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☏:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

In This Issue ...

Russia-Ukraine war – Global impact and implications for Nigeria

Russia's military invasion into Ukraine has put the global economy in a case of one step forward, two steps backward. Russia launched a full-scale military invasion into Ukraine on February 24, an escalation of ongoing disagreements about Ukraine's proposed alliance with the North Atlantic Treaty Organization (NATO). The move has however attracted several sanctions against Russia, which has rattled the global financial markets and exacerbated supply chain disruptions. It has also triggered a surge in energy and commodity prices essentially compounding existing inflation concerns. For the first time since 2014, Brent crude price crossed the $100pb threshold rising as high as $117pb. In the same vein, commodity prices are reaching new record levels. For instance, wheat in now at a 14-year high. Russia and Ukraine account for approx. 29% of the world's total wheat supply.

Prior to the war, global discussions have been around the need to rein in inflation forcing an earlier than expected return to monetary policy tightening. Further spikes in inflation due to war-induced supply shortages and supply-chain disruptions could prompt higher rate hikes at the expense of sustained economic recovery. Economic recovery in most economies is still nascent and fragile and the unwinding of policy support could undermine the recovery. Even though the global economy is forecast to slow this year, a prolonged conflict and a likely escalation of the war could totally erase the progress made in 2021.

Implications for Nigeria

The Russia-Ukraine war has mixed implications for Nigeria. While the spike in oil price has a silver lining for the domestic economy due to the expected boost in oil revenue, rising subsidy payments remain a fundamental challenge. The import-dependent country will also be at risk of higher imported inflation, which could drive up domestic commodity prices and reverse the current decline in inflation. Nigeria's headline inflation fell marginally to 15.6% in January 2022 from 15.63% in the previous month. Furthermore, access to credit from the international debt market will be largely undermined as investors adopt a cautious approach due to prevailing economic uncertainties. The country is also at risk of increased debt service cost due to higher interest rates in advanced economies.

Electricity in Nigeria – Issues, Solutions and Risks

The National Bureau of Statistics in a power sector data review, revealed that generators (diesel, petrol and gas) provide 48.6% of the electricity consumed by both households and businesses across the country. This means that the country's electricity sector is fast becoming degenerate as 12 in every 25 Nigerians make use of generators, spending about $16 million to fuel only 14 million of these generators annually.[1] The evidence is very striking, in that in an estate, or commercial real estate area, almost all buildings/flats have generators. The data also explains that about 97.2 million of Nigerians total population (200 million) have generators. Meanwhile, the national grid satisfies only 51.2% of the country's power needs, with 60% consumed by residents, and manufacturers are largely self-reliant. The World Bank also stated that businesses in Nigeria are set to lose about $29 billion annually due to unreliable power supply.

Current state assessment

Over 80% of the 28.9 million households in Nigeria do not have access to electricity generated from the national grid. The reasons for this deficiency include inadequate investments and a wide infrastructure gap.

[1]Vanguard (2021), Nigeria fuels 14m generators with $16m annually – Adaju - https://www.vanguardngr.com/2021/10/nigeria-fuels-14m-generators-with-16m-annually-adaju/

The country's power generation is mostly thermal (80%) and hydro (20%) with an installed capacity of about 12,522MW[2] while at least 40,000MW is needed to meet the country's electricity demand. However, monthly, the national grid struggles to provide a little over 4,200MW, which is 66.46% and 89.5% below the installed and potential capacity. More so, the government privatized 11 electricity distribution companies and 6 generating companies while retaining 100% ownership of the Transmission Company of Nigeria (TCN). Interestingly, Nigeria, which has the lowest electricity consumption per capita in Africa, supplies power to the Republic of Benin, Congo and Niger under the West African Power Pool (WAPP) agreement for ECOWAS countries.

