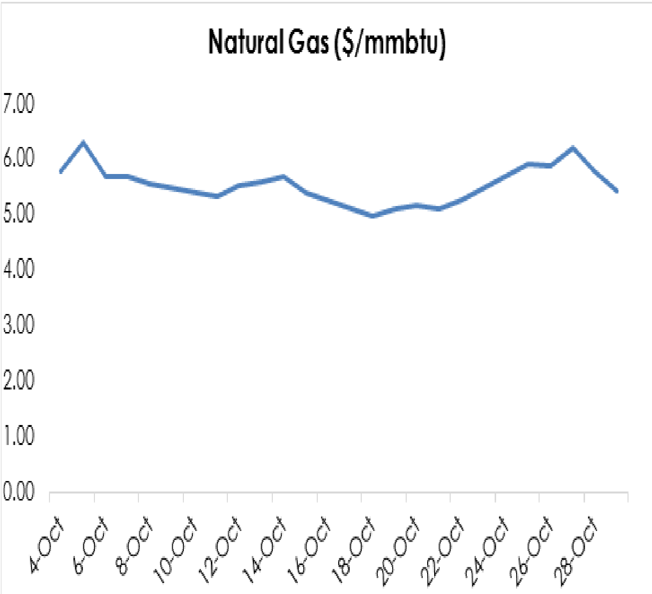
Impact

Higher oil prices are positive for Nigeria's export earnings and fiscal revenue. This could increase the FAAC disbursements for November towards N800bn.

[10]Bloomberg, FDC Think Tank

Natural Gas

When compared to September's average ($5.04/mmbtu), the average price of gas rose 10.52% to $5.57/mmbtu. This is due to an increase in demand amid the ongoing energy crisis in Europe and China. This, alongside the FG's implementation of cooking gas import tax, led to a spike in price to N8,500 (12.5kg) as Nigeria remains dependent on the importation of liquefied petroleum gas (LPG)



[11]

Outlook

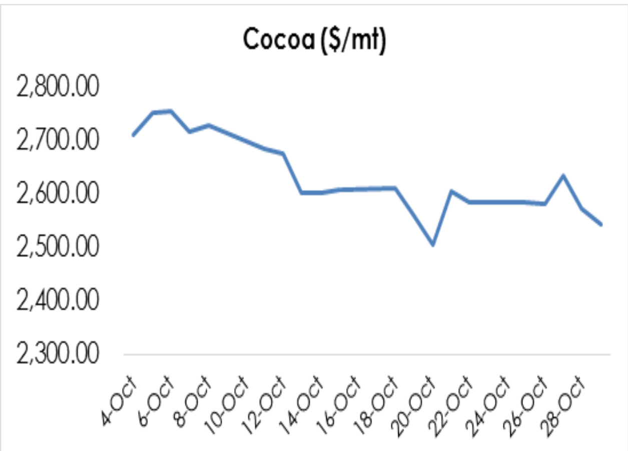
We expect LNG price to increase further in the coming months as supply shortages persist.

Impact

Natural gas is a major export commodity in Nigeria. Higher LNG prices will boost Nigeria's LNG export revenues and facilitate a favourable balance of trade.

Cocoa

During the review period, the price of cocoa fell 6.13% to $2,544/mt from $2,710/mt at the beginning of October. This is despite strong global demand and a favourable outlook for cocoa output in Ivory Coast, the world's largest exporter. Fitch forecasts global cocoa consumption to grow by 5.7% Y-o-Y to 4.89mn tonnes in 2021. This could increase the global price of cocoa in the near term.



[12]

Outlook

We expect cocoa prices to rise in the near term based on higher global demand.

