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FDC MONTHLY ECONOMIC UPDATE

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In This Issue ...

The New Fuel Crisis & Implications

Nigerians have been thrown into another chaotic situation after reports of adulterated fuel filtered into the markets and led to a fuel crisis in the country. Earlier this week, the Nigerian Midstream and Downstream Petroleum Regulatory Authority announced plans to remove the recently supplied refined petrol from circulation following the discovery of methanol contents higher than the national specifications. This has resulted in severe fuel shortages and long queues at petrol filling stations, increased transportation cost and traffic congestions. In addition, there are reports of broken-down vehicles as a result of the impact of the adulterated fuel. While regulatory authorities have noted efforts to resolve the crisis, prolonged fuel shortages could exacerbate macroeconomic instability and undermine economic recovery efforts.

The fuel crisis could heighten inflationary pressures in the country due to the attendant surge in logistics and transportation costs. This is happening at a time when diesel price is also rising (N410/litre). Nigerians were already embattled by myriads of economic challenges before the fuel crisis, particularly a high inflation rate (15.63% in December). An increase in inflation will result in a further erosion of purchasing power and deterioration in living standards in the country. This raises the risk of heightened social unrest and insecurity, especially in a pre-election year.

Another fundamental implication of the fuel crisis is the loss of economic productivity given the amount of time spent on fuel queues, road traffic and the detrimental impact on businesses. This will weigh on Nigeria's economic growth prospect and could dampen recovery.

FG steps up measures to boost domestic revenue generation

The Federal Inland Revenue Service (FIRS) has announced the resumption of tax payment on income derived from bonds and short-term government securities excluding bonds issued by the federal government. This follows the expiration of the 10-year tax exemption on bonds and short-term government securities imposed by the federal government in 2012. The new tax directive is coming barely one month after the introduction of a 6% digital tax on foreign e-commerce businesses and a N10/liter excise duty on all carbonated, non-alcoholic and sweetened beverages. It therefore highlights the government's quest to boost its domestic revenue generation, although this could have some unintended consequences on the economy.

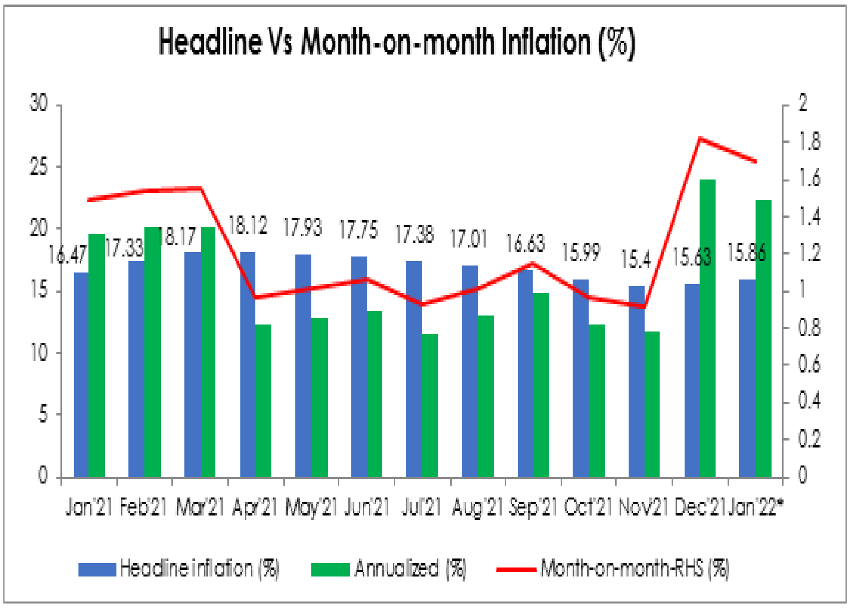
The new tax directive effectively erodes the tax shelter incentive that typically accompanies government securities. Hence, it will undermine the attractiveness of short-term federal government securities to investors. This will result in a lower marginal propensity to save, a decline in national savings and invariably reduced investment. For corporates, the new tax policy implies a higher tax payment and in turn a lower profit after tax. This could prompt cost minimization initiatives such as downsizing the workforce, which will increase unemployment levels in the country. An increase in unemployment will drive down aggregate consumption, which in addition to reduced investment could impact negatively on economic growth.

Inflation—Negative surprise as valentine's day draws close

The NBS will release its inflation report on February 15. After seven consecutive months of decline and one increase last month, official headline inflation is projected to rise again by 0.23% to 15.86%. If this projection is correct, it means Nigerian inflation will be moving in tandem with global trend. For instance, US inflation spiked again to 7.5% (highest inflation rate in 41 years). It is now almost imminent that the US Fed will hike interest rates by 50 basis points next month.

In Nigeria, one of the causative factors of inflation in this period is the depreciated naira pass-through into domestic prices. This is having a cross elasticity effect on local substitutes. Typically, commodity prices decline at the beginning of the year due to the harvest and the post-Christmas blues. This time around, the fall in prices is not as much as in the previous years. The blended rate for foreign exchange purchased is effectively N560/$ and even the supposed boost in locally produced commodities have import contents.

Another important factor is the effect of excess naira liquidity (ways and means advances) and low interest rates on the general price level. This could further mount pressure on the currency.



[1]

We allude to the fact that inflation expectations are tilted in favour of an unexpected increase in price inflation. The markets had already come to accept the fact that petrol price was bound to increase in February. The delay in the implementation of this policy only led to confusion in the mind of analysts and market operators. The price of diesel spiked by 20% to N410-420/litre from N350/litre a week ago. This will drive up food transportation costs in the short-term and further threaten price stability.

Data Breakdown

Monthly inflation to fall by 0.12% to 1.70% (22.43% annualized)

Month-on-month inflation is expected to decline to 1.70% (22.43% annualized) from 1.82% (24.07% annualized) in December 2021. This is partly because of lower aggregate demand due to post-Christmas blues.

Food and core inflation to remain elevated

Based on our model, the annual food and core inflation (inflation less seasonalities) sub-indices are expected to increase in January 2022. Food inflation is projected to rise by 0.64% to 18.01% while core is estimated to increase by 0.33% to 14.2%. This will be largely driven by cost pressures (exchange rate pass through, higher energy and logistics costs), supply chain disruptions and output shortages.

[1] NBS, FDC Think Tank

Other policy considerations

IMF urges Nigerian government to implement major reforms

While economic reforms/polices are intended at driving market efficiencies and eliminating distortions, the timing of such reforms/policies has a significant impact on its success or failure. The IMF, in its Article IV review re-iterated the need for major reforms in the fiscal space, exchange rate, trade, and governance to boost long-term, inclusive growth. The government could be put under pressure to implement these reforms especially in a pre-election year.

Boosting government revenue through taxes – impact on aggregate demand

The Federal Inland Revenue Service (FIRS) has announced the resumption of tax payment on income derived from bonds and short-term securities. This is coming barely one month after the introduction of a 6% digital tax on foreign e-commerce businesses and a N10/liter excise duty on all carbonated, non-alcoholic and sweetened beverages. It therefore highlights the government's quest to boost its domestic revenue generation. However, it will have a negative impact on the attractiveness of short-term government securities and reduce aggregate demand.

Sub-Saharan African – Inflation falling amid higher energy prices

It appears that inflation in the African continent is beginning to defy global trends. Of the 10 African countries that have released their inflation report for January 2022, 7 recorded declines while 3 posted increases. This is despite the uptick in global oil prices (currently at a record high of above $90pb). Inflation tapering factors in these countries defer. In Kenya, lower price inflation was largely as a result of government interventions in the power and petroleum sectors, which helped to keep energy prices stable. Despite the removal of fuel subsidy by the Zambian government in Dec'21, inflation continued its trend downwards. This suggests that the interest rate hike in the preceding month helped to taper cost pressures.