Meanwhile, the federal government has decided to gradually implement reforms in the power sector, in a bid to access more funds from the international community and multilateral agencies like the IMF and World Bank, stimulate growth in the sector, upgrade transmission and expand access to electricity. The reform comes in the form of cost reflective pricing. While this has its immediate pitfalls, the medium to long term perks are undeniable. However, there are underlying structural bottlenecks including policy uncertainty, labor union issues, poor maintenance, weak implementation and monitoring culture, and sadly abandonment that have made these specific reforms in the power sector unable to yield the desired result -which is increased private investments.

Business confidence is low, and investors are skeptical about the Nigerian economy. Erratic and unexpected changes in government policies without adequate checks and balances due to weak institutions play a huge role in tapering investment inflows into this sector, hence providing a bleak outlook for the country's capacity to achieve nationwide electricity any time soon. However, if these issues are addressed in a timely and efficient manner, there is light at the end of the tunnel.

[2]International Trade Administration (2021), Nigeria – Country Commercial Guide - https://www.trade.gov/country-commercial-guides/nigeria-electricity-and-power-systems

Power sector issues and implications

Electricity is a necessity. For households, businesses, organizations and even government parastatals to run efficiently adequate power supply is extremely important. Some of the major issues affecting the sector include:

- **Low investment**: This is a major problem plaguing the sector and it is driven by policy uncertainty, lack of transparency, poor monitoring and implementation, inefficient industry practices and most importantly an unregulated market. Investors need to be assured that prices will reflect their cost of operations. The government has taken steps towards ensuring cost reflective electricity prices and the expectation is that it will continue, further improving investor confidence and appetite towards the power sector. The immediate impact of cost reflective electricity prices is an increase in living costs for consumers. However, in the medium term, ceteris paribus, power supply will increase and become more reliable.

- **Self-generation for power**. This ultimately increases the operating costs for both households and businesses. If this continues, the probability of an increase in divestment of resident businesses to other friendly African countries in the face of the African Continental Free Trade Agreement poses a huge threat to the Nigerian economy in form of loss of output, investment and job opportunities. Nigeria is still the poverty capital of the world with over 40% of its young population unemployed.

- **Inadequate infrastructure and unskilled personnel**: For the power sector to be more efficient in power transmission and distribution, the government needs to heavily invest in high grade infrastructure and training of industry personnel. This will substantially expand the power transmission network and capacity, allowing distribution companies to improve reliability and supply to consumers. Meanwhile, any delay on this will keep widening the supply deficit in the sector especially as the country's population climbs.

Some Solutions

- **Investments:** Increased investments in smart grid technology, electricity equipment and provision of adequate energy storage facilities will significantly support the country's electricity generation. Nigeria currently imports a large percentage of its electricity equipment due to low output and expertise. More so, the government can support active players in the sector/industry through partnerships and granting of tax incentives that will bolster growth and output levels.

- **Increased government funding and transparency**: The best place to start is by making substantial provisions for the sector in the budget for the fiscal year, rather than heavily depend on borrowings and handouts from multilateral institutions that could worsen the country's debt profile. In addition, transparency in government practices within the sector that will in turn stimulate investment and taper investor skepticism are imperative. Beyond addressing infrastructural issues, there is need for strong institutions to checkmate government policies to reduce uncertainty and increase business confidence. Also, the government needs to encourage local business that could provide raw materials needed within the sector as this would reduce import costs and support government revenue.

Risk Matrix

Risk	Probability	Economic Impact
Cost reflective tariff increase without a proportional boost in electricity supply leading to a push back from the public	Likely	High
Pull back on reforms leading to zero investment inflows	Unlikely	High
Labor union conundrums on another increase in electricity tariff	Likely	Moderate
Increased financial aid worsening debt burden and debt service costs	Likely	High
Poor implementation of grid expansions to limit power supply	Likely	High

