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In This Issue ...

2021: A year of the unexpected

2021 was an interesting year on all fronts. Globally, we saw economies recover, albeit sluggishly, from the pandemic-induced recession of the prior year. As countries started to relax their grips on movement and vaccination rates picked up across advanced economies, the Delta covid variant and more recently, Omicron, reared their ugly heads. Alas, restrictions were reluctantly reintroduced; thus, exacerbating a global supply shortage problem that trigged a spike in consumer prices. Developed economies such as the US and UK saw new record-highs of inflation, US (39-yr high of 6.8%) and the UK (10-yr high of 5.1%). This prompted discussions of an earlier-than-expected scaling back of loose policies and a switch to policy normalization by monetary authorities in advanced economies.

The Bank of England for the first time in three years raised its benchmark interest rate by 15 bps to 0.25%, while the US Fed plans to end its bond purchases by March 2022 and increase interest rates three times next year. A more hawkish stance by developed economies towards monetary policy has significant implications for emerging and frontier markets such as Nigeria which have recorded build-ups in their debt stocks to mitigate the impact of covid on revenues. Nigeria for instance, recorded an 18.66% increase in its external debt stock to $37.96bn as at Q3'21 from $31.99bn a year ago. These countries have enjoyed low interest rates. However, this will change in 2022 as rate hikes occur, leading to higher debt service burden.

Regionally, several African countries also witnessed a persistent rise in their inflation rate, with Ghana touching a 5-yr high of 12.2% and South Africa a 4-yr high of 5.5%. However, the Nigerian inflation rate has moved in the opposite direction, but we will get to that in a bit.

Global commodities- Winners & Losers

One can comfortably say that crude oil was one of the top winners in the commodities market this year. It was also one of the most volatile commodities in 2021, rallying to as high as $86pb, from a low of $51pb. Market dynamics were influenced by geopolitical tensions, bad weather (hurricanes and tropical storms), covid concerns and relaxed output quotas of OPEC+ member countries. Average price of oil was $70.8pb, 63.51% above 2020's average of $43.3pb and 77% above Nigeria's 2021 budget benchmark of $40pb. This helped offset low production levels of oil dependent countries such as Nigeria.

Gold was another winner. Due to its safe haven appeal, the precious metal benefitted from the global uncertainty surrounding monetary policy, economic recovery and covid. The price of an ounce of gold averaged around $1800/ ounce from $1,775/ounce in 2020 and touched a high of $1940/ ounce in January 2021.

Cocoa did not fare as well as other commodities. This could be attributed primarily to low demand for cocoa related products- especially chocolates. Leading producers (Ivory Coast and Ghana) also battled with weather conditions and oversupply in some cases, which kept the price of cocoa hovering around an average of $2,500/mt all through the year (2020: $2474/ mt).

Nigeria- sluggish growth, falling inflation, weaker naira and policy ambiguity

This is the story of Nigeria in 2021. Cumulative GDP growth was 3.18% in 9M'21 compared to 4.93% in Ghana and 0.17% in South Africa. Headline inflation fell for 8 consecutive months (since April 2021) to a 12-month low of 15.4% in November, moving contrary to the global inflation trend. Eyebrows were raised especially as market reality portrayed a different picture- sharply higher prices of almost 95% (based on FDC's synthetic basket). A plausible explanation could be due to base effects, seasonalities and consumer price resistance.

The forex market and exchange rate dynamics were the talk of town throughout the year. From various policy announcements and forex rationing by the CBN (e.g adopting NAFEX as the official rate, to halting the sale of forex to BDCs, etc), to the steady depreciation of the currency. No clear policy path was charted with respect to the Nigerian forex market. Let's hope 2022 paints a more distinct picture. The naira lost at least 20% of its value (YTD) in the parallel market, falling to as low as N580/$ before recovering to N566. Other market rates such as the Investor & Exporter forex market (IEFX) rate and IATA rate suffered similar fates, falling to as low as N435/$ and N463/$ respectively. The sharp depreciation in the IATA rate which is used by airlines to price tickets, led to a spike in ticket fares.

The Nigerian stock market's performance was mixed. It was driven by economic vulnerabilities, corporate earnings and market sentiment. The NGX ASI recorded a YTD gain of 6.07% in 2021, sharply lower than the 50% gain recorded in 2020.

Policy delayed; policy denied

Several government policies were announced in the course of the year. The 2022 budget of N17.13trn has been passed by the Senate, and signed into law by the president. Fuel subsidy removal and electricity tariff hikes have been moved to 2022, basically, kicking the can down the road further. The government has said by February there would be no more fuel subsidy payments (fingers crossed). While this is good news for the government with respect to more funds to invest in capital projects, Nigerians will be paying more for petrol especially with oil prices remaining elevated at $80pb. The end of subsidy payments should also coincide with the commencement of the Dangote petroleum refinery which would ease the burden of imported refined crude on the government.

2022: what should we expect?

1. Covid-19 will remain a threat to global economies

2. Global interest rates to start to increase slowly but surely, increasing the debt service burden of emerging and frontier markets

3. A structural and strategic shift to electric vehicles dampening global fuel demand

4. SSA to remain vulnerable to external shocks, as economic recovery will be uneven across the region

5. Nigeria's economic growth to remain positive in 2022, rising to as high as 3.4% (EIU)

6. Monetary policy will be relatively unchanged, at least in the first half of 2022, and a possible hike in H2'22 to curtail inflationary pressures

7. Fuel subsidy removal and resumption of Dangote refinery operations

8. H2'22 will be more of politics than economics as the elections fever takes over


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Funding higher education in Nigeria; confronting inherent challenges

Nigeria is home to one of the world's most youthful populations – 14th largest in the world.[1] As a result, there is a high number of university applicants. In 2020, a total of 1,949,983 people applied to universities across the country via the Joint Admissions Matriculation Board (JAMB) entrance tests, this is 17.27% above what was recorded in the previous year. Noteworthy is the fact that JAMB is currently trying to clear a backlog of 706,189 illegal admissions. Higher education not only enhances the living standards of individuals through access to better paid jobs, it also has the potential to increase productivity and enhance economic growth through research and innovation. Despite a significant demand for higher education in Nigeria, it remains underfunded – impeding the education system in its function as a growth catalyst.

Failure of the current model

The government, which relies on the performance of the oil sector, is a key player in the funding of education in Nigeria. It is no news that Nigeria is an oil-exporting economy and its earnings are mostly dependent on the performance of the oil sector. The oil sector contributes over 65% of the government's total revenue.[2] The drawback with this revenue model is that oil earnings, on which the government is strongly reliant, is very vulnerable to volatilities in the global oil market.

[1] Koop, Avery. 2021. "Mapping the World's Youngest and Oldest Countries". Visual Capitalist. https://www.visualcapitalist.com/worlds-youngest-and-oldest-countries/
[2] NEITI. 2021. "Nigeria: Overview". https://eiti.org/es/implementing_country/32

The recent emergence of the Omicron variant of COVID-19 sent oil prices plunging 20.85% to \$67.28pb from a peak of \$85pb. In Q3'21, the oil sector's contribution to GDP fell 1.24% to 7.49% from 8.73% in 2020 due to lower oil production.[3] In addition to lower oil earnings, volatile exchange rates, an expanding debt service burden, a growing population of students in all educational institutions and the rising cost of state administrations, have also hindered the government from meeting its financial obligations satisfactorily. This has resulted in ongoing squabbles between the government and the Academic Staff Union of Universities in Nigeria (ASUU) over ways of improving the country's deteriorating education infrastructure, teaching, and research standards, as well as saving the higher education system from collapsing.

Underfunding education - How bad can it get?