Country	January Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.86*	↑	11.50	↔
Angola	27.03 (Dec)	↑	20.00	↔
Kenya	5.4	↓	7.00	↔
South Africa	5.9 (Dec)	↑	4.00	↑
Ghana	13.9	↑	14.50	↔
Uganda	2.7	↓	6.50	↔
Zambia	15.1	↓	9.00	↑

Inflation outlook – impact on policy decisions

The MPC will be meeting again next month to decide on the monetary policy direction. If the upward inflation trajectory is sustained (January/February), the MPC could be forced to bite the bullet and increase the MPR by at least 50bps. However, the Q4'21 GDP data will be released before the meeting (Feb 22). If the numbers come in lower than expected, the committee will be stuck between a rock and a hard place.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Nigerian Consumer Behavior: A Glance into the Crystal Ball

Picture this scenario: Jackie is a 24-year-old professional, living and working in Lagos state. She earns N300k a month as a software developer at an up-and-coming fintech startup with offices on Lagos Island. She rents an apartment on the Lagos mainland for N900k a year, and drives a Toyota Camry to work every day. She goes out with friends either to a lounge or club, at least twice a month, and attends church, without failure, every Sunday.

Jackie's profile depicts potential touch points for brands and businesses to attract and engage her. Aspects such as her income, occupation, age, gender, area of residence, commuting habits, entertainment preferences, and religious inclinations are all valuable pieces of information that can be leveraged by organizations.

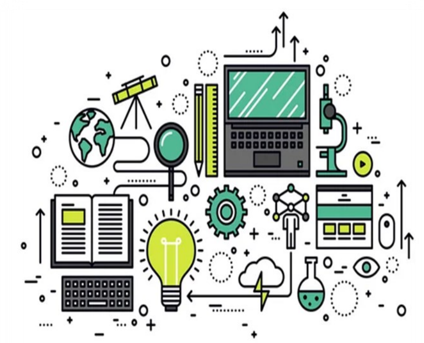
Jackie's profile is one of millions of unique consumer profiles in Nigeria. Consumer profiles aid firms in comprehending the influencing factors behind consumer purchasing decisions. This understanding helps firms fill in potential market gaps and ascertain what products might either be obsolete or in vogue.

This is an activity that is even more important in a country as dynamic as Nigeria. Different areas – each with their own sub-cultures, spending patterns, and income brackets etc., – have turned Nigeria into a patchwork of disparate consumer landscapes. The high rate of heterogeneity could serve as the worst nightmare for any firm harboring dreams of nationwide domination for their products. However, certain trends have emerged, making it possible to glance into the metaphorical crystal ball and peek at where consumer behavior in Nigeria might be heading in the near future.

What to expect from Nigeria's consumer landscape?

Nigeria's consumer landscape is expected to undergo significant change over the coming years. Notably, 55% of Nigerians are expected to live in cities or towns by 2025, resulting in a 50% growth in urban area populations by this time period.[2] The urban population is expected to double by 2037, surpassing the urban area growth rates of both China and India, giving Nigeria the fastest urban area growth rate in the world.[3] The implications are going to be immense, particularly the significant increase in pressure on already overburdened urban infrastructure, such as public transport systems, housing, and utilities. There will also be a corresponding leap in consumption per capita within these urban areas. The spike in consumption will likely change overall consumer spending habits, as new consumers with divergent profiles inundate the urban markets. Additional key factors are more likely to continue driving change in Nigerian consumer behavior in the near term.

Technology



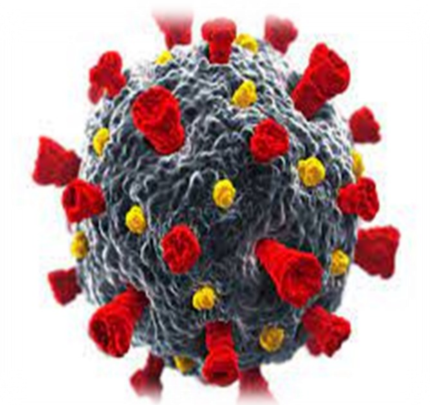
Like many parts of the world, technology has immensely transformed, and will continue to transform, Nigeria's consumer landscape, thanks to the convenience it offers. The ability to perform previously tedious and complex tasks, like banking and shopping, with mere taps on a phone screen has changed consumer expectations regarding the value businesses offer. Nowadays if a restaurant or supermarket does not offer some sort of online menu or door-step delivery service, their range of customers will be severely limited. Technology has also brought increased inclusion, with reductions in the number of unbanked across the country and a rise in internet penetration. New emerging technology such as 5G is also expected to contribute greatly to changing consumer behavior. Consumers are likely going to expect faster internet speeds and further value convenience. This will fuel technological adoption across various industries and set a new bar for minimum consumer expectations.

[2] URBANET. 2018. "Urbanization in Nigeria – Infographics" https://www.urbanet.info/urbanization-in-nigeria-infographics
[3] How we made it in Africa. 2019. "Major Shifts in Nigeria's Consumer Landscape" https://www.howwemadeitinafrica.com/major-shifts-in-nigerias-consumer-landscape/63552/

Inflation

Amidst the current global trend of spiking inflation, Nigeria's official headline inflation now sits at 15.63%. The rise in headline inflation is driven by the persistent increase in the prices of food and other necessary commodities, such as cooking gas, across the country. With wages remaining largely unchanged, the creeping rise in food prices is squeezing consumer wallets and impacting their spending patterns. Consumers are either beginning to consume less or making the decision to switch over to cheaper substitutes such as using firewood to cook instead of gas. Based on data from Nielsen Nigeria Ltd, a consultancy and research firm, Nigerian consumers are very price conscious, with 70% of consumers aware of prices and 95% of them noticing price changes. [4] High inflation could spur the Central Bank of Nigeria to raise interest rates like its foreign counterparts. Higher interest rates will translate into less liquidity flowing through the economy, meaning less funds for consumers to spend on whatever they want. Inflation, both locally and globally, will be a major player in determining where Nigerian consumer spending patterns go over the next few years.

The Virus



It would be impossible to talk about influences on consumer behavior without mentioning COVID-19. The lockdowns and restrictions of the last two years have changed the landscape of consumer behavior across the globe. Demand for home delivery, home appliances and home entertainment soared, while demand for most products and services that required people to be out-and-about declined profusely (cinemas, concerts, oil, etc.). Though things have slowly returned to some form of normalcy, the effects of the pandemic still linger. The emergence of new COVID-19 variants continue to contribute towards a reinstatement of lockdown measures and other restrictions, and further skew consumer demand towards 'stay at home' products for extended periods of time.

[4]Nielsen. 2021. "Emerging markets insights" https://nielseniq.com/global/en/

Consumer Disloyalty

According to data from Nielsen Nigeria Ltd, disloyalty among consumers is severely affecting their consumption behavior. Across Africa and the Middle East, 88% of consumers say that they are ready and willing to defect from a current brand choice, while 45% of consumers say they enjoy trying new things.[5] These facts make understanding consumer perceptions, attitudes and their choice-making process all the more important. There is a plethora of new and existing brands in the market today, with more products on shelves than ever before. The availability of information at the fingertips of consumers, thanks to the internet and advertising, have severely limited instances of information asymmetry within the market. These factors illustrate that consumers are spoilt for choice. In order to keep consumers loyal, brands must identify and provide the right value to their customers.

Keeping pace with Nigerian consumers

Nigeria's evolving consumer landscape has created the need for organizations and brands to adopt an omnidirectional approach to fulfilling the needs of consumers. This applies to both their service offerings and their delivery channels. Unique customer relationships must be leveraged and built upon, with technology and convenience at the centerpiece of customer and business relations. The ever-changing nature of the Nigerian consumer must be fully understood to the most minute detail in order to successfully deliver their wants and needs.