Climate change & renewable energy

As the world progresses, it is almost impossible to speak on issues concerning electricity generation without highlighting climate change. A good number of countries are transitioning towards renewable energy for electricity to achieve set environmental health targets, meanwhile, Nigeria is still lurking behind trying to decrease estimated billing and manage the increasing use of generators. At the COP26 climate conference that happened in 2021, the Nigerian government amongst many other emerging markets pledged to cut carbon emission to net-zero by 2060. Also, the government launched an ambitious and interesting paper: the Renewable Energy Master Plan aimed at increasing the country's renewable energy mix by at least 13% by 2015, 23% in 2025, and 36% by 2030. Sadly, with almost half of the nation's population using generators, the climate change and renewable energy goals will likely not be achieved by the set dates. However, what we will see in the meantime, is an increase in the efforts of the power sector operators to increase renewable energy sources.

Conclusion

Nigeria's power problem offers the country an opportunity to adequately tackle long lasting challenges and boost economic growth and development. The country will require significant investments to achieve reliable power supply in the short to medium term. The estimated amount needed is about $100 billion over the next 20 years. The government also needs to hasten its steps to close the metering gaps as about 50% of the total population is still on estimated billing. The faster and efficiently these take place, the more the increase in investor appetite towards the sector. If Nigeria is ready to do the hard work of successfully implementing reforms, investors are willing to actively participate in the power sector through partnerships, joint ventures, training of personnel and building of transmission and distribution infrastructure. The unique factor is that Nigerians have proven to adapt to situations quickly. Therefore, if they are assured of improved and reliable power supply, they will likely pay more. The government just has to do its part first and it starts with addressing the numerous issues pervading the sector and affecting output.


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The PIA and the quest for domestic oil refining

Once again, necessary economic reforms seem to have been sacrificed on the altar of political expedience. The current administration is seemingly bent on seeing through its tenure with as minimal rancor as possible and will try to maintain some semblance of stability while hoping that nothing goes wrong. The threat of pushback from labor has necessitated a delay in the implementation of the Petroleum Industry Act (legislation which would make the continued subsidy payments on petrol illegal). This has been a recurring decimal standing in the way of the liberalization of the downstream sector of the oil industry as past attempts to lift price controls were abandoned after political backlash.

The earliest bet for subsidy removal is after the 2023 elections, regardless of the outcome. Market pricing is an essential condition for the new profit-oriented national oil company, NNPC Ltd, to become a commercial entity and allow the downstream industry become economically viable. Nigeria could then eliminate petrol imports as the 580,000-barrel/day Dangote mega-refinery comes on stream.

Nigeria’s hopes of attaining self-sufficiency in domestic oil refining is hinged on the completion of the Dangote refinery as well as repairs of the four state-owned refineries. It will be one of the largest in the world and when fully operational, should in theory be able to meet Nigeria's domestic fuel requirements and trigger a positive ripple effect across other sectors of the economy. It is of strategic national interest and even the Central Bank of Nigeria (CBN) is already hinging some of its economic projections on the project’s success.

The Currency Conundrum

A failure to eliminate subsidies after the elections would mean that the Dangote refinery would be incentivized to export its products, implying that Nigeria would continue to rely on imports to meet its domestic fuel demands. This, according to the CBN governor, accounts for about 30% of foreign exchange demand. The outlay for fuel imports in the first nine months of 2021 was N2.52trn. Eliminating refined petroleum products from the import bill would ease pressure on Nigeria's external balance and the naira. It would also give the CBN a better sense of the forex supply-demand dynamics as it continues in its gradual movement towards the convergence of its multiple exchange rates and a more market determined exchange rate.

While the CBN is banking on domestic refining to lower the fuel import bill rapidly, it is also counting on it to boost exports in the medium-to-long term and strengthen the naira as Nigeria leverages on the African Continental Free Trade Agreement (AfCFTA) to become a regional oil refining hub. An overvalued naira has been crucial in keeping petrol subsidy costs down. However, a lower petrol import requirement as soon as the refinery comes online would make that budgetary factor less relevant.