Insufficient financing has negatively impacted the quality of Nigerian higher education. Schools have been deprived of facilities and infrastructure that should have aided research, innovation, and capacity building. A grossly distorted incentive system manifests in diverse ways like the monthly salary of a Federal University Professor being as low as N400,000, which is less than \$1,000. In addition, these salaries are often delayed, further fueling brain drain. In the year 2020, Nigerian students lost nine months of their academic year due to strike actions by ASUU as lecturers went unpaid for upwards of six months.[4]

The lack of funding has also forced students to shoulder additional costs. Students now need to purchase textbooks that were once available in the library. The increased financial pressure puts undue stress on students who are already grappling with constant blackouts, poor internet access and other infrastructure deficiencies, which impair academic performance. This has necessitated students to opt to travel to other countries to continue their education. As a result, Nigeria is dealing with brain drain at the student level as well.

This is not working: alternate ways of funding education

Acknowledging that the government has fallen short of expectations in terms of funding education in Nigeria, is the first step to resolving this debacle. In the last decade, Nigeria has averaged approximately 8.09% for its education allocation. This is a far cry from the 26% benchmark recommended by the United Nations Educational Scientific and Cultural Organization (UNESCO).

[3] NBS. 2021. "GDP report for Q3". https://nigerianstat.gov.ng/elibrary/read/1241095
[4] Lawal, Iyabo. 2019. "Education still in a shambles amid poor funding, high drop-out rate". The Guardian. https://guardian.ng/features/education-still-in-a-shambles-amid-poor-funding-high-drop-out-rate/

Year	Allocation to education (%)
2013	10.1
2014	10.5
2015	10.7
2016	7.92
2017	7.4
2018	7.04
2019	7.05
2020	6.7
2021	5.6
2022	7.9

Source: Annual Budget (Different years), FDC Think Tank

Given that higher education in Nigeria has remained deficient in terms of quality, accessibility, and funding, finding other sources becomes imperative. University administrators and direct beneficiaries must devise more aggressive and effective tactics for adequate university funding. Recommended strategies to supplement funding higher education in Nigeria include the following:

Internally generated revenue: Improving the internally generated revenue of universities can potentially increase the viability of the institution's management. It also helps reduce the heavy dependence on the government. Some of the ways through which this can be done is re-introducing moderate tuition, commercializing research work and undertaking consultancy services.

Public-private partnership (PPP): PPPs involve the collaboration between the government and the private sector in the delivery of high-quality, cost-effective higher education. The United Kingdom introduced their private finance initiatives with the primary purpose of constructing and remodeling schools through leasing agreements and thus, established the Academy Sponsors Trust to acquire private sponsorship.

Many institutions in the United States get considerable funding through competitive grants. As a premier university, Harvard University, for example, earns 30% of its revenue from tuition, 10% from private contributions, and 60% from projects.[5]

[5] Alfred Agada, 2018. Towards Alternative Sources of Higher Education Funding in Nigeria: Imperatives of Public Private Partnership. https://iosrjournals.org/iosr-jrme/papers/Vol-8%20Issue-6/Version-5/D0806052127.pdf

Bringing it home

Nigerian banks can lend a hand by building libraries and funding research initiatives. Fintech companies can collaborate with universities by donating information and communication technology (ICT) facilities. Private companies can also build hostels, facilitate scholarships, donate textbooks and other learning aids.

Conclusion

The insufficient funding cycle is a toxic one. Poor funding demoralizes staff, which leads to strikes, and cohort upon cohort of students losing years of their peak employable years. The product of a poorly funded educational system is an economy that suffers due to the production of weak intellectuals, who are not equipped with the critical thinking and hard and soft skills needed to be productive and innovative members of the workplace. As a result, the workplace and ultimately, the economy suffers. This is the reality Nigeria faces. It is imperative that school administrators and other stakeholders seek alternate sources of funding in order to achieve the economic development Nigerians desire.


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Naira convergence: Impact and imperatives

In 2021, manufacturers were forced to adopt a blended exchange rate of both official and parallel market rates. This blended rate ranged from as low as N430/$ at the start of the year before deteriorating to as high as N550/$. This had an impact on the prices of consumer goods. In reality, the impact of an adjustment of the official rate and rate convergence could lead to an adjustment of the blended rate used by manufacturers.

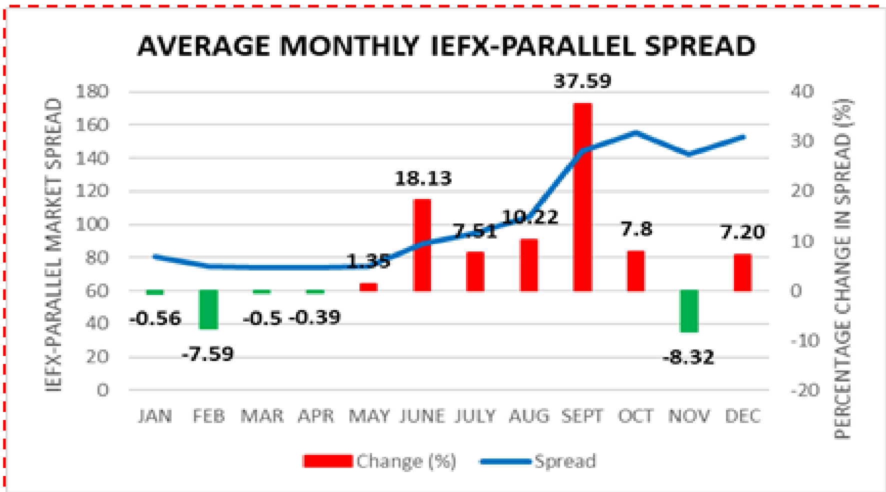
The official exchange rate moved sharply (N435/$) on the last day of 2021, after trading relatively stable around N415/$. This is the second consecutive year in which the rate was arbitrarily moved on the last day of the year. This brings to fore the question on everyone's minds, if indeed there is really a crawling peg or are we just playing with mirrors? This is also occurring at a time when oil prices are trading at $80pb. However, for the Nigerian external sector, there seems to be no direct correlation between the price of oil and the level of forex supply and appreciation of the naira. Adjusting the official exchange rate albeit temporarily could send the wrong signal to investors and further stoke the flames of market uncertainty.

SSA: How did the Currencies Perform?

	Inflation	Currency ($; 2018)	Currency ($; 2020)	Currency ($; 2021)	% Change (2018/2021)	% Change (2020/2021)
Angola	26.98	307.06	649.60	561.32	**-82.80**	**+13.59**
Nigeria	15.40	363	470	566	**-55.92**	**-20.43**
Ghana	12.2	4.80	5.84	6.05	**-26.04**	**-3.60**
South Africa	5.5	14.35	14.69	15.96	**-11.22**	**-8.65**

Most African currencies have depreciated in value in the last three years, with the Angolan Kwanza and Nigerian naira recording the highest loss. However, in 2021, the Angolan Kwanza reversed its downward trend to be the only African currency under our review to appreciate in value in the last year.

Trend of the IEFX-parallel market spread



[6]

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Spread	80.67	74.55	74.18	73.89	74.89	88.47	95.11	104.83	144.24	155.49	142.56	152.83
Change (%)	-0.56	-7.59	-0.50	-0.39	1.35	18.13	7.51	10.22	37.59	7.80	-8.32	7.20

Impact Of Forex Rates Convergence

Reduces the spread between the IEFX and parallel rates

Naira convergence will help reduce the IEFX-parallel market spread which will in turn decrease

[6] FMDQ and FDC Think tank

the incidence of speculative trading at the parallel market. A reduced spread will decrease the incentive (arbitrage) for speculators to obtain forex at the official market and resell at the parallel market. This may result in panic dumping of dollars at the parallel market due to the concern of lower demand for forex and appreciation of the dollar at the parallel market.

Encourages traders and investors to source forex at the official market (IEFX)

Closing the gap between the official and parallel market rates is likely to reduce the demand for forex at the parallel market, pushing investors and traders to the official market. This will lead to increased forex transactions at the official market (IEFX).

Positively impact foreign trade and investment

The wide IEFX-parallel market spread and the low forex supply at the official market have been the main factors driving investors and traders to source forex at an expensive rate from the parallel market. Reducing this spread, coupled with an improved forex supply at the official market, will decrease uncertainty (volatility) at the forex market and bolster the ability of the IEFX window to meet a higher demand for dollars. The resulting impact of this is that a reduced exchange rate volatility and improved forex supply will make it easier for foreign investors to repatriate their funds. It will also ensure that traders and manufacturers can access forex at a uniform rate from both the official and parallel markets. Reduced naira volatility and improved forex supply are positive for foreign direct investments and foreign portfolio investments as well as the country's external trade. This is because of the increase in the volume of dollar available for foreign trade and investment.