[5]Nielsen. 2021. "Emerging markets insights" https://nielseniq.com/global/en/

Cybercrime and the Future of Nigeria

Nigeria is overheating with rising rates of cybercrime/internet fraud. According to research by Analytics Insight, Nigeria is the top internet scamming country in the world followed by India.[6] The reasons for this are not farfetched: rising youth unemployment (42.5%) and multidimensional poverty. Nigeria is still the poverty capital of the world with about 93.9mn poor people. Development economists are of the opinion that when socioeconomic conditions persistently deteriorate, crime rates will climb. This is because survival instincts begin to manifest, followed by a behavioral sink. People will just do all they can to stay alive, as perfectly simulated in the "Universe 25" experiment by ethologist John B. Calhoun.

Nigeria is currently a frantic example of this. The dynamics of internet fraud in the country reveal that this problem is ubiquitous among the younger population who are unemployed and poor. The youth make over 50% of Nigeria's total population (200mn). Meanwhile, the median age of the country is 18.1 years, 38.85% below the global median age of 29.6 years.

[6]Madhurjya Chowdhury, June 24, 2021. "Top ten scamming countries in the world in 2021," Analytics Insight.https://www.analyticsinsight.net/top-10-scamming-countries-in-the-world-in-2021/

Another critical aspect to the prevalence of cybercrime is technology. The digital era sure has its perks, but there is no doubt that the youths who engage in this subterfuge will use tech innovations to devise new ways to keep the ball rolling and beat the system. The big question, however, is where this leaves the future of Nigeria.

Analysis of socioeconomic conditions

Rising crime is the product of a failed economic system. Nigeria, as a frontier market is experiencing market failure in multiple ways. The market has failed to efficiently allocate scarce resources leading to high inequality (Gini coefficient: 43.8 points), unemployment (33.3%), misery index (48.93%) and multidimensional poverty levels. The World Bank had earlier stated that the covid-19 pandemic pushed an additional 7 million people into extreme poverty. This means about 93.9mn people are now living below the poverty line, i.e., 53.05% of Nigeria's total population. There is also the absence of adequate merit goods such as health care and education.

Solution

The simple solution to this seemingly unending problem is to address youth unemployment and reduce poverty levels. The best option is for the government to aggressively invest in sectors of the economy that are job elastic like agriculture, manufacturing and trade. The multiplier effect is an increase in job opportunities for Nigeria's young population. Not only that, policy makers need to create an enabling environment for businesses to thrive. There cannot be room for policy uncertainty that will dent both domestic and foreign investment inflows. The ease of doing business in Nigeria has declined significantly over the years. Until these problems are addressed effectively, the rate of cybercrime/internet fraud will continue to rise in the near term. The attendant effect on all other Nigerians will be loss of opportunities in the global economy. Many Nigerians have had to toil extra hard to prove strength of character because of this "scammers reputation".

Some other recommendations to help tackle this problem include:

Investment in intelligence units: Adequate intel on cybercrime/ internet fraud and its propagators will help taper the problem. The government needs to invest in high level technology and training of its personnel charged with the responsibility of solving this problem. Security officials need to be properly equipped with the right resources and sensitized to do their jobs. Cybercrime/ internet fraudsters do not wear a particular look or live in specific areas.

Integrating them into system: Some advanced countries adopt an integrative approach when perpetrators are found. This means that these individuals pay for their crimes and are afterwards integrated into the country's security system. They explain the loopholes in security systems and help these governments intensify and upgrade their security. Nigeria can adopt this strategy, but we need to first solve the problems of poor living standards and inadequate security infrastructure.

Threats – What Nigeria stands to lose

If cybercrime/ internet fraud is not tackled abruptly, the country will lose on several fronts, with the most important being investment (domestic and foreign). A high cybercrime rate is a huge disincentive to the much-needed foreign investment inflows. Currently, Nigeria's infrastructure deficit is estimated at $3trn. In addition, rising cybercrime rates pose a significant threat to local businesses. This could trigger an increase in divestment, further spiking unemployment and poverty levels.

If internet fraud is not addressed, it could continue to increase international travel bans for Nigerians. This will heighten the stigma of being a Nigerian in a foreign country and could lead to limited opportunities and unfair treatment.

Truthfully, for cybercrime to remain on the rise, it means that living conditions are still tough. Like the popular saying by Sam Aluko, "the poor cannot sleep because they are hungry and the rich cannot sleep because the poor are awake".

Conclusion

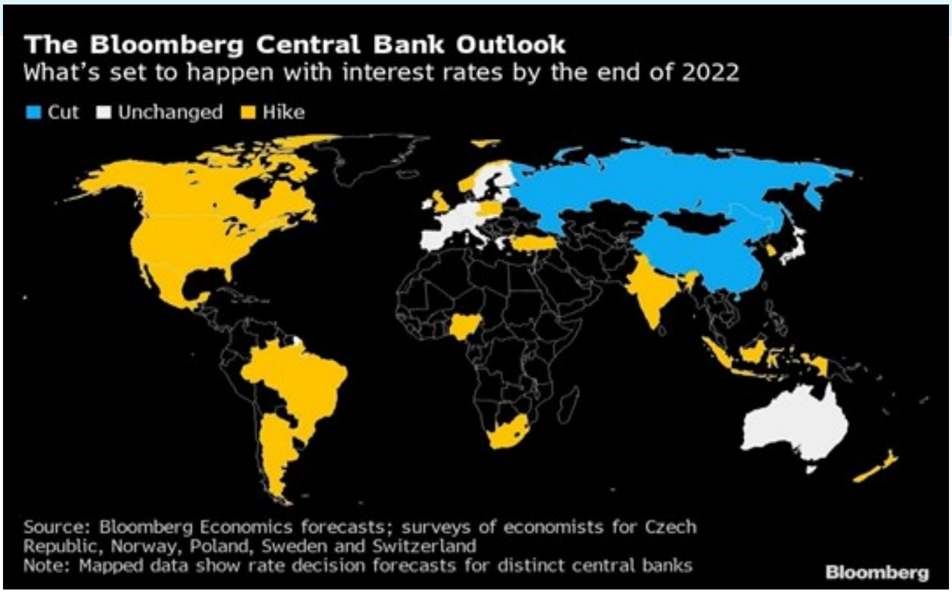
In summary, cybercrime is the symptom of the multidimensional poverty and unemployment disease that is running rampant throughout Nigeria. It has now become imperative to address falling living standards triggered by limited job opportunities, harsh business conditions and policy uncertainty. The first step is to encourage activities in job elastic sectors to increase output and the next is to ensure that the business environment is accommodating to small and medium scale enterprises that are mostly run by, or employ, youths. Policy uncertainty must be completely eradicated to encourage investment inflows. More so, the government should be forward looking towards emerging trends in the business world that could significantly spur output growth. It's important that policy makers invest time and resources to understand these trends rather than clamp down at first sight. However, until all these measures are effectively and efficiently implemented, cybercrime/ internet fraud could still be on the rise in the country.

Inflation Menace Vs Pandemic Recovery: 2022 Central Bank Guide

Global Perspective: Culled from Bloomberg

Global central banks are set to spend 2022 diverging, as some take on the menace of inflation and others stay focused on boosting economic growth. The pandemic remains a risk to demand the world over, but after triggering a recession in 2020, its subsequent igniting of price pressures has also posed a challenge for monetary policy makers. They enter a new year having to tread carefully. Acting quickly to control prices could end up quashing expansions, especially if inflation fades anyway. Waiting longer to secure recoveries might mean inflation festers, requiring stronger action later.

Increasingly rattled by the outlook, the Federal Reserve is set to hike interest rates for the first time since 2018, although its peers in Canada and the U.K. may shift even sooner. Thirteen counterparts tracked here are also seen tightening, including most of the emerging market institutions that led the charge with rate hikes in 2021. By contrast, the European Central Bank and Bank of Japan could end the year where they started, with rates at rock-bottom levels as they try to safeguard growth. As for China, it's seen cutting its benchmark as officials try to cushion a slowdown in the world's No. 2 economy.