Impact

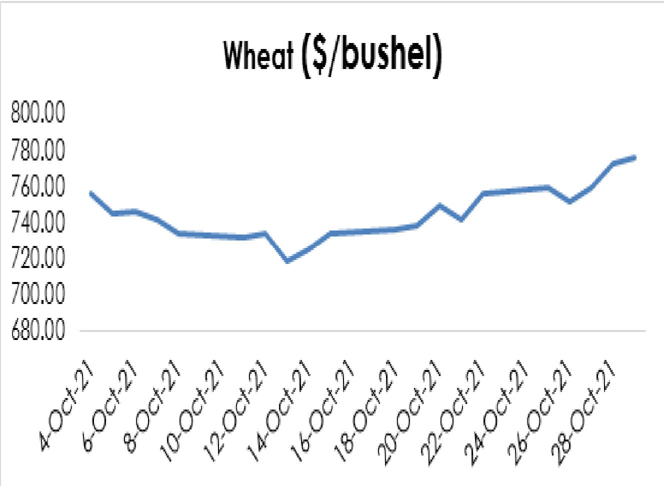
Cocoa is one of the main non-oil export commodities in Nigeria. An increase in price would increase the country's export revenue as well as external reserves.

[11]Bloomberg, FDC Think Tank
[12]Bloomberg, FDC Think Tank

Commodities Market– Imports

Wheat

Wheat prices averaged $745.31/bushel in October, 4.7% higher than an average of $711.84/bushel in the corresponding period in September. This was partly due to robust global demand for wheat.



[13]

Outlook

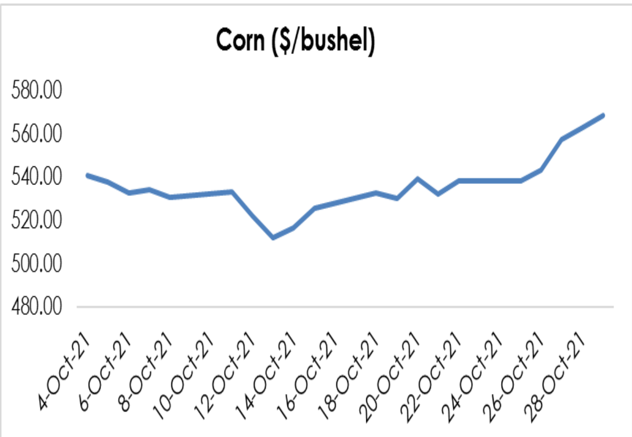
We project a continued rally in wheat prices on global supply concerns. The CBN is also considering putting wheat on its restriction list. This will raise the domestic price as importers move to the more expensive parallel market to obtain forex for imports

Impact

Higher wheat prices will have a negative impact on Nigeria's import bill with a ripple effect on wheat related products like flour.

Corn

The average price of corn rose by 1.98% to $536.36/bushel in October from $525.94/bushel in the corresponding period in September. The bullish price trend was driven by improved demand for corn. In addition, unfavorable weather in the US also contributed to a spike in price.



[14]

Outlook

We expect corn prices to remain bullish in the coming weeks on strong demand global demand.

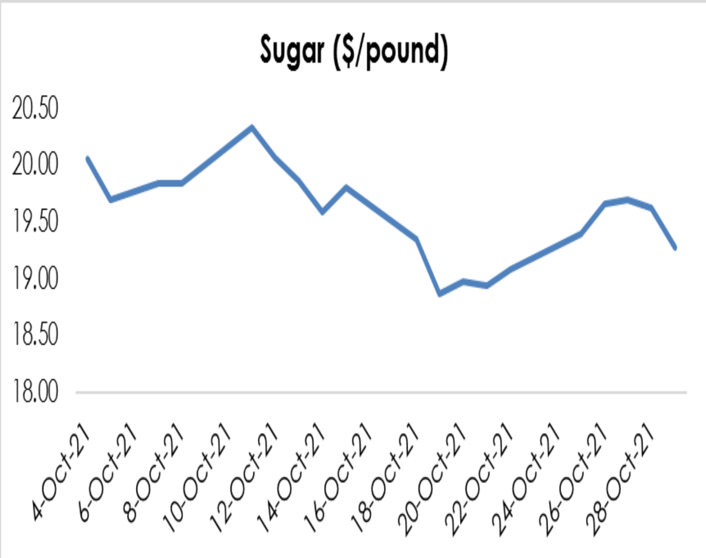
[13]Bloomberg, FDC Think Tank
[14]Bloomberg, FDC Think Tank

Impact

Nigeria is one of the largest importers of grains in the world. Therefore, higher corn prices will increase the country's import bill. This will feed into the production costs for corn dependent firms.