What needs to be done?

Flexible or floating exchange rate system

Incorporating a flexible or floating exchange rate system would allow the value of the naira to be determined by the invisible hand of demand and supply at the official (IEFX) market. Countries like Zambia and South Africa use the floating exchange rate system; this strategy could partly explain the positive performance of their currencies. According to Bloomberg, the Zambian kwacha is the second best-performing currency globally in 2021, as it has appreciated by 27.04% YTD

Improve the supply side of the economy

Nigeria must complement shifting to a floating exchange rate system with increasing its forex supply. To achieve this, the productive side of the economy must improve. This improvement would increase the volume of goods and services available for domestic consumption, thereby reducing the country's import costs which are a major drain on the external reserves. It would also increase the goods available for export to other countries and the inflow of revenue from export could be used to boost the external reserves and forex supply at the official forex market. Countries with a wide balance of trade surplus have relatively stable exchange rates. For instance, Zambia and Angola maintain a trade surplus of $269.12mn and $4.95bn respectively, which are positively impacting their external reserves and exchange rate stability relative to Nigeria who has a trade deficit of N3.02trn ($7.28bn). Angola's kwanza has appreciated by 15.73% in 2021 compared to the naira which has depreciated by 16.96% (parallel market) and by 5.69% at the IEFX window.

Revisit the country's import restriction list

More than 40 commodities, including agricultural goods, are on the CBN's forex restriction list. This drives traders and investors to the parallel market to satisfy their forex obligations, which adds to the forex demand pressure. The forex restriction policy will only be effective if the productive side of the economy is significantly improved. The CBN may have to relax some of these restrictions in the short term, as Nigeria is a net-importer of most of these commodities. This may be a short-term solution to reducing the forex demand pressure at the parallel market and could result in the reduction of imported inflation.

Conclusion

Although the CBN has implemented some forex management policies, like the naira4dollar promo and the recent exchange rate adjustments to improve naira stability and forex inflow, they are insufficient to ensure a naira convergence. Hence, there is the need to improve the productive side of the economy and leave the official forex rates to be market determined. This will promote naira convergence in the medium to long term.

Nigeria emerges as hub for illicit pangolin trade

Global Perspective : Culled from Financial Times

The butcher grabbed a sack from behind a table piled with bloodied carcasses — copper-coloured duiker, gray-black cane rats, a five-foot crocodile with bulging eyes — at the entrance to the biggest fish market in Lagos state and pulled out a brown ball the size of a grapefruit. “Pangolin . . . they pay good money,” he said of the Nigerian dealers and Asian buyers offering the equivalent of $30 apiece — more than a third of the local monthly minimum wage — for a critically endangered animal whose scales are prized in some traditional medicines.

The pangolin, a small gentle creature that resembles an armoured anteater, is estimated by anti-smuggling groups to be the most trafficked mammal in the world

The butcher, who did not wish to be named, is a small player in a global trade in pangolins estimated to be worth hundreds of millions of dollars annually. Experts warn that the illicit industry is increasingly centered on Nigeria, which in recent years has grown to become the most important wildlife smuggling hub in Africa. “Because of the level of corruption, because our borders are so porous, because our law enforcement is not strong enough and because we’re deep in poverty and people want something that will put food on the table, Nigeria has become this transit hub,” said Prof Olajumoke Morenikeji, head of the Pangolin Conservation Guild at the country’s University of Ibadan.

A slew of high-profile seizures this year has made clear Nigeria's key role in the trade. In July, authorities seized 7 tonnes of pangolin scales as well as more than 46kg of elephant ivory worth $54m from a house in Lagos. In September, authorities seized another tonne of scales in the city.

The Wildlife Justice Commission, whose intelligence work led to the raids, said the hauls were both connected to a global network active in Nigeria and central Africa that is responsible for over half of all pangolin and ivory seizures worldwide. The pangolin, a small gentle creature that resembles an armoured anteater, is estimated by anti-smuggling groups to be the most trafficked mammal in the world, above African rhinos and elephants, tigers and abalone. Following crackdowns and increased enforcement in eastern and southern Africa over the last half decade or so, the criminal syndicates that move huge quantities of pangolin scales to China have turned to Nigeria. "There's no real investigative capacity that has been directed towards this," said Julian Rademeyer, of the Global Initiative Against Transnational Organized Crime.

While trade in pangolins is illegal under the Convention on International Trade in Endangered Species of Wild Fauna and Flora — signed by 183 countries, including Nigeria and China — the World Wildlife Foundation estimates that almost 200,000 were poached in 2019 alone. UK-based organization Traffic, the Wildlife Trade Monitoring Network, calculates that about 20m tonnes of pangolins and their parts are trafficked each year. The eight species of pangolin found in Africa and Asia are all protected, with two listed as critically endangered. The relatively high prices they command make them an almost irresistible target for hunters in countries with few job opportunities.

"What we need is to provide some kind of alternative source of livelihood for these people so that they can feed their families, so they can be OK without killing endangered species," said Morenikeji. "African governments will have to do something about the poverty we have here." In the wake of the Covid-19 outbreak, Chinese authorities last year moved its own pangolin to the highest protection level and outlawed their use in traditional medicine.

The decision came amid increased scrutiny of the country's so-called wet markets, where live animals are slaughtered for sale and which are suspected of playing a role in incubating the virus before it passed to humans. But while China has ratcheted up anti-trafficking enforcement, wildlife advocates say loopholes remain and demand is robust. A 2017 report sponsored by the Chinese government found the domestic wildlife trade employed 1m people and was worth more than $74bn.

With Asian pangolins "on the road to extinction", according to Traffic, the trade has shifted to Africa. Although some of the animals are caught in Nigeria, much of the trade originates with poachers in bordering Cameroon, the Democratic Republic of Congo and other countries.

The scales and ivory are packed in shipping containers that are usually marked as timber or another export and sent to Asian countries including Vietnam, where wholesalers sell them on to Chinese buyers. A Nigerian hunter might sell a single pangolin to a butcher for 4,000 naira ($10), while a kilo of scales goes for over $1,000 in China.

An official involved in recent seizures in Nigeria complained that a key reason it was difficult to get Nigeria's customs service to act on smuggling tips was "because it [the illicit trade] often involves customs agents". The Nigerian customs service did not respond to requests for comment.

Rademeyer said recent seizures in Nigeria were encouraging. "But seizures need to be more than just an opportunity for customs authorities to hold a press conference . . . as is so often the case, or will they actually follow these leads and use this as evidence in a prosecution and a targeted investigation into this network."

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What Could Possibly Go Wrong? These Are the Biggest Economic Risks for 2022

Global Perspective : Culled from Bloomberg

The Covid years are littered with predictions that didn't work out. For anyone looking ahead into 2022, that should be enough to give pause. Most forecasters, including Bloomberg Economics, have as their base case a robust recovery with cooling prices and a shift away from emergency monetary-policy settings. What could go wrong? Plenty.

Omicron, sticky inflation, Fed lift-off, China's Evergrande slump, Taiwan, a run on emerging markets, hard Brexit, a fresh euro crisis, and rising food prices in a tinder-box Middle East — all these feature in a rogues' gallery of risks.

Some things might go better than expected too, of course. Governments may decide to keep fiscal support in place. China's latest Five-Year Plan could catalyze stronger investment. Pandemic savings might fund a global spending splurge.