Energy Security

Recent queues at petrol pumps, ostensibly because of the importation and supply of methanol-blended petrol according to the NNPC, which are unsuitable for vehicles being used in Nigeria, underlies the energy security threat that the continued importation of refined PMS poses. Lowering PMS imports in favour of domestic refining is consistent with Nigeria’s energy security objectives. A continued reliance on the importation of petrol will also leave Nigeria vulnerable to external shocks (especially from countries it imports from) and the growing menace of pirates in the Gulf of Guinea. This is in addition to structural deficiencies in Nigeria, like challenges at the ports. These could trigger nationwide fuel shortages that have caused public discontent on numerous occasions in the past.

Jobs: Every little counts

In addition to strategically confronting the challenges of scarce foreign exchange and dwindling government revenue, the domestic oil refining would be crucial in absorbing skilled labour. An estimated 29,000 workers would be employed in the Dangote refining and petrochemical plant on completion. While this is a mere drop in the ocean when weighed against what is required to move the needle with regards to tackling Nigeria’s high unemployment levels (33.3%), every little counts.

Vested Interests

There is also the question of a possible pushback from vested interests. There are those who have been beneficiaries of the importation of refined petroleum products, the entrenched subsidy regime, and the massive smuggling of petrol into neighboring countries, where prices are higher. The sale of the state-owned refineries to private companies has been overturned in the past. Mainly because the process was perceived by labor to be less than transparent and was also likely to result to staff rationalization at the refineries and higher petrol prices.

In spite of the sound economic arguments in support of economic reforms and deregulated petrol pricing, the reality is that many Nigerians feel that successive governments have mismanaged oil revenues in the past and are only attempting to raise taxes and remove petrol subsidies because of the slump in oil revenues. They remain unconvinced that the supposed removal of subsidies will have the far-reaching effects that politicians and many economists are stipulating. Evidence from the past tends to support their stance. Higher oil revenues failed to translate to domestic oil refining or lower unemployment. Why then should the burden of lower oil revenues be shouldered by the masses? The trust deficit between Nigerians and the government is one that appears unbridgeable at the moment especially when it is widely acknowledged that higher oil prices (above $100) could halt reforms.


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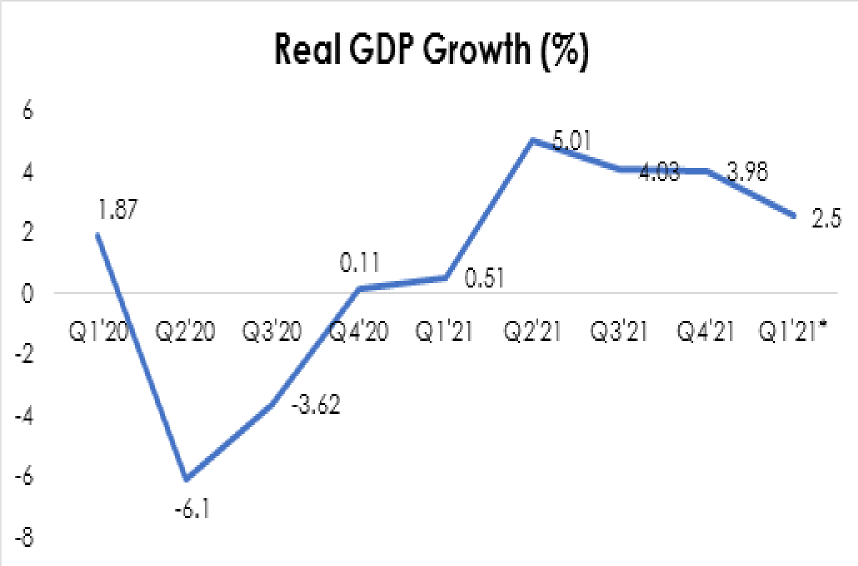
Sustained positive growth but most crucial sectors are lagging

Nigeria's real GDP growth topped most analyst expectations, expanding by 3.98% in Q4 bringing the annual growth rate to 3.4%. The CBN had estimated a growth rate of 3.1%, whilst the IMF projected 2.6%. The annual growth rate is higher than the population growth of 2.6%. This means that GDP per head will increase for the first time in many years.