What Bloomberg Economics Says:

"In 2022, the great decoupling that has already hit trade, finance and technology will come to central banking -- with the Fed rushing into a tightening cycle even as the People's Bank of China starts to add stimulus. A world divided into separate spheres of monetary influence -- with Asian central banks dragged into the orbit of the PBOC -- will be an important new dynamic for markets to navigate."

--Tom Orlik, chief economist

Here is Bloomberg's quarterly guide to 23 of the world's top central banks, covering 90 per cent of the world economy:

Group of Seven

U.S. Federal Reserve

- Current federal funds rate (upper bound): 0.25 per cent
- Bloomberg Economics forecast for end of 2022: 1 per cent
- Bloomberg Economics forecast for end of 2023: 2 per cent

Jerome Powell

Fed Chair Jerome Powell and his colleagues could raise rates as soon as March as they confront the hottest inflation in nearly 40 years, although omicron may be grounds for delay.

The U.S. central bank accelerated its removal of policy support to end bond buying by mid-March and Governor Chris Waller said Dec. 17 that their policy meeting that month was definitely "live" for liftoff, depending on the fallout of the new COVID-19 variant on the economy.

Officials penciled in three quarter-point rate increases this year in their latest forecasts, with inflation declining and the jobless rate falling to around 3.5 per cent by the end of 2022.

What Bloomberg Economics Says:

"The question that remains is when liftoff will begin. We expect a first rate hike in 1H 22, and depending on the growth disruption of omicron, that could occur as early as the March meeting. Biden's potential nominees for filling the three open seats at the Fed board will unlikely change the rates outlook for 2022, though would likely tilt policies dovish in 2023."

--Anna Wong

European Central Bank

- Current deposit rate: -0.5 per cent
- Bloomberg Economics forecast for end of 2022: -0.5 per cent
- Bloomberg Economics forecast for end of 2023: -0.5 per cent

Christine Lagarde

The ECB will start unwinding its pandemic policy measures in 2022, with net bond-buying under its emergency program to slow in January before ending in March. There'll be a temporary boost to regular asset purchases and flexibility in reinvesting maturing debt to try to reassure investors that financing conditions won't tighten too soon.

Inflation in the 19-nation euro area is expected to fall back below the 2 per cent goal in 2023 and stay there in 2024 despite strong economic growth, though some Governing Council members have started to warn against ignoring upside risks. President Christine Lagarde has said rate increases are still "very unlikely" this year -- but also that she's prepared to change her mind should consumer prices rise more quickly than expected.

What Bloomberg Economics Says:

"The ECB is caught between a price shock and a slowing recovery. However, the slack in the labor market will limit underlying price pressures and cause the current bout of high inflation to be transitory. That should allow the Governing Council to continue buying bonds until 3Q23."

--David Powell

Bank of England

- Current bank rate: 0.25 per cent
- Bloomberg Economics forecast for end of 2022: 0.75 per cent
- Bloomberg Economics forecast for end of 2023: 1 per cent

Andrew Bailey

Britain is the biggest economy yet to shift toward controlling inflation and away from stimulating growth, and 2022 looks set to be an unusually exciting year both for policy makers and investors. Traders are betting the BOE will deliver the sharpest series of rate increases in three decades and also that those moves will constitute a painful policy mistake.

Officials led by Governor Andrew Bailey are spearheading a sharp response to inflation, which they forecast will top 6 per cent, triple the BOE's target. Investors anticipate another rate rise to 0.5 per cent in February, a threshold where officials could then allow government bonds maturing in their 875-billion pound (US$1.2 trillion) asset-purchase program to roll out of the portfolio.

The market sees the base rate reaching 1 per cent by November, which is where the BOE has indicated it would consider selling gilts to tighten policy. That jars with an outlook for slower growth and increased trade friction following Britain's exit from the European Union. The one certainty: Some investors have got it wrong.

What Bloomberg Economics Says:

"The BOE faces a delicate balance in 2022. Inflation is set to head higher, squeezing real incomes and acting as a brake on growth. At the same time, the central bank is worried that soaring prices and a tight labor market could interact to lift inflation expectations. Our base case is that price stability remains the BOE's primary focus with the policy rate ending the year at 0.75 per cent."

--Dan Hanson

BRICS Central Banks

People's Bank of China

- Current 1-year medium-term lending rate: 2.95 per cent
- Bloomberg Economics forecast for end of 2022: 2.75 per cent
- Bloomberg Economics forecast for end of 2023: 2.65 per cent

China changed its policy in the last quarter of 2021, reacting to a housing crisis and the slowing economy by boosting liquidity and guiding lending rates lower. That looser stance is set to continue into 2022, widening its divergence with much of the rest of the world.

China faces an important year for politics, with the Communist Party meeting in the second half of 2022 to decide on the nation's leadership. That meeting expected to extend President Xi Jinping's rule for another five years. The government has clearly indicated it values stability above all else in economic planning ahead of that, with economists now predicting more fiscal spending and additional monetary stimulus.

What Bloomberg Economics Says:

"We expect further monetary easing in 2022, including another 100 bps of cuts in the required reserve ratio and 20 bps of reductions in the PBOC's one-year medium-term lending facility rate, the base for the Loan Prime Rate. Aggressive loosening is unlikely -- production remains relatively stable and the PBOC is probably keen to avoid inflating asset prices."

--David Qu

South African Reserve Bank

- Current repo average rate: 3.75 per cent
- Bloomberg Economics forecast for end of 2022: 4.75 per cent
- Bloomberg Economics forecast for end of 2023: 5.75 per cent

Lesetja Kganyago

South Africa could pause its rate-hiking cycle as risks to economic growth posed by a fourth wave of coronavirus infections temporarily outweigh inflation concerns.

Economists predict international travel bans, imposed on South Africa after its discovery of the omicron variant, risk stalling the country's economic recovery. That could force officials to rethink the pace of future policy.

When the central bank raised its benchmark in November, the implied path of its quarterly projection model indicated one 25-basis point rate hike in each of the next 12 quarters. Governor Lesetja Kganyago has long maintained that that's a broad policy guide and that future decisions will be data dependent.

What Bloomberg Economics Says:

"Our base case sees the SARB going forward with its planned rate hikes. Policy makers could decide to pause the rate hiking cycle at their January 2022 meeting on omicron growth worries, but the bigger risk in our view is more aggressive rate hikes. This reflects expectations of higher U.S. rates, upside inflation risks and market concerns that the SARB is falling behind the emerging curve."

--Boingotlo Gasealahwe

Mint Central Banks

Central Bank of Nigeria

- Current central bank rate: 11.5 per cent
- Bloomberg Economics forecast for end of 2022: 13.5 per cent
- Bloomberg Economics forecast for end of 2023: 13.5 per cent

Godwin Emefiele

Nigeria will likely keep its key rate on hold in the first quarter to bolster the recovery of an economy hard hit by the coronavirus pandemic and the collapse in the price of oil, its main export, in 2020. Slowing inflation should support leaving policy unchanged.

Governor Godwin Emefiele signaled last month that the monetary policy committee's existing stance should "continue for a little longer" to stabilize prices and buttress economic growth.

Nigeria's economic recovery is expected to gather pace in 2022, especially in the second half, when current OPEC quotas expire. The faster expansion, combined with the need to attract capital flows as developed markets starting tightening policy, is likely to lead officials to start hiking later in the year.

What Bloomberg Economics Says:

"Nigeria's inflation remains above target, but the central bank has made it clear it wants to see a solid recovery before it raises rates. We don't see this condition being met until the second half of next year. The recovery remains fragile, with a slow vaccination rollout program and oil supply disruptions posing downside risks to growth."