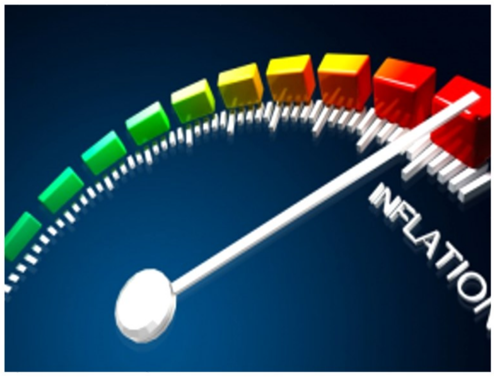
Omicron and More Lockdowns

It's early for a definite verdict on the omicron variant of Covid-19. Apparently more contagious than its predecessors, it may prove less deadly too. That would help the world get back to something like pre-pandemic normal -- which means spending more money on services. Lockdowns and Covid caution have kept people out of gyms or restaurants, for example, and encouraged them to buy more stuff instead. A rebalancing of spending could boost global growth to 5.1% from the Bloomberg Economics base forecast of 4.7%.

But we may not get that lucky. A more contagious and deadly variant would drag on economies. Even a three-month return to the toughest 2021 restrictions — countries like the U.K. have already moved in that direction — could see 2022 growth slow to 4.2%. In that scenario, demand would be weaker and the world's supply problems would likely persist, with workers kept out of labor markets and further logistics snarl-ups. Already this month, the Chinese city of Ningbo — home to one of the world's busiest ports— has seen fresh lockdowns.

The Threat of Inflation

At the start of 2021, the U.S. was forecast to end the year with 2% inflation. Instead, it's close to 7%. In 2022, once again, the consensus expects inflation to end the year close to target levels. Another major miss is possible.



Omicron is just one potential cause. Wages, already rising at a rapid clip in the U.S., could climb higher. Tensions between Russia and Ukraine could send gas prices surging. With climate change bringing more disruptive weather events, food prices may continue to rise.

Not all the risks are in the same direction. A new wave of the virus could hit travel for example — dragging down oil prices. Even so, the combined impact could still be a stagflationary shock that leaves the Fed and other central banks with no easy answers.

Powell-ing toward Fed Rate Hikes

Recent history, from the taper tantrum of 2013 to 2018's stocks selloff, shows how a tightening Fed spells trouble for markets. Adding to risks this time around are already-elevated asset prices. The S&P 500 Index is near bubble territory, and home prices accelerating away from rents suggest housing-market risks are bigger than at any time since the sub-prime crisis back in 2007.

Bloomberg Economics modeled what happens if the Fed delivered three hikes in 2022 and signaled it would keep going until rates reach 2.5%, pushing Treasury yields up and credit spreads wider. The result: a recession at the start of 2023.

Fed Liftoff and Emerging Markets

Fed liftoff could mean a crash landing for emerging markets. Higher U.S. rates typically boost the dollar and trigger capital outflows — and sometimes currency crises — in developing economies.

Some are more vulnerable than others. In 2013 and 2018 it was Argentina, South Africa and Turkey that suffered most. Add on Brazil and Egypt — call them the BEASTs — to get the list of five at-risk economies in 2022, based on a range of measures compiled by Bloomberg Economics. Saudi Arabia, Russia and Taiwan, with little debt and strong current-account balances, appear least exposed to capital flight in the emerging world.

China Could Hit a Great Wall

In the third quarter of 2021, China's economy ground to a halt. The accumulated weight of the Evergrande real estate slump, repeated Covid lockdowns and energy shortages dragged annualized economic growth down to 0.8% — way below the 6% pace to which the world has become accustomed.

While the energy crunch should ease in 2022, the other two problems may not. Beijing's zero-Covid strategy could mean omicron lockdowns. And with demand weak and financing constrained, property construction — which drives about 25% of China's economy — may have further to fall.

Bloomberg Economics' base case is for China to grow 5.7% in 2022. A slowdown to 3% would send ripples around the world, leaving commodity exporters short of buyers and potentially derailing the Fed's plans, just like the Chinese stocks crash did in 2015.

Political Turmoil in Europe

Solidarity among leaders who back the European project, and European Central Bank activism to keep government borrowing costs under control, helped Europe weather the Covid crisis. In the year ahead, both could fade.

A fight over the Italian presidency in January could upend the fragile coalition in Rome. France heads to the polls in April with President Emmanuel Macron facing challenges from the right. If euro-skeptics gain power in the bloc's key economies, it could shatter the calm on European bond markets and deprive the ECB of the political support required to respond.

Say that sovereign spreads widen by 300 basis points, like they did in last decade's debt crisis. Bloomberg Economics model shows that could chop more than 4 percent from economic output by the end of 2022, sending the euro area into recession and reviving concerns about its viability.

Feeling the Brexit Impact

Negotiations between the U.K. and EU over the Northern Ireland Protocol — a doomed attempt to square the circle of an open land border and closed customs union — are set to rumble on into 2022. Getting to yes will be tough.

What happens if negotiations break down? Based on past Brexit flare-ups, the uncertainty would hit business investment and undermine the pound, boosting inflation and eroding real incomes.

In a full-on trade war, tariffs and transportation logjams could push prices even higher.

The Future of Fiscal Policy

Governments spent heavily to support workers and businesses in the pandemic. Many now want to tighten their belts. The pull-back of public spending in 2022 will amount to some 2.5% of global GDP, about five times bigger than austerity measures that slowed recoveries after the 2008 crisis, according to UBS estimates.

There are exceptions. Japan's new government has announced another record stimulus and China's authorities have signaled a shift to supporting the economy after a long stretch of holding the purse strings tight.

In the U.S., fiscal policy swung from boosting the economy to slowing it in the second quarter of 2021, according to the Brookings Institution. That's set to continue next year, though President Joe Biden's child-care and clean-energy investment plans will limit the drag if they make it through Congress.

Food Prices and Unrest

Hunger is a historic driver of social unrest. A combination of Covid effects and bad weather has pushed world food prices near record highs, and could keep them elevated next year.

The last food-price shock in 2011 triggered a wave of popular protests, especially in the Middle East. Many countries in the region remain exposed.

Sudan, Yemen, and Lebanon — already under stress — all look at least as vulnerable today as they did in 2011, and some are more so. Egypt is only marginally better-off.

Popular uprisings are rarely localized events. The risk of broader regional instability is real.

Politics, Geo- or Local

Any escalation between mainland China and Taiwan, from blockade to outright invasion, could draw in other world powers — including the U.S.A superpower war is the worst case, but scenarios short of that include sanctions that would freeze ties between the world's two biggest economies, and a collapse in Taiwan's production of the semiconductors that are crucial to global output of everything from smartphones to cars.

Elsewhere, Brazil is scheduled to hold elections in October — against a backdrop of pandemic turbulence and a still-depressed economy. A lot could go wrong, though a win for a candidate promising tighter control of the public purse could bring some relief to the real.

In Turkey, the opposition is pushing to bring forward 2023 elections into next year amid a currency slump widely blamed on President Recep Tayyip Erdogan's unorthodox economic policies.