The impressive Q4 GDP expansion was largely due to base effects, harvesting activities and waning COVID restrictions. A breakdown of the report showed that 18 of the 46 activities tracked by the NBS expanded, 23 slowed while 5 contracted. The agric sector, which contributes 27% to GDP and employs over 45% of the labour force, spiked by 3.58%, almost twice as much as in the previous quarter (1.22%). The sector got a boost from favourable weather and a bumper main cocoa crop. It is estimated that Nigerian cocoa exports could reach 280,000 metric tonnes in 2021. This growth of 3.58% is in-spite of huge post-harvest losses and disruptions from herdsmen conflict.

A major concern however is that some key sectors of the economy are deteriorating. The oil sector, which is a major source of government revenue and foreign exchange earnings, contracted by 8.06%. The country has failed to take advantage of the rally in oil prices as it battles to ramp up production due to persistent operational challenges. Also, the unavailability of foreign exchange, logistics constraints and dwindling consumer income have limited growth in the manufacturing sectors and trading activities.

The sustained positive growth trajectory and the marginal drop in inflation could propel an increase in interest rates at the MPC meeting next month.



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Oil sector growth still in the negative territory

The oil sector growth of -8.06% remained negative but was slightly better than the previous quarter of -10.73% in Q3'21. This tepid performance can be largely attributed to lower oil production. Oil production fell to 1.5mbpd in Q4'21 from 1.57mbpd in Q3'21. This was due to slowdown in drilling activities and pipeline sabotage.

Sector Performance – 18 expanded, 23 slowed and 5 contracted

Of the 46 activities tracked by the NBS, 18 expanded, 23 slowed and 5 contracted. While the agric sector benefitted from the year-end harvest, trade and manufacturing sector growth was limited by forex unavailability, logistics constraints and dwindling consumer purchasing power.

Expanding Sectors	Q3'21	Q4'21	% Change
Water supply	12.97	28.84	+15.87
Transport & storage	20.61	29.72	+9.11
Agric	1.22	3.58	+2.36
Public administration	-0.15	1.13	+1.28
Financial & insurance	23.23	24.14	+0.91
Other services	0.73	1.63	+0.90
Arts & entertainment	3.68	4.31	+0.63
Professional services	1.11	1.50	+0.39
Human health	4.99	5.14	+0.15
Education	1.37	1.42	+0.05

[3]NBS, FDC Think Tank

Slowing Sectors	Q3’21	Q4’21	% Change
Manufacturing	4.29	2.28	-2.01
Electricity	14.36	2.78	-11.58
Construction	4.10	3.46	-0.64
Trade	11.90	5.34	-6.56
Accommodation	2.07	1.27	-0.80
ICT	9.66	5.03	-4.63
Real estate	2.32	1.47	-0.85
Admin	3.36	2.70	-0.66

Outlook & Impact

We expect the positive growth momentum to be sustained in the coming quarters. However, Q1’22 real GDP growth could slow to 2.5% due to weak aggregate demand and the commencement of the planting season. The MPC will be meeting next month to determine the direction of its monetary policy. The sustained positive growth and the marginal decline in inflation will strengthen the argument of the hawks amongst the committee for a rate hike.

The next crisis: What would happen if financial markets crashed?

GLOBAL PERSPECTIVE: culled from The Economist

"FOR HISTORIANS each event is unique," wrote Charles Kindleberger in his study of financial crises. But whereas "history is particular; economics is general"—it involves searching for patterns which indicate if a cycle is turning. Today America's financial system looks nothing like it did before the crashes of 2001 and 2008, yet lately there have been some familiar signs of froth and fear on Wall Street: wild trading days on no real news, sudden price swings and a queasy feeling among many investors that they have overdosed on techno-optimism. Having soared in 2021, shares on Wall Street had their worst January since 2009, falling by 5.3%. The prices of assets favoured by retail investors, like tech stocks, cryptocurrencies and shares in electric-car makers, have plunged. The once-giddy mood on Reddit wallstreetbets, a forum for digital day-traders, is now mournful.