Sugar

The average price of sugar was down by 1.01% to $19.59/pound from $19.79/pound in the corresponding period in September despite growth in demand for sugar. During the review period, sugar prices touched a peak of $20.33/pound on October 11 to close at $19.27/pound on October 29.



[15]

Outlook

We expect sugar prices to reverse the downward trend owing to supply constraints in Brazil

Impact

Higher sugar prices will increase manufacturing cost and have a negative impact on the country's import bill as well as the trade balance.

[15] **Bloomberg, FDC Think Tank**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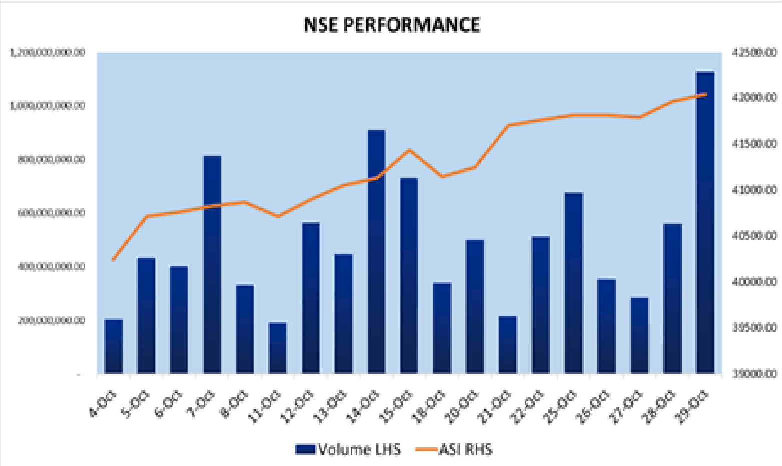
Stock Market Review

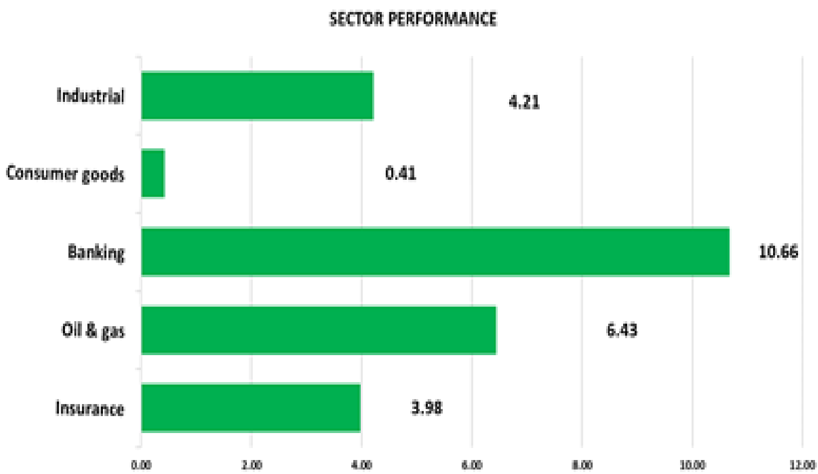
The NGX closed on a positive note in the month of October. It gained 4.52% to close at 42,038.60 points on October 29th from 40,221.17 points on September 30th. In the same vein, market capitalization increased by 4.68% (N980bn) to N21.94trn relative to its close of N20.96trn on September 30th. The market YTD return improved to 4.39% from -0.12% in the review period. The market gained in 16 out of the 19 trading days of the review period with a cumulative gain of 4.44%.

The NSE traded at a price to earnings (P/E) ratio of 6.76x as of October 29th, 36.53% lower than the close of September 30th (10.65x). The market breadth was positive at 1.93x as 58 stocks gained, 69 stocks remained unchanged while 30 lost.