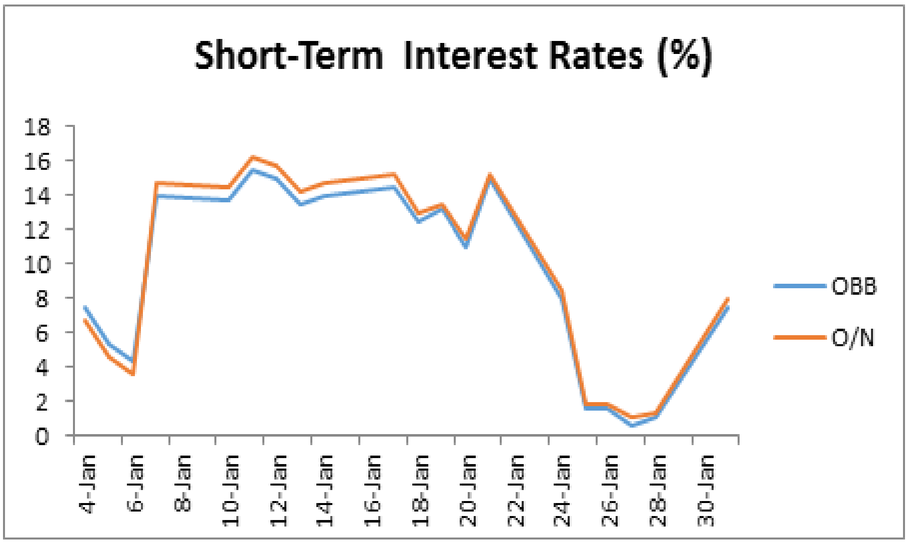
--Boingotlo Gasealahwe

To read full article go to https://www.bloomberg.com/news/articles/2022-01-04/inflation-menace-vs-pandemic-recovery-central-bank-guide?srnd=economics-vp

Macroeconomic Indicators (January 1st—31st)

Money Market

Banks opening position averaged N176.92bn in January. This is 58.2% higher than the average of N111.83bn in December 2021. The increase in market liquidity was partly due to a net OMO inflow of N237.68bn (OMO repayment of N367.68bn and OMO sales of N130bn). During the review period, average short term interbank rates (OBB, O/N) fell sharply by 3.56% to 9.62%p.a.



[7]

Primary market T/Bill auction during the review period amounted to N186.88bn. This is 66.34% higher than N112.35bn in December 2021. T/bill yield declined across the three tenors by an average of 9bps. At the secondary market, the 91-day and 182-day t/bills increased while 364-day declined.

Tenor	Primary market (January 12th, 2022) (%)	Primary market (January 26th, 2022) (%)	Secondary market (January 4th, 2022) (%)	Secondary market (January 31st, 2022) (%)
91-day	2.50	2.48 ↓	3.78	4.00 ↑
182-day	3.44	3.30 ↓	4.23	4.36 ↑
364-day	5.50	5.40 ↓	5.00	4.90 ↓

[7]FDC Think Tank

Outlook

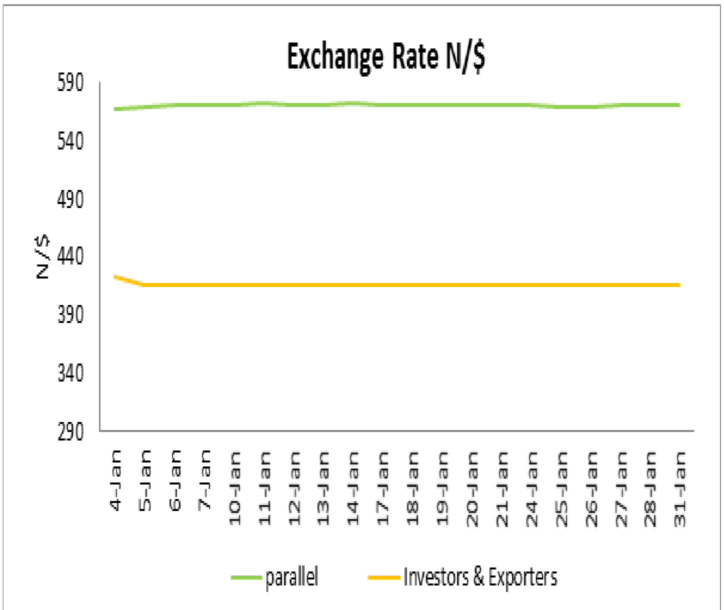
Market dynamics will be largely driven by system liquidity mechanics and supply of sovereign instruments. Increased borrowing to fund the additional provision for petrol subsidy is likely to push interest rates higher.

Forex Market

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

Exchange Rate

At the parallel market, the naira traded within a band of N567/$-N572/$. It depreciated by 0.53% to close the month at N570/$ from N567/$ at the beginning of the month. However, the IEFX rate appreciated to close the review period at N416/$ from N422.67/$ at the beginning of the period. Average turnover at the widow declined by 40.84% to $126.65mn in January from $214.08mn in December 2021.



[8]

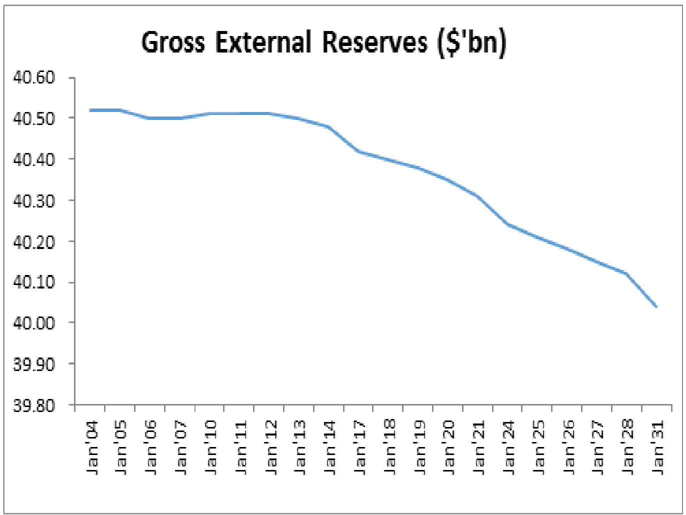
Outlook

Despite the increase in oil prices, domestic production is still sharply lower and this will limit forex inflows and the ability of the CBN to manage the currency.

[8]FDC Think Tank

External Reserves

Gross external reserves movement was choppy during the review period. After declining steadily for two consecutive months, it increased slightly by 0.02% to $40.51bn on January 10. It however retreated, losing 1.18% ($480mn) to close the review period at $40.04bn from $40.52bn at the end of December 2021. The country's payment and import cover fell to 9.09 months from 9.20 months on December 31st.



[9]

Outlook

Oil prices are rising faster than the decline in production. Therefore, higher oil price is expected to offset the impact of lower production on foreign exchange earnings and slow the pace of depletion in external reserves.

Impact

The continuous depletion in the external reserves will reduce the ability of the CBN to intervene in the forex market.