It is tempting to think that the January sell-off was exactly what was needed, purging the stock market of its speculative excesses. But America's new-look financial system is still loaded with risks. Asset prices are high: the last time shares were so pricey relative to long-run profits was before the slumps of 1929 and 2001, and the extra return for owning risky bonds is near its lowest level for a quarter of a century. Many portfolios have loaded up on "long-duration" assets that yield profits only in the distant future. And central banks are raising interest rates to tame inflation. America's Federal Reserve is expected to make five quarter-point increases this year. German two-year Bund yields leapt 0.33 points last week, their biggest jump since 2008.

The mix of sky-high valuations and rising interest rates could easily result in large losses, as the rate used to discount future income rises. If big losses do materialize, the important question, for investors, for central bankers and for the world economy, is whether the financial system will safely absorb them or amplify them. The answer is not obvious, for that system has been transformed over the past 15 years by the twin forces of regulation and technological innovation.

New capital rules have pushed a lot of risk-taking out of banks. Digitization has given computers more decision-making power, created new platforms for owning assets and cut the cost of trading almost to zero. The result is a high-frequency, market-based system with a new cast of players. Share-trading is no longer dominated by pension funds but by automated exchange-traded funds (ETFs) and swarms of retail investors using slick new apps. Borrowers can tap debt funds as well as banks. Credit flows across borders thanks to asset managers such as BlackRock, which buy foreign bonds, not just global lenders such as Citigroup. Markets operate at breakneck speed: the volume of shares traded in America is 3.8 times what it was a decade ago.

Many of these changes have been for the better. They have made it cheaper and easier for all types of investors to deal in a broader range of assets. The crash of 2008-09 showed how dangerous it was to have banks that took deposits from the public exposed to catastrophic losses, which forced governments to bail them out. Today banks are less central to the financial system, better capitalized and hold fewer highly risky assets. More risk-taking is done by funds backed by shareholders or long-term savers who, on paper, are better equipped to absorb losses.

Yet the reinvention of finance has not eliminated hubris. Two dangers stand out. First, some leverage is hidden in shadow banks and investment funds. For example, the total borrowings and deposit-like liabilities of hedge funds, property trusts and money market funds have risen to 43% of GDP, from 32% a decade ago. Firms can rack up huge debts without anyone noticing. Archegos, an obscure family investment office, defaulted last year, imposing $10bn of losses on its lenders. If asset prices fall, other blow-ups could follow, accelerating the correction.

The second danger is that, although the new system is more decentralized, it still relies on transactions being channelled through a few nodes that could be overwhelmed by volatility. ETFs, with $10trn of assets, rely on a few small market-making firms to ensure that the price of funds accurately tracks the underlying assets they own. Trillions of dollars of derivatives contracts are routed through five American clearing houses. Many transactions are executed by a new breed of middle men, such as Citadel Securities. The Treasury market now depends on automated high-frequency trading firms to function.

All these firms or institutions hold safety buffers and most can demand further collateral or "margin" to protect themselves from their users' losses. Yet recent experience suggests reasons for concern. In January 2021 frenzied trading in a single stock, GameStop, led to chaos, prompting large margin calls from the settlement system, which a new generation of app-based brokerage firms, including Robinhood, struggled to pay. The Treasury and money markets, meanwhile, seized up in 2014, 2019 and 2020. The market-based financial system is hyperactive most of the time; in times of stress whole areas of trading activity can dry up. That can fuel panic.

Ordinary citizens may not think it matters much if a bunch of day-traders and fund managers get burned. But such a fire could damage the rest of the economy. Fully 53% of American households own shares (up from 37% in 1992), and there are over 100m online brokerage accounts. If credit markets gum up, households and firms will struggle to borrow. That is why, at the start of the pandemic, the Fed acted as a "market-maker of last resort", promising up to $3trn to support a range of debt markets and to backstop dealers and some mutual funds.