[16]

Market activity level was positive in the review period. The average volume traded rose by 74.16% to 504.38mn units from 289.61mn units. Meanwhile, the average value of trades rose sharply by 108.55% to N5.61bn from N2.69bn in the review period.



[17]

[16]NSE and FDC Think tank
[17]NSE and FDC Think tank

The sector indices performance was positive in the review period. The banking sector recorded the highest gain (10.66%). This was followed by oil & gas (6.43%), industrial (4.21%), insurance (3.98%) and consumer goods (0.41%).

University Press Plc topped the gainers' list with a 76.42% increase in its share price. This was followed by Ecobank Transnational Incorporation Plc (64.81%), Champion Breweries Plc (43.54%), FBN Holdings Plc (37.27%) and AIICO Insurance Plc (30.53%).

TOP 5 GAINERS				
Company	**Sep-30 (N)**	**Oct-29 (N)**	**Absolute Change**	**Change (%)**
University Press Plc	1.23	2.17	0.94	76.42
Ecobank Transnational Incorporation	5.40	8.90	3.50	64.81
Champion Breweries Plc	2.09	3.00	0.91	43.54
FBN Holdings Plc	8.05	11.05	3.00	37.27
AIICO Insurance Plc	0.95	1.24	0.29	30.53

The laggards were led by Regency Alliance Insurance Plc (15.91%), Academy Press Plc (15.38%), Linkage Assurance Plc (11.67%), May and Baker Nigeria Plc (10.66%) and FTN Cocoa Processors Plc (10.20%).

TOP 5 LOSERS				
Company	**Sep-30 (N)**	**Oct-29 (N)**	**Absolute Change**	**Change (%)**
Regency Alliance Insurance Plc	0.44	0.37	0.07	-15.91
Academy Press Plc	0.39	0.33	0.06	-15.38
Linkage Assurance Plc	0.60	0.53	0.07	-11.67
May and Baker Nigeria Plc	4.88	4.36	0.52	-10.66
FTN Cocoa Processors Plc	0.49	0.44	0.05	-10.20

Corporate disclosures

Company	Topline	PBT	PAT	EPS
UACN Property Development Company Plc	N298.68 million (167.37%) ↑	-N532.78 million (28.21%) ↓	-N578.38 million (22.33%) ↓	-N0.3 (160.00%) ↑
PZ Cussons Nigeria Plc	N82.58 billion (23.27%) ↑	N3.44 billion (143.32%) ↑	N1.70 billion (123.58%) ↑	N0.37 (121.26%) ↑
United Bank for Africa Plc	N81.20 billion (21.74%) ↑	N47.17 billion (41.91%) ↑	N44.01 billion (34.59%) ↑	N1.25 (78.57%) ↑
Stanbic IBTC Holdings Plc	N53.72 billion (5.29%) ↓	N20.61 billion (15.74%) ↓	N17.41 billion (16.94%) ↓	N1.29 (29.51%) ↓
Unilever Nigeria Plc	N19.57 billion (12.47%) ↑	N286.60 million (114.12%) ↑	N367.98 million (123.89%) ↑	N0.06 (120.69%) ↑
Nestle Nigeria Plc	N90.15 billion (25.71%) ↑	N18.21 billion (18.25%) ↑	N11.85 billion (17.21%) ↑	N14.95 (17.16%) ↑
Ikeja Hotel Plc	N2.84 billion (30 7.46%) ↑	N128.27 million (120.95%) ↑	N34.15 million (105.56%) ↑	N0.2 (106.67%) ↑
AIICO Insurance Plc	N51.44 billion (16.56%) ↑	N27.79 million (99.40%) ↓	N2.43 billion (55.08%) ↓	N0.15 (66.67%) ↑
Guaranty Trust Holding Company Plc	N55.89 billion (10.03%) ↓	N58.85 billion (2.10%) ↑	N49.99 billion (4.12%) ↑	N1.78 (4.09%) ↑
BUA Cement Plc	N62.63 billion (19.77%) ↑	N24.77 billion (22.26%) ↑	N22.51 billion (20.05%) ↑	N0.66 (20.00%) ↑

Outlook

We expect the release of Q3 corporate results to impact stock market performance in November.