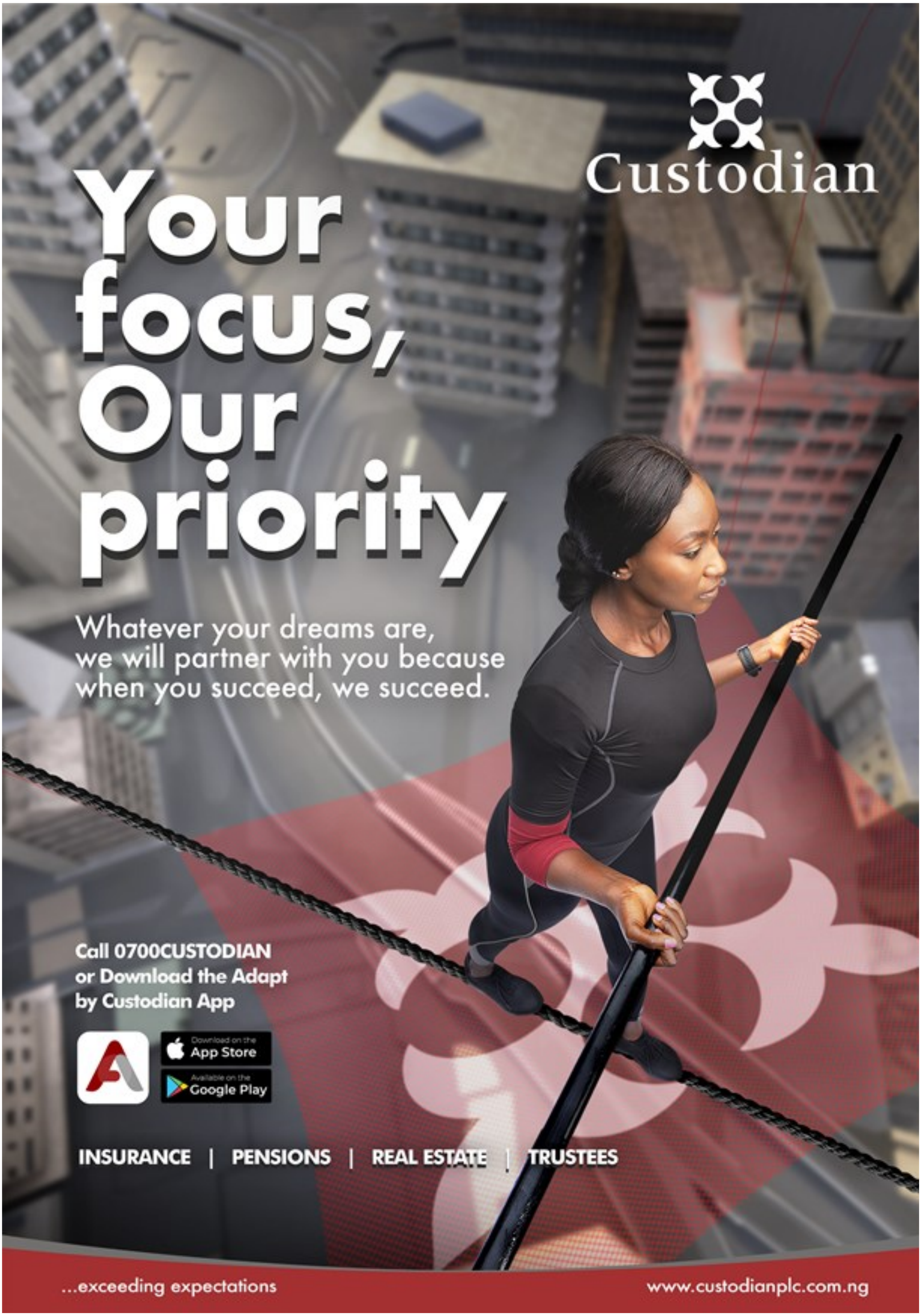
What Could Go Right in 2022?

Not every risk is to the downside. U.S. budget policy, for example, could remain more expansionary than appears likely right now — keeping the economy away from the brink of the fiscal cliff, and boosting growth.

Globally, households are sitting on trillions of dollars of excess savings, thanks to pandemic stimulus and enforced frugality during lockdown. If that gets spent faster than expected, growth would accelerate.

In China, investments in green energy and affordable housing, already slated in the country's 14th Five Year Plan, could amp up investment. Asia's new trade deal, the Regional Comprehensive Economic Partnership — which encompasses 2.3 billion people and 30% of global GDP — could boost exports.

In 2020, pandemic economies were worse than pretty much any economist had forecast. But that wasn't true in 2021: in many countries, recoveries were surprisingly rapid. That's a useful reminder that some things could go right next year, too.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Macroeconomic Indicators
December 1st—31st

Banks opening position averaged N111.83bn in December. This represents a 34.11% decline when compared to an average of N169.72bn in November. The opening balance slipped into negative territory on Dec 23, partly due to the funding of AMCON's debit from the CBN. The reduction in market liquidity filtered through to a spike in short-term interbank rates. Average NIBOR increased by 192bps to 13.18% in December from 11.26% in November.

During the review period, there was a net OMO inflow of N158bn (OMO sales – N37bn, OMO repayment – N195bn). Total primary market t/bill auction declined sharply by 72.72% to N112.35bn in December from N411.86bn in November. The 91-day and 364-day t/bill yields declined to 2.49%pa and 4.90%pa respectively while the 182-day t/bill yield remained flat at 3.45%pa. At the secondary market, the 91-day and 182-day t/bills increased while 364-day declined.

Tenor	Primary market (December 8th, 2021) (%)	Primary market (December 30th, 2021) (%)	Secondary market (December 1st, 2021) (%)	Secondary market (December 31st, 2021) (%)
91-day	2.50	2.49 ↓	2.45	3.78 ↑
182-day	3.45	3.45 ↔	3.30	4.23 ↑
364-day	5.34	4.90 ↓	5.18	5.00 ↓

Outlook

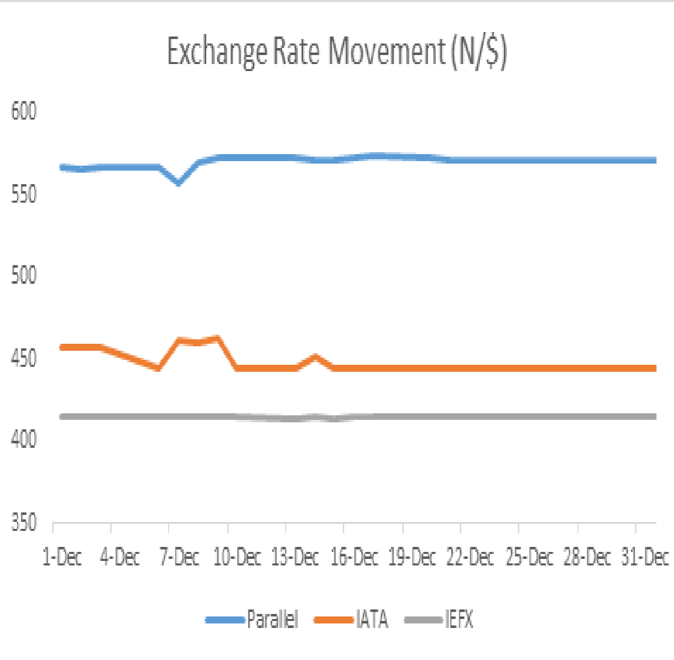
We expect market liquidity to remain low due to increased forex sales to banks by the CBN and possible currency adjustments.

Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves as not only a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

At the IEFX window, the naira weakened by 4.80% to a record low of N435/$ towards the end of December. This is an indication of a crawling peg aimed at achieving a greater degree of naira convergence. The parallel market rate appreciated slightly by 0.18% to close the month at N566/$, reducing the IEFX-parallel spread by 13.82% to N131/$. The average turnover at the I&E window increased significantly by 41.11% to $217.28mn in December (1st – 30th) from $153.98mn in November.



[7]

Outlook

The naira is likely to keep depreciating at the foreign exchange market on forex scarcity. The emergence of Omicron and the travel restrictions imposed on Nigeria will negatively impact the outlook for dollar inflows and external reserves accretion. This will also hamper the CBN's ability to intervene at the foreign exchange market.

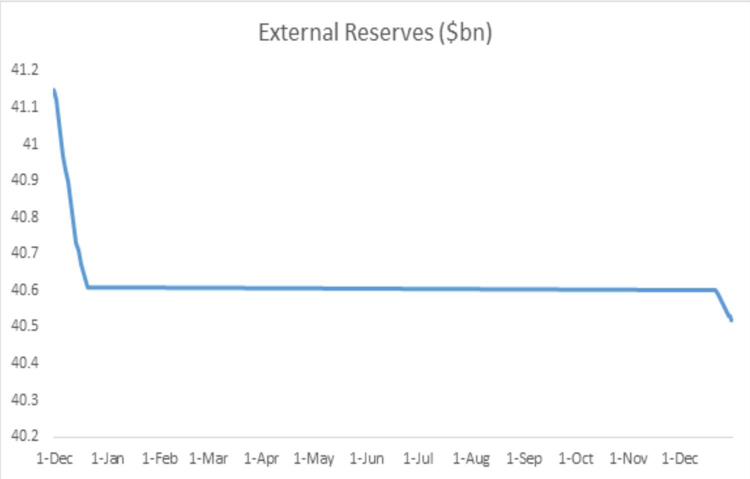
Impact

Forex scarcity will exacerbate demand pressures at the foreign exchange market and filter into higher import costs, stoking inflation.