Fine margins

Was that bail-out a one-off caused by an exceptional event, or a sign of things to come? Ever since 2008-09 central banks and regulators have had two unspoken goals: to normalize interest rates and to stop using public money to underwrite private risk-taking. It seems that those goals are in tension: the Fed must raise rates, yet that could trigger instability. The financial system is in better shape than in 2008 when the reckless gamblers at Bear Stearns and Lehman Brothers brought the world to a standstill. Make no mistake, though: it faces a stern test.


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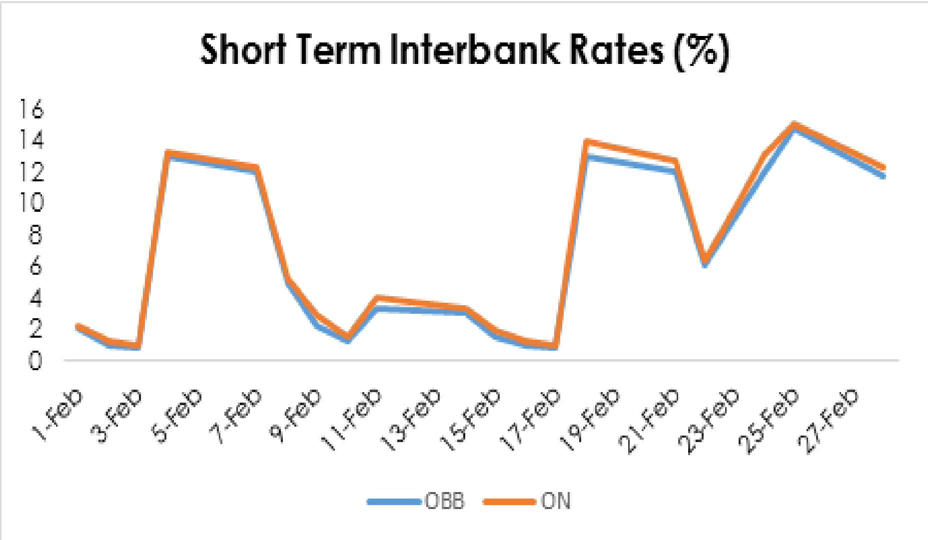
Macroeconomic Indicators—February 1st—28th

Money Market

The average opening position of banks increased sharply by 81.82% to N321.68bn in February from N176.92bn in January. The boost in market liquidity was partly as a result of a net OMO inflow of N304.47bn (repayment of N604.47bn and sales of N300bn). During the review period, short-term interbank rates fell sharply by 47.51% to 5.05%p.a.



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Tenor	Primary market (February 9th, 2022) (%)	Primary market (February 24th, 2022) (%)	Secondary market (February 1st, 2022) (%)	Secondary market (February 28th, 2022) (%)
91-day	2.48	2.24	4.00	3.18
182-day	3.30	3.30	4.36	3.50
364-day	5.20	4.35	4.90	4.83

A sum of N472.96bn was auctioned at the primary market in February. This is 68.13% higher than N281.3bn in January. The 91 and 364-day t/bill rates declined by an average of 55bps while the 182-day tenor was unchanged at 3.30%p.a. At the secondary market, all the three t/bills fell by an average of 58bps.