Corporate Focus: Dangote Cement

DANGOTE CEMENT

Market Capitalization: N4.77trn

Current Price: N280

Industry: CEMENT

Analyst's note

Consistent positive performance

Despite the ongoing challenges faced by the cement industry, which are largely driven by power shortages and currency volatility, Dangote Cement Plc turned in a remarkable performance in its Q3'21 earnings result. The company's topline rose to N235.46 billion, a 17.21% growth compared to N200.89 billion in the corresponding period in 2020. This is despite a 2.38% decline in the company's cement and clinker production in the third quarter, which stood at 6.56mn tonnes from 6.72mn tonnes in Q3 2020. Similar to the performance of the topline, gross earnings grew by 11.45% to N156.27bn despite a 30.52% increase in cost of sales, which indicates that the growth in revenue may be attributable to higher prices. The uptick in the cost of sales, which stood at N79.19billion, was driven by higher cost of raw material consumed.

Riding on the wave of its topline, Dangote Cement Plc's operating profit increased by 13.85% to N116.49 billion from N102.32 billion in the corresponding period in 2020. This was undeterred by the 6.47% increase in selling and distribution income as well as a N280mn impairment on the company's financial assets.

Dangote Cement Plc reported a 10.61% growth in its bottom-line to N87.46 billion buoyed by a 59.02% increase in finance income. The company's finance income rose to N17.46 billion driven by a 19.50% increase in its interest income to N11.46 billion and a 330.73% spike in foreign exchange gain to N6 billion.

Industry and Company Overview

The Nigerian cement industry has experienced substantial growth over the past few years. With a population of about 200 million people and a population growth rate of approximately 3% per annum, the demand for and consumption of cement is expected to increase. The cumulative average growth rate for global cement consumption in the last three years is about 2.96%. In 2021, global cement consumption is expected to rise to about 4.4 billion tonnes.

Increased government infrastructural projects and maintenance coupled with urbanization growth is expected to drive market growth. The demand for cement is driven by infrastructure, commercial and residential real estate development. The government, particularly the federal government, is typically the major driver of cement demand in Nigeria with an estimated 60% of total cement consumption. The frequency of road and bridge reconstruction as well as rehabilitation of social infrastructure underlines the government's continued patronage of the industry. The increase in government expenditure on infrastructure will also spur private construction.

Nigeria is currently the largest cement producer in Africa. Cement manufacturers have identified an opportunity in the existing infrastructure gap, estimated at 35% of GDP relative to 70% for larger economies. The use of cement roads has a higher initial cost but lower maintenance cost and relatively longer life span (27 years vs. 17 years for asphalt roads).

The sector is also expected to benefit from the commencement of AfCFTA (African Continental Free Trade Area). Cement manufacturers will be faced with the opportunity to produce more in order to compete with member nations and penetrate new markets.

Dangote Cement Plc, a Nigerian publicly traded cement manufacturer, is headquartered in Lagos. The company is engaged in the manufacture, preparation, import, packaging, and distribution of cement and related products across the African continent. Dangote Cement operates three manufacturing plants in Obajana, Ibese and Gboko, with longer-term plans to expand its capacity to meet Africa's growing demand for cement.

Dangote Cement's exposure to East and West African markets places it ahead of its peers in Nigeria. Although the company had to cease clinker export in Q1'21, mainly due to significant domestic demand, however, the company's clinker strategy remains viable. Dangote Cement's clinker strategy is expected to take advantage of the absence of limestone in majority of West African countries who import bulk cement and clinker usually from Asia and Europe.