External Reserves

External reserves depletion continued in December as the CBN further intervenes in the forex market. The gross external reserves lost 1.51% ($620mn) to close the month at $40.52bn from $41.15bn at the beginning of the month.

[7]CBN, FDC Think Thank



[8]

Outlook

The gross external reserves is expected to maintain its downward trend especially as visiting family and friends leave and dollar inflows dwindle. However the impact of this is expected to be offset by higher oil prices.

Impact

Falling external reserves impedes the CBN's ability to intervene at the foreign exchange market. In addition, the impact of travel bans will continue to negatively impact of forex supply. Forex shortages amid high demand will lead to a depreciation in naira at the forex markets.

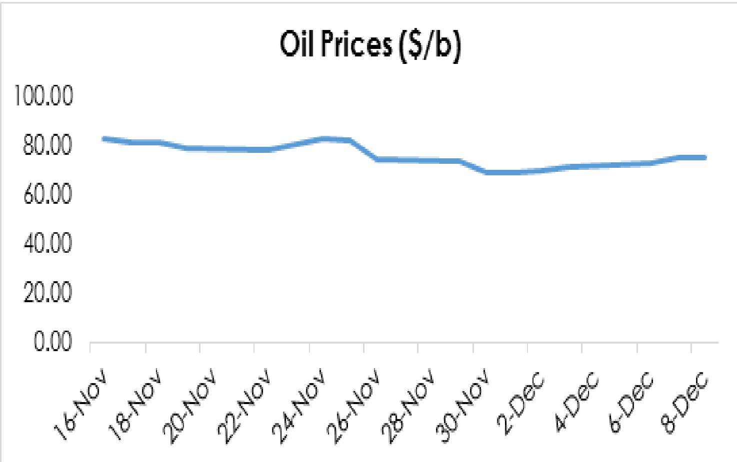
[8] CBN, FDC Think Thank

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 dropped sharply by 9.06% to close the period at $75.35pb from $82.86pb at the beginning of the period. This is primarily attributable to the market's reaction to the news of a new Covid-19 variant (Omicron). More so, OPEC+ at its last meeting decided to maintain its stance on current output expansion plan (400,000bpd monthly). The UK and Canada recently placed Nigeria on the red-list, in the bid to curb the spread of Covid-19.



[9]

Outlook

We expect oil prices to rise in the near term, towards $75-77pb, as concerns over the impact of the new variant on global oil demand wanes. However, this outlook could be dampened if more countries impose travel restrictions.

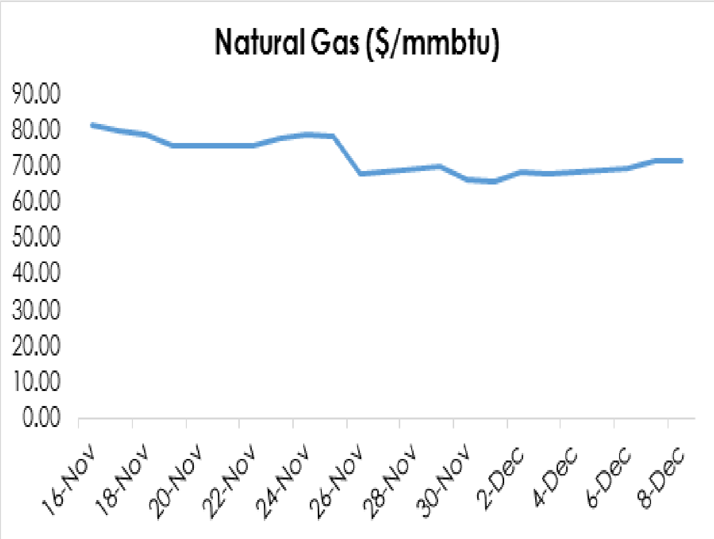
Impact

An increment in oil prices is positive for Nigeria's oil export earnings. This will support the government in fulfilling its fiscal obligations. However, FG's intent to fully deregulate the downstream oil sector by phasing-out subsidies is negative for consumer disposable as it is likely to push up the petrol pump price towards N340/ltr.

Natural Gas

The price of natural gas plunged 20.75% to $3.82/mmbtu at the close of the review period from $4.82/mmbtu on November 16. The fall in price is in spite of rising demand and tight market supply.

[9]Bloomberg, FDC Think Thank



[10]

Outlook

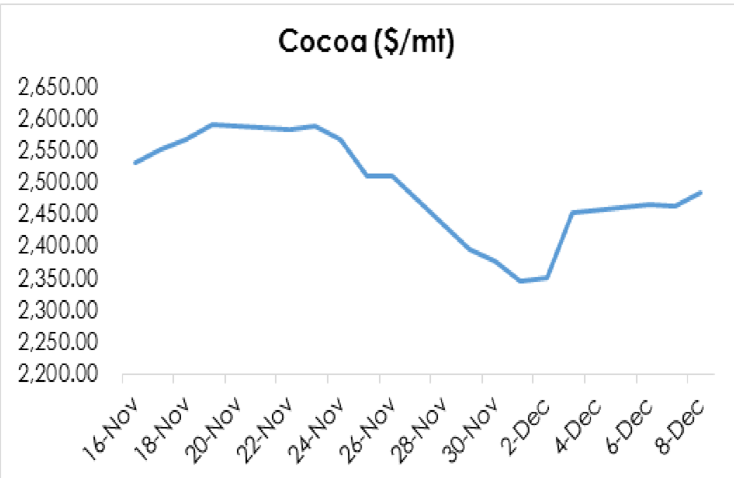
We expect the price of natural gas to rise in the near term on rising demand and supply shortages.

Impact

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

Cocoa

During the review period, the price of cocoa fell 1.86% to $2,485/mt from $2,532/mt at the beginning of November. This is due to an Omicron-induced weakness in demand and concerns over lower supply.



[11]

Outlook

We expect the price of the chocolate-making crop to remain low in the near term as the new Covid-19 variant weighs on global demand.

Impact

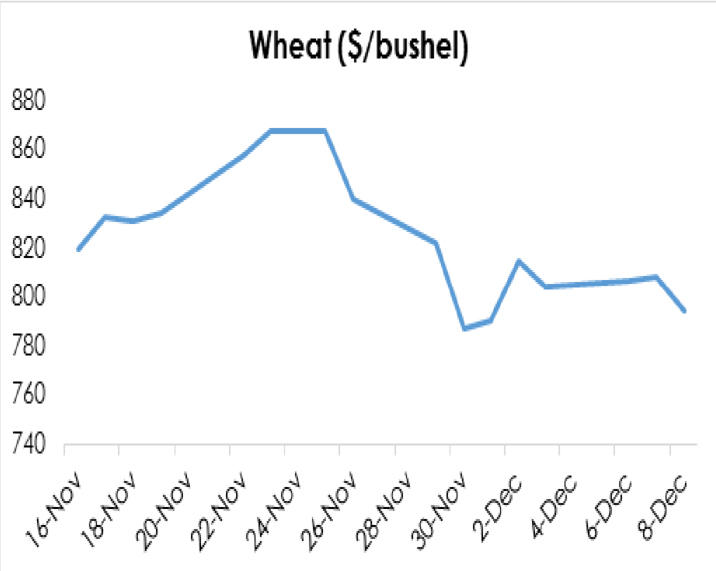
Cocoa is one of the main non-oil export commodities in Nigeria. A reduction in its global price could translate into lower export earnings.

[10]Bloomberg, FDC Think Thank
[11]Bloomberg, FDC Think Thank

Commodities Market-Imports

Wheat

The price of wheat declined by 3.11% to $794.50/bushel from $820/bushel at the beginning of the period (November 16). This is primarily attributable to projections of higher supply due to favourable weather conditions in the US.