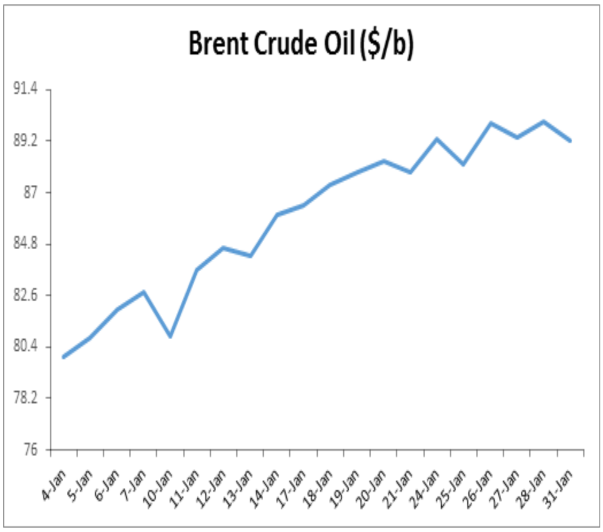
[9]CBN, FDC Think Tank

Commodities Market - Exports

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

Oil Prices

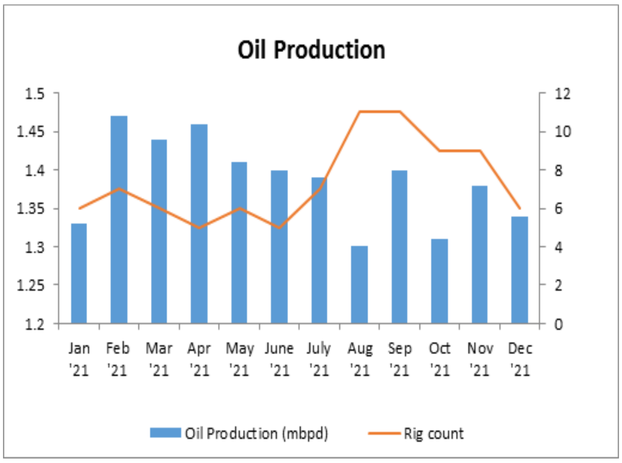
The price of Brent crude touched a 7-year high of $90.03pb on January 28 before declining to close at $89.26pb. During the review period, it averaged $85.96pb, up 16.04% from an average of $74.80pb in December. The bullish trend was largely as a result of heightened global supply concerns due to Russia-Ukraine tensions, supply shortfalls from OPEC member countries and rising oil demand.



[10]

Oil production

Nigeria's oil production fell by 0.043mbpd to 1.34mbpd in December 2021 from 1.38mbpd in the preceding month. This was partly due to a reduction in the country's oil rig count to 6 from 9 in November. Average for 2021 was 1.39mbpd compared to 2020's 1.58mbpd.



[11]

Outlook

Oil prices are expected to remain bullish in the near term due to tight global supply. This is likely to offset the possible reduction in Nigeria's oil production due to operational challenges.

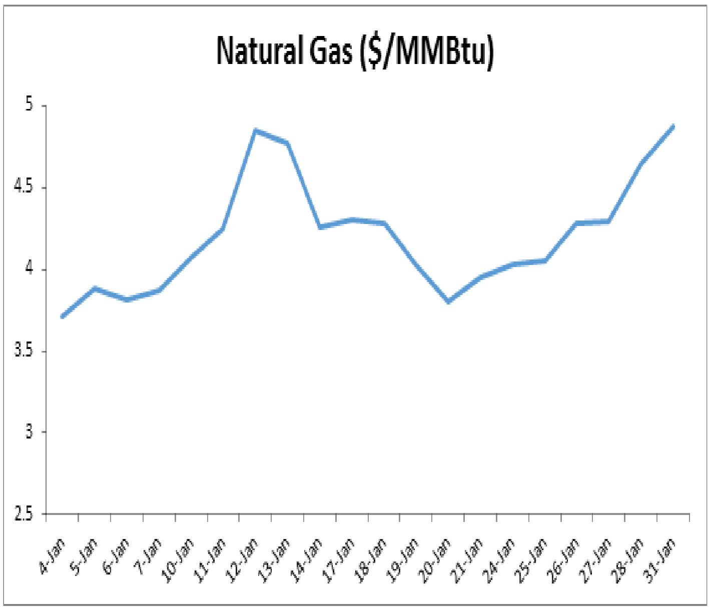
[10]Bloomberg, FDC Think Tank
[11]OPEC, FDC Think Tank

Impact

The sharp increase in oil price far outweighs the production shortfall and this is revenue positive. However, it is not sufficient to meet the revenue target of the government. This will affect FAAC disbursements to the three tiers of government.

Natural Gas

Natural gas prices increased marginally by 31.27% to $4.87/mmbtu on January 31st from $3.71/mmbtu at the beginning of the month. On the average, prices rose by 7.97% to $4.20/mmbtu from an average of $3.89/mmbtu in December. This was driven by robust global demand for LNG amid expectations of supply disruption if the US, Russia conflict escalates.



[12]

Outlook

We expect natural gas prices to increase in the near term on rising global supply worries.

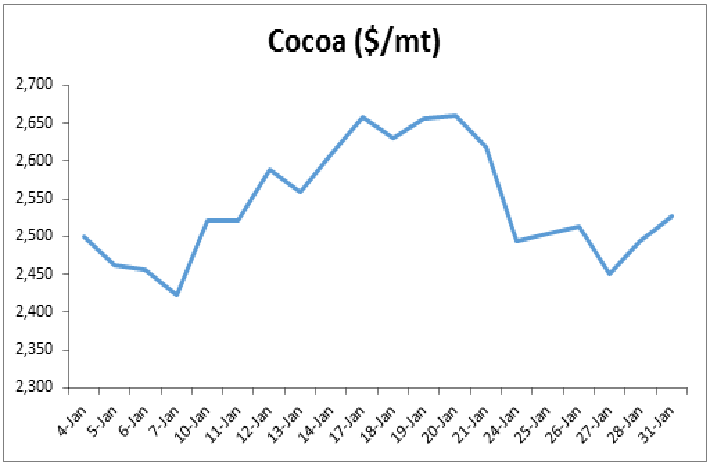
Impact

Higher natural gas prices will boost Nigeria's export revenues and foreign exchange earnings.

Cocoa

During the review period, the average price of cocoa rose by 2.79% to $2,542/mt from $2,473/mt in December. Prices rose by 1.16% to $2,528/mt at the end of January from $2,499/mt at the beginning of the month, owing to strong global demand.

[12]Bloomberg, FDC Think Tank



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Outlook

Cocoa prices are expected to remain bullish on expectations of a further boost in demand.

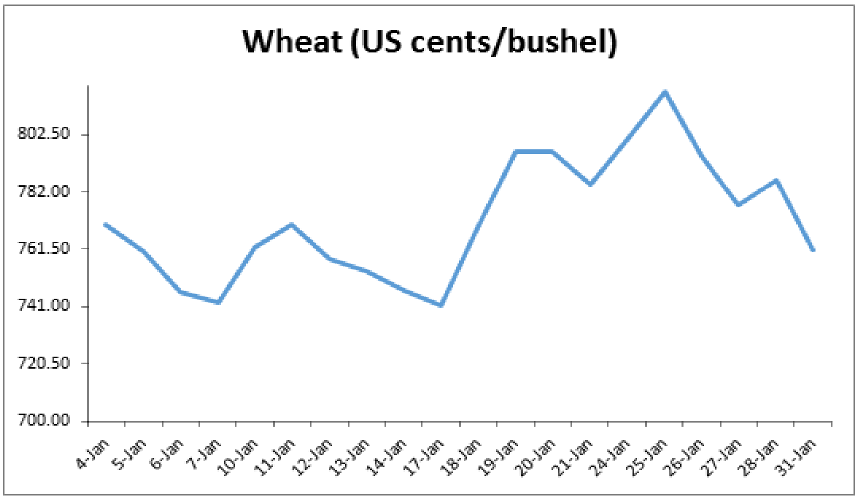
Impact

Cocoa is one of Nigeria's most exported agricultural commodities. Higher cocoa price implies an increase in government revenue. It will also have a positive impact on the country's external buffers.

Imports

Wheats

Wheat price averaged $771.79/bushel in January, a 2.47% decrease when compared to an average of $791.32/bushel in the previous month. Price fell by 1.14% to $761.25/bushel on January 31st from $770.00/bushel on January 4th. This was despite the rising geopolitical tensions between Russia and Ukraine.