Dangote cement is ready to take advantage of the commencement of the African Continental Free Trade Area (AfCFTA). Its cement expansion plan and fertilizer investments will open new trade routes for the company and Nigeria under the trade deal. This move is essential for Africa to deliberately improve its per capita cement consumption to aid infrastructure development by stimulating further demand, which will help reduce the cost of cement.

Dangote Cement's share buyback resulted in the company's stock price rally. In addition, we expect the continued improvement in profitability to further bolster earnings and a resultant uptick in share prices. The share price of the company has shown resilience compared to its peers and the share price also presents an attractive upside potential for long term investors.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Management & Governance Overview

Dangote Cement's management has successfully operated the company since inception as evidenced by the firm's continuing record of excellent returns on invested capital. Management has done remarkably well in maintaining the firm's reputation as a force to contend with in the industry.

We find most of the qualities of the board to be in line with best practices. The board members have the necessary skills and vast experience across regions that make them more than capable to implement sound decisions. The role of the Chairman is separated from the CEO's and the board looks at risk and strategy on both short- and long-term bases.

Alhaji Aliko Dangote is the Chairman of the Board of Directors. He holds a BSc in Business Studies from the Al-Azahar University, Egypt. He is the founder of the Dangote Group. He serves on various boards, foundations, institutes and committees of the Federal Government of Nigeria.

Group MD/CEO

Mr. Michel Puchercos

Chairman

Alhaji Aliko Dangote

The Bulls Say and the Bears Say

Bulls say

- African Continental Free Trade Area (AfCFTA) advantage
- Reputable company with a proven track record and strong brand recognition
- Growing footprint across the continent
- The wide infrastructure gap in the Nigerian economic space presents an opportunity for growth
- Stronger regional presence in domestic market compared to peers
- Recovery in real estate sector to bolster demand

Bears say:

- Government delay in the implementation and release of funds for capital projects
- Nigerian economy still remains the major driver of revenue
- Naira devaluation could affect costs and reduce purchasing power
- Higher material and energy cost could erode profit

Risk

The major risks that could prevent DangCem from achieving its goals of boosting earnings, increasing sales and managing costs is its exposure to credit, liquidity and market risk (currency and interest rates) arising from financial instruments.

The company manages foreign currency risk by monitoring its financial position in each country where it operates. In addition, the company manages credit risk by ensuring that it transacts with only credit worthy counterparties.

DangCem manages liquidity risk by managing adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Outlook

We expect the cement industry to record a robust performance for the rest of the year, supported by a higher private sector demand amid a sustained economic recovery of the Nigerian economy as well as an accelerated global recovery. Nigeria and Africa's wide infrastructure gap, growing housing infrastructure, commercial constructions, and widespread affordable housing projects that are being embarked upon by the government, etc. are significant opportunities that will drive the industry's growth potentials. Nigeria and Africa's infrastructure gap are estimated at an annual $100bn and $60-108bn respectively.

Furthermore, Dangote Cement's pan African strategy will lend credence to the myriad of opportunities presented by AFCFTA.

Economic Outlook for the next four to eight weeks

Global commodity prices are expected to remain elevated in the coming weeks as demand (especially for oil, gas, wheat and sugar) remains high relative to supply. The continued uptick in the global price of these commodities will result in higher production costs which will fuel inflationary pressures in import dependent countries.

For the next couple of weeks, we expect oil prices to trade above $80pb on tight market supply amid rising demand. This would be supported by the start of the winter season which would boost the demand for crude. Meanwhile, OPEC+ is sticking to its planned monthly supply increase of 400,000bpd despite global supply shortfall. The cartel's decision will have no significant impact on the oil market. Higher oil prices are positive for Nigeria's fiscal and external accretion. It will also support the CBN's capacity to defend the naira.

We forecast that the declining trend in headline inflation will persist in October on the back of base year effects. Nonetheless, we expect cost push factors such as exchange rate pressure, insecurity and logistics constraints to pose a threat to this forecast. The MPC is likely to maintain status quo in its November meeting while Q3'21 GDP growth is projected to slow to 3.5%.