[12]

Outlook

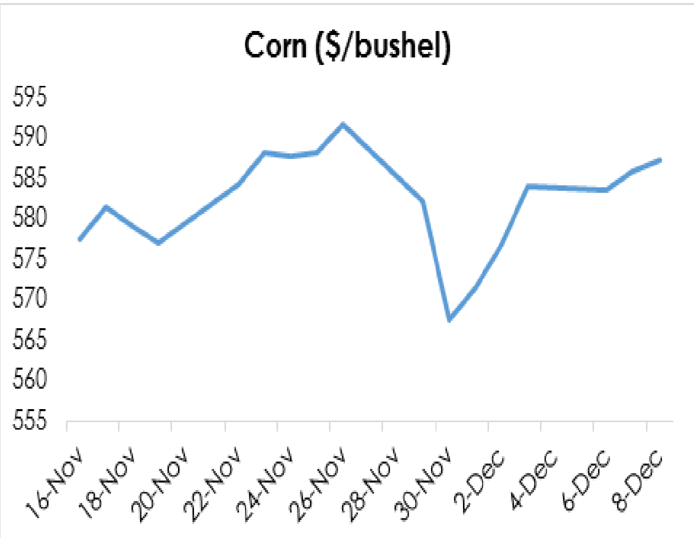
We expect the global price of wheat to remain low in the near term on expectations of higher output.

Impact

A decline in the price of wheat is positive for Nigeria's import bill. This could also lower the price of bread and other pastries.

Corn

When compared to the opening price on November 16 ($577.50/bushel), the price of corn increased by 1.69% to $587.25/bushel (December 8). This is due to tight global supply of corn.



[13]

Outlook

We expect the price of corn to remain elevated on supply shortages.

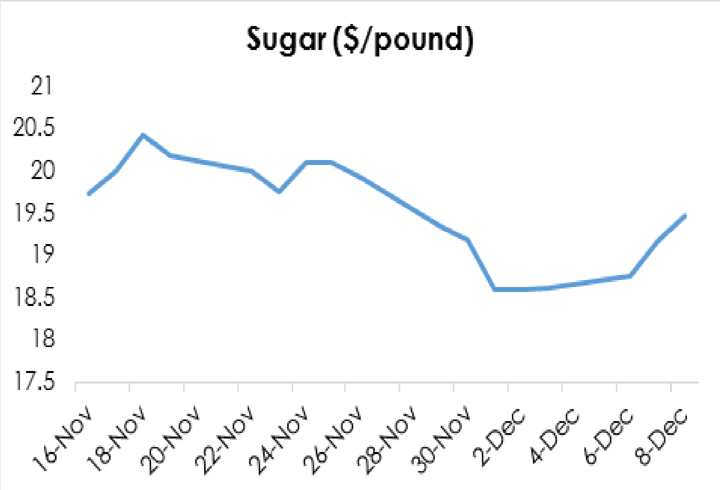
Impact

Nigeria is a net grain importer. An increase in the price of corn is negative for Nigeria's import bill. This could also raise the production cost of corn dependent firms.

[12] Bloomberg, FDC Think Thank
[13] Bloomberg, FDC Think Thank

Sugar

In the review period, the price of sugar fell by 1.32% to $19.48/pound from $19.74/pound on November 16. This is due to an increase in global supply as India, the largest producer in the world, increased exports by 17%.



[14]

Outlook

We expect the price of sugar to remain soft in the near term on increased supply.

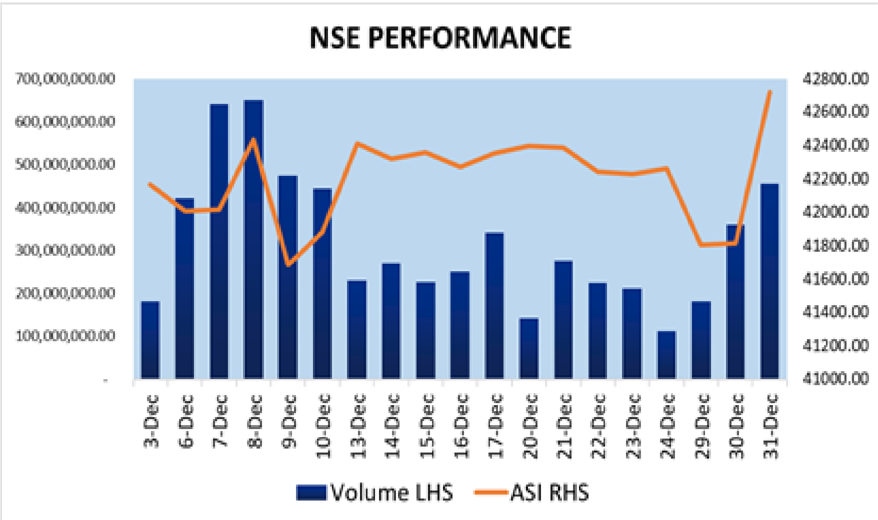
Impact

A rise in the price of sugar is negative for Nigeria's import bill and will, to a large extent, increase production cost for sugar-dependent businesses.

[14]Bloomberg, FDC Think Thank

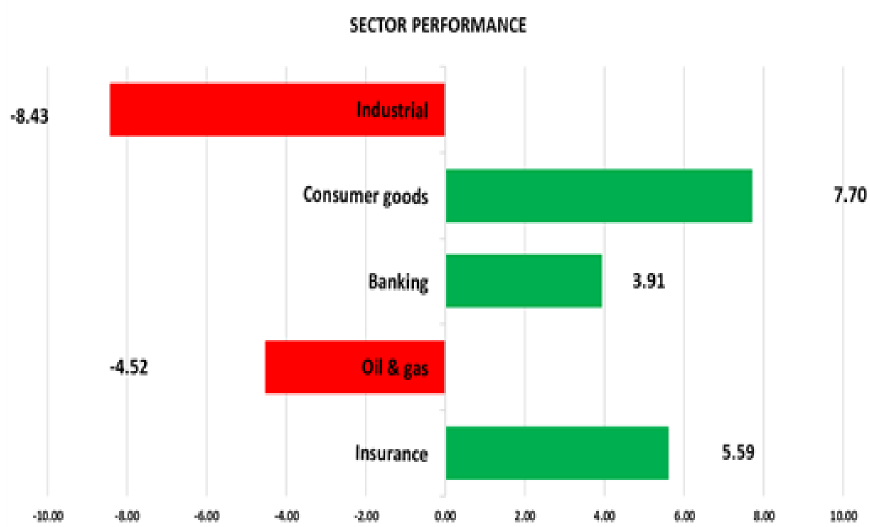
Stock Market Review

The NGX closed on a negative note in the month of December. It lost 1.23% to close at 42,716.44 points on December 31st from 43,248.05 points on November 30th. In the same vein, market capitalization decreased by 1.06% (N240bn) to N22.33trn relative to its close of N22.57trn on November 30th. The market YTD return fell to 6.07% from 7.39% in the review period. The market breadth was positive at 1.33x as 48 stocks gained, 74 stocks remained unchanged while 36 lost.



[15]

Market activity level was mixed in the review period. The average volume traded increased by 14.33% to 321.32mn units from 281.05mn units. Similarly, the average value of trades decreased by 1.05% to N3.78bn from N3.82bn in the review period.



[16]

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

The performance of sectors was mixed in the review period, as three sectors gained while two lost. The consumer goods sector recorded the highest gain (7.70%). This was followed by insurance (5.59%) and banking sectors (3.91%). On the other hand, the industrial and oil & gas sectors lost 8.43% and 4.52% respectively.

NEM Insurance Plc topped the gainers' list with a 136.84% increase in its share price. This was followed by Meyer Plc (130.00%), Royal Exchange Plc (62.96%), Consolidated Hallmark Insurance Plc (58.00%), and Academy Press Plc (38.89%).