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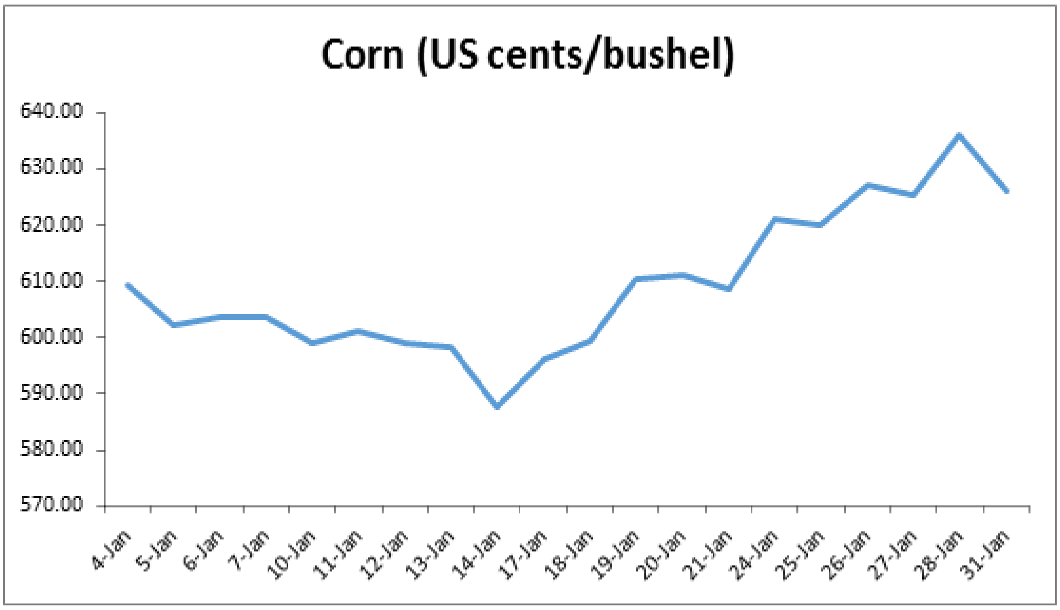
[13] Bloomberg, FDC Think Tank
[14] Bloomberg, FDC Think Tank

Corn

The average price of corn spiked 2.91% to $609.26/bushel from $592.06/bushel in December. Similarly, corn price rose by 2.71% to close the review period at $626.00/bushel from $609.50/bushel at the beginning of the month. This was driven by projections of tight supply due to dry weather in South America.



[15]

Outlook - Grain

Tightened global supply due to unfavorable weather condition in major producing countries (Brazil and Argentina) will drive corn prices higher in the near term. .

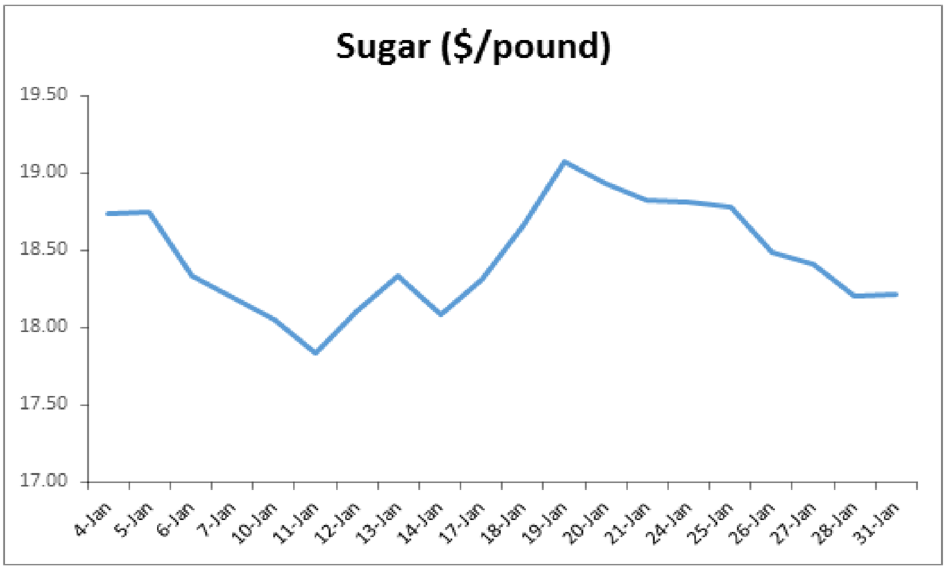
Impact

An increase in the price of corn will push up Nigeria's import bill, driving up production costs for companies that are corn dependent.

Sugar

On the average, the price of sugar dipped 3.60% to $18.46/pound during the review period from $19.15/pound in the previous month. Sugar prices reduced by 2.77% to close the period at $18.22/pound from $18.74/pound on January 4th. This was supported by expectations of increased supply in Brazil.

[15] Bloomberg, FDC Think Tank



[16]

Outlook

The price of sugar is likely to decrease in the near term owing to expectations of increased production in Brazil.

Impact

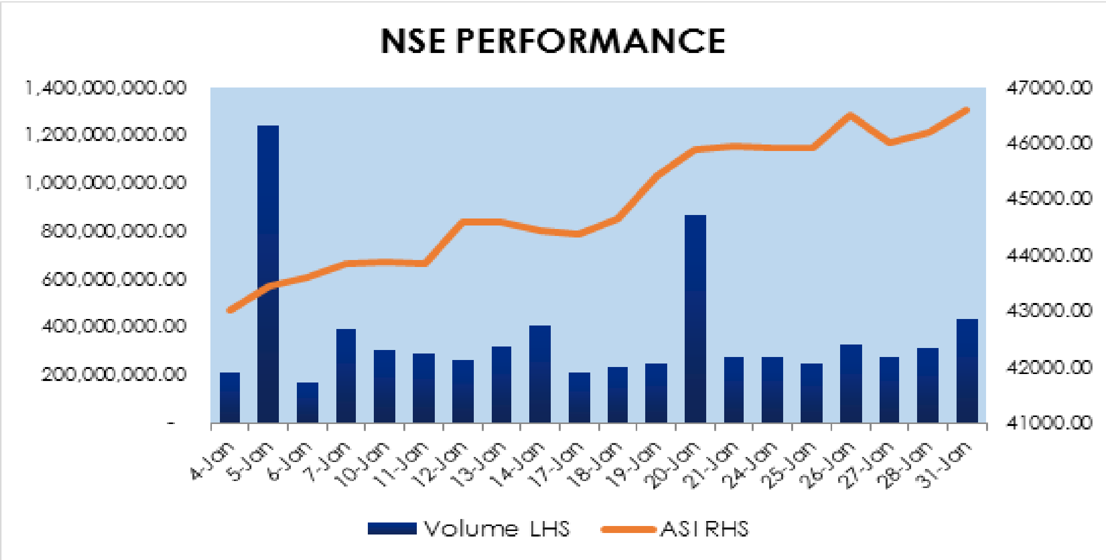
Lower sugar prices will decrease the country's import bill and possibly reduce the price of confectioneries.

[16]Bloomberg, FDC Think Tank

Stock market review

The NGX closed on a positive note on January 31st. It gained 9.15% to close at 46,624.67 points on January 31st from 42,716.44 points on December 31st. Also, market capitalization increased by 12.49% to N25.12trn relative to its close of N22.33trn on December 31st. The market YTD return increased to 9.15% from 6.07% in the review period.

The market breadth was positive at 2.13x as 66 stocks gained, 59 stocks remained unchanged while 31 lost.