TOP 5 GAINERS				
Company	**Nov-30 (N)**	**Dec-31 (N)**	**Absolute Change**	**Change (%)**
NEM Insurance Plc	1.90	4.50	2.60	136.84
Meyer Plc	0.20	0.46	0.26	130.00
Royal Exchange Plc	0.54	0.88	0.34	62.96
Consolidated Hallmark Insurance Plc	0.50	0.79	0.29	58.00
Academy Press Plc	0.36	0.50	0.14	38.89

The laggards were led by Eterna Plc (16.53%), Jaiz bank Plc (16.42%), AIICO insurance Plc (15.66%), Honeywell Flour Mill Plc (13.92%) and Cornerstone Insurance Plc (11.54%).

TOP 5 LOSERS				
Company	**Nov-30 (N)**	**Dec-31 (N)**	**Absolute Change**	**Change (%)**
Eterna Plc	6.05	5.05	1.00	-16.53
Jaiz Bank Plc	0.67	0.56	0.11	-16.42
AIICO Insurance Plc	0.83	0.70	0.13	-15.66
Honeywell Flour Mill Plc	3.95	3.40	0.55	-13.92
Cornerstone Insurance Plc	0.52	0.46	0.06	-11.54

Outlook

We expect the release of the FY'2021 corporate earnings to influence the stock market performance in the coming months.

Equity Report:
Okomu Oil Palm PLC

OKOMU

Analyst's note

Okomu oil palm Plc is one of the two local oil palm processing companies in Nigeria. In the 9M ended September, the company's turnover rose by 66.76% to N31.05bn from N18.62bn in the corresponding period in 2020. This was supported by the surge in global commodity prices. In 9M'21, the average CPO and rubber prices were up 70% y-o-y and +55% y-o-y respectively. Despite ongoing challenges posed by the coronavirus pandemic, the company recorded a sharp increase in local sales, which rose 61.32%, and an accelerated growth of 112.18% in exports.

Market Capitalization: N135.46bn
Current Price: N142.00
Industry: Consumer Goods

Sustained top and bottom-line growth despite higher operating costs

Okomu oil palm Plc was able to sustain a positive performance, in terms of revenue and profit after tax, despite a 41.41% increase in its net operating expense to N13.01bn. In 9M'21, the gross profit margin was 89.79% compared to 88.40% in the corresponding period in 2020. The increase in the gross profit margin in the period under review even with a 46.21% increase in the cost of sales can be largely attributed to a higher turnover during the period.

Okomu oil palm Plc's profit before tax accelerated by 117.30% to N14.82bn in the nine months ended September, from N6.82bn in 9M'20. The growth in PBT was buoyed by an increase in finance income, which surged by 400.65% to N0.05bn, and a 75.32% decline in finance cost to N0.11bn. In the same vein, profit after tax rose by 132% to N11.60bn from N4.99bn in 9M'20 even with a 76.92% increase in tax deductions in the period under review.

Industry and Company Overview

Prior to the emergence of Indonesia as the largest global producer of palm oil, Nigeria was a major player in the global space. It is now currently the fifth largest producer, accounting for less than 2% of global production. However, Nigeria remains the largest producer in Africa (1.02mmt in 2019). [17]

Crude palm oil (CPO) exports were also one of Nigeria's major exports and forex earner. Domestic demand of CPO is about ₦9.88bn, far in excess of the domestic supply, making Nigeria a net importer of crude palm oil. The Nigerian palm oil industry has been a major beneficiary of the government's protectionist policy, particularly as it is featured among the list of items banned from accessing foreign exchange from official sources. This is consistent with the government's policy to discourage the importation of products that can be produced locally.

The oil palm industry can provide both unskilled and skilled employment for millions of Nigerians if there is increased focus on commercial large-scale production. Most companies in this industry are currently focused on their expansion projects, and have been investing to increase their arable land area and milling facilities over the last three years to meet up with rising domestic demand amidst several business challenges. The major business challenges remain unleveled playing fields, illegal importation of crude palm oil through Nigeria's porous borders. Others include illegal taxes and tolls, insecurity and poor infrastructure in terms of road network, port delays and epileptic power supply. These have resulted into higher operating costs mainly from maintenance costs for generators and vehicles. The most recent challenge, which is also affecting the global market, is the COVID-19 pandemic that has led to supply disruptions.

The Nigerian Agricultural industry is highly fragmented with several small-scale farmers. However, the oil palm space is dominated by three main players - Okomu, Presco and PZ Wilmar. The industry is categorized by hectares into: large estate plantations, medium and small-scale plantations and semi natural groves. Both Presco plc and Okomu Oil palm plc are classified as large estates plantations, and are the only two oil palm companies listed on the Nigerian Stock Exchange.

[17] Forbes Statista

Since the start of the year, leading global producers of palm-oil have been faced with multiple production challenges including labour shortage in Malaysia. This, flooding in parts of Malaysia, as well as COVID-19 related logistics constraints, have resulted in supply tightness, which has been stoking palm oil prices. Other factors including higher energy prices have also provided support to palm oil prices, owing to its usage in biofuels.

Based on the above, the global oil palm market is expected to strengthen in the short term on growing Chinese demand and rising transition to renewables.

Company Overview

Okomu oil palm plc, is an integrated agricultural company with oil palm plantations, mills, crushing plants and oil refining plants. Its major sources of revenue are income from sales of palm oil and rubber production, while revenue from services remains insignificant. The company started out as a federal government pilot project in 1976, before becoming incorporated in 1979 as a limited liability company. It began infrastructural developments at the end of 1989, when its 5,055 hectares (ha) land was planted. Okomu has grown to become a leading oil palm company in Nigeria. Okomu is a subsidiary of the Socfina Group, and benefits from its main shareholder Socfinaf S.A. This is a company based in Luxemburg that brings almost a century of sound technical industry knowledge in the cultivation of oil palm and rubber plantation.

Governance Structure

The Board is chaired by Mr. Gbenga Oyebode, while the Managing Director (MD) is Dr. G.D. Hefer. Most of Okomu's directors have long years of service to the company, and also serve concurrently as members of other companies, but not companies that operate similar businesses to Okomu that could possibly create conflict of interest.

Mr. Gbenga Oyebode—Chairman

Dr. Graham Hefer —Managing Director

Risk and outlook

We have identified the business operation of this company to be a volume led business model, which is synonymous with businesses of its kind in the consumer goods space. It is worth noting that prices in the international market greatly define the price direction of the two products the company produces (palm oil and rubber), which can significantly affect the overall performance of the company. Illegal importers of these products will continue to benefit from lower international prices of CPO and a weak local currency, which would be a potential threat to Okomu oil palm plc. Also, heightened insecurity risk could affect production of palm oil. One of the palm oil producing states in Nigeria is Ondo and it has been rife with clashes between herdsmen and farmers.

Bulls and Bears

Bulls say

- Leading player in the Nigerian oil palm market
- Diversified revenue stream (addition of service revenue stream and increased investment in the rubber market)
- The growing demand for crude palm oil and its derivative products
- Favorable government policies towards the agricultural sector
- Strong market presence
- Multiple entry points and appeal to the market
- Land expansion initiatives to broaden the revenue base

Bears say:

- Declining commodity prices particularly rubber
- High operating cost (Epileptic power supply)
- High rate of smuggling
- Dilapidated infrastructure
- Intense competition from leading players such as Presco, PZ Wilmar, as well as international players like Olam
- Change in government policies could affect the competitiveness of companies in the agricultural sector, particularly the palm oil sector
- Persistent macroeconomic headwinds could dampen consumer demand for palm oil products
- Insecurity in palm oil producing states

Economic Outlook for the Next Month

OPEC+ held its first meeting of the year on January 4th, 2022 and has also appointed a new Secretary General from Kuwait. The cartel's decision to maintain its current output policy came as no surprise, as it anticipates a mild effect of the Omicron variant of covid on global oil demand. Therefore, we expect oil prices to trade around an average of $74-77pb in January.

Exchange rate pressures to persist at both the parallel and IEFX markets, with the parallel market rate trading within a range of N570- N574/$.

The MPC is scheduled to meet January 24/25 and the most likely outcome is to maintain status quo on all monetary policy parameters. The meeting will hold after the release of the December inflation numbers which could fall further albeit at a slower pace.