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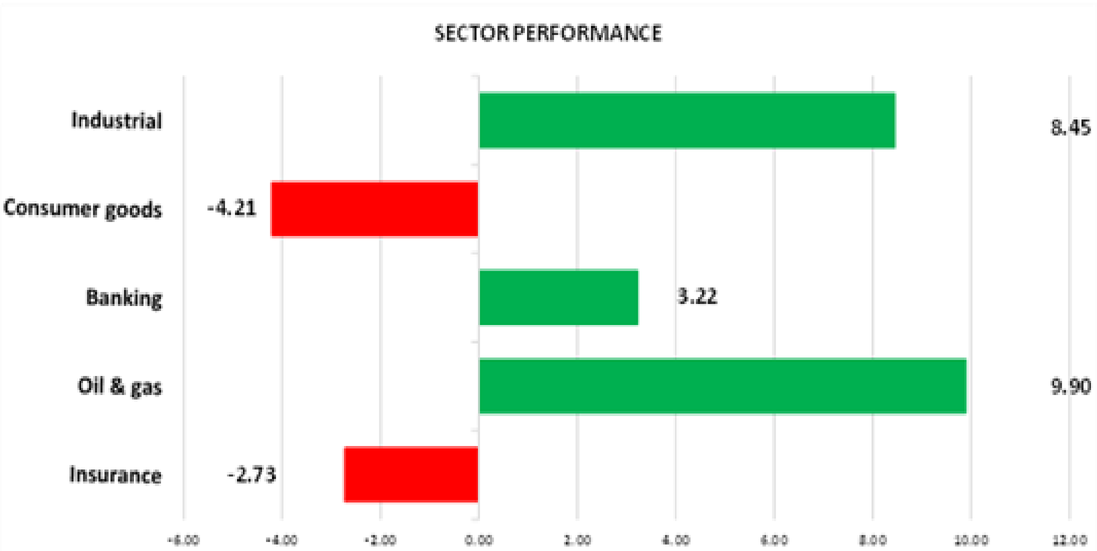
The average volume traded increased by 14.66% to 368.42mn units from 321.32mn units. Similarly, the average value of trades increased by 114.02% to N8.09bn from N3.78bn in the review period.



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[17]NGX, FDC Think Tank
[18]NGX, FDC Think Tank

The performance of sectors was mixed in the review period, as three sectors gained while two lost. The oil and gas sector recorded the highest gain (9.90%). This was followed by the industrial sector (8.45%) and banking sectors (3.22%). On the other hand, the consumer goods and insurance sectors lost 4.21% and 2.73% respectively.

Academy Press Plc topped the gainers' list with an (88.00%) increase in its share price. This was followed by BUA Foods Plc (61.00%), Courteville Business Solutions Plc (50.00), Ecobank Transnational Inc (43.68) and Airtel Africa Plc (33.09).

TOP 5 GAINERS				
Company	**Dec-31**	**Jan-31**	**Absolute**	**Change**
Academy Press Plc	0.50	0.94	0.44	88.00
BUA Foods Plc	40.00	64.40	24.4	61.00
Courteville Business Solutions Plc	0.38	0.57	0.19	50.00
Ecobank Transnational Inc	8.70	12.50	3.80	43.68
Airtel Africa Plc	955.00	1271.00	316.00	33.09

The laggards were led by Sunu Assurance Plc (33.33%), Sovereign Trust Insurance Plc (23.33%), Mutual Benefits Assurance Plc (21.21%), Regency Alliance Insurance Plc (19.61%) and University Press Plc (18.37%).

TOP 5 LOSERS				
Company	**Dec-31**	**Jan-31**	**Absolute**	**Change**
Sunu Assurance Plc	0.45	0.30	-0.15	-33.33
Sovereign Trust Insurance Plc	0.30	0.23	-0.07	-23.33
Mutual Benefits Assurance Plc	0.33	0.26	-0.07	-21.21
Regency Alliance Insurance Co Plc	0.51	0.41	-0.10	-19.61
University Press Plc	2.94	2.40	-0.54	-18.37

Outlook

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

Corporate focus : Guinness Nigeria Plc

Analyst Note

Guinness Nigeria Plc's stock is currently trading at N50, representing a significant YTD growth of 28.73%. While the company's EPS is yet to recover to its pre-pandemic levels, it returned to positive territory of N4.03 in the reporting period ended December 31, 2021. Similarly, the company's ROE returned to positive territory of to 0.11x from -0.004x in the same period in the previous year. Guinness Nigeria Plc reported a strong top line growth of 50.83% to N109.12bn for the half year ended December 31, 2021 from N72.35bn in the corresponding period in 2020. The significant revenue growth can be attributed to the impact of higher product pricing. The company's performance in the review period reflects its resilience and adaptability in the face of sustained disruption to global supply chains as well the challenges in sourcing foreign exchange in the domestic market, both of which have caused a sharp spike in the cost of raw materials. In the same vein, its gross profit surged by 96.43% to N36.51bn from N18.57bn in the preceding period.

Market Capitalization: **N120.47bn**

Current Price: **N50**

Industry: Food, beverage and tobacco

Guinness reported an operating profit of N13.59bn, an accelerated growth of 265% compared to N3.72nm in the same period in the previous year. This is largely attributable to the strong growth in its top-line and other income. The company recorded a 76.01% increase in its marketing and distribution expenses to N18.83bn and a 12.14% growth in administrative expenses to N5.46bn resulting in a 56.04% rise in its net operating expenses to N24.29bn. The marked growth recorded in marketing and distribution expense emphasizes the company's ramped up effort to deepen market penetration during a time of heightened competition in the domestic market.

Guinness Nigeria Plc's bottom-line performance mirrored its impressive top-line performance, moving from loss making to profitability. This was supported by an 88.83% increase in finance income to N633.13mn and a 54.5% decline in the company's finance cost, resulting in a 74.42% fall in net finance cost. The company's profit before tax surged by 902.76% to N12.97bn from N1.29bn in the same period in last year. Meanwhile, the company profit after tax returned to positive territory to stand at N8.82bn from the N317.42mn loss reported in the same period in 2020.

Industry and company overview

A subset of the food, beverage and tobacco (FBT) industry, the brewing industry is categorized under the manufacturing sector. In 2021, the FBT sub-sector has expanded by an average of 6.02% indicating a robust recovery from the previous year's 1.50% growth. Conversely, the manufacturing sector recorded a negative growth of -1.21% in Q3'21, an improvement from -8.86% in 2020. The sector has a five-year average growth rate of -0.88%.[19] The manufacturing sector, which is a major employer of labour, contributes an estimated 12.83% to GDP.[20]

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

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

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

[19] NBS (2016–2020)
[20] NBS

Company overview

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

Guinness Nigeria controls 18% of the industry's market share in Nigeria. The company has been adversely affected by a wide range of macroeconomic conditions including a decline in consumers' disposable income, increased excise duty, inflation as well as the increase in VAT from 5% to 7.5%. Despite these, the company's stock price has gained 28.73% YTD.

The company's business fundamentals remain strong and sustainable.

Bulls and Bears say

Bulls say:

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

Bears say:

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

Economic Outlook for the Next Month

Economic Outlook for the Next Month

We expect investor sentiment next month to be largely influenced by the release of the Q4 GDP. Our projection for the Q4 GDP growth is 3.5%, which indicates another marginal slowdown in economic performance.

Global oil price will remain above $80pb in February as a result of the ongoing supply tightness in the market. Domestic production will likely continue to fall short of the country's OPEC quota due to pipeline vandalism. This is unfavourable for the country's fiscal and external balances due to lower oil receipts.

The gross external reserves will continue to fall however at a slower pace due to higher oil prices. A sustained decline in the external reserves will weigh on the CBN's ability to defend the naira especially at a time when monetary policy tightening in advanced economies is putting the country at risk of huge capital flow reversals.

Headline inflation is expected to maintain its upward streak due to reduced supply attributable to the planting season and the impact of the new taxes (i.e the sugar tax and the digital tax). The government has postponed the removal of fuel subsidies to later in the year. Therefore, the anticipated spike in inflation in Q1 will be dampened.