[4]FMDQ , FDC Think Tank

Outlook

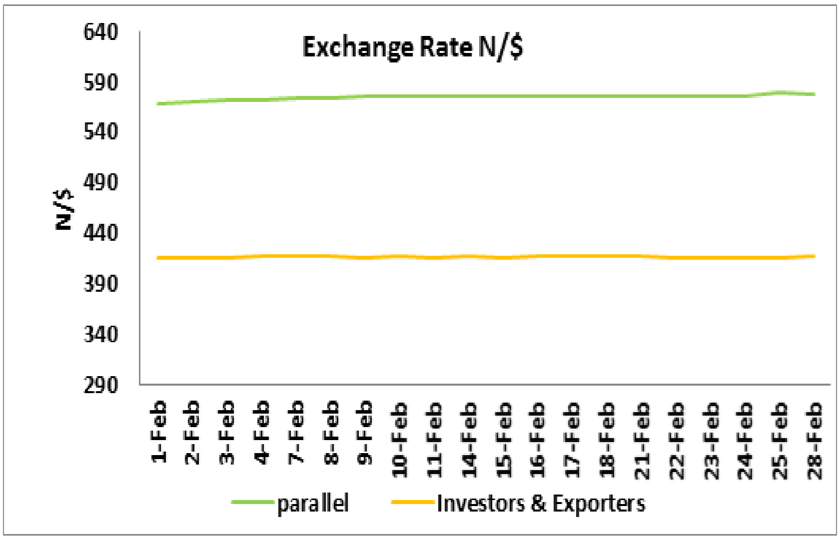
Market dynamics will be largely driven by system liquidity mechanics and supply of sovereign instruments. Increased borrowing to fund the additional provision for petrol subsidy is likely to push interest rates higher in the near term.

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

The currency was relatively stable across all market segments in February. It depreciated marginally by 1.58% at the parallel market to close the month at N578/$ and traded within a tight band of N415.75/$-N416.75/$ at the IEFX window. Meanwhile activity level at the window dropped. Average daily turnover declined by 11.81% to $111.69mn compared January's average of $126.65mn.



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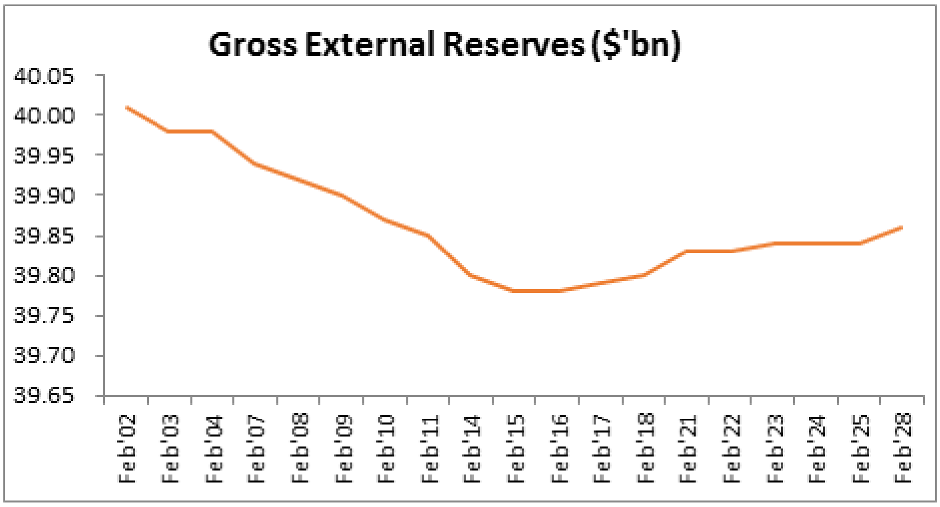
The CBN has rolled out an inventory of policies, the most recent being the N65/$ rebate on non-oil export proceeds. This is in a bid to defend the naira and achieve its target of N200bn non-oil export revenues within the next 3-5 years. While the rebate is expected to increase the conversion rate for export proceeds to N481/$ at the official window, there is still a parallel market spread of about N99/$. The question on the mind of analysts is 'will exporters be willing to give up N99/$ out of patriotism?'.

[5]FMDQ , FDC Think Tank

External Reserves

After declining steadily for almost three consecutive months, the gross external reserves level increased marginally in the second half of February to close the month at $39.86bn. This can be partly attributed to higher oil prices. Meanwhile, compared to the end of January ($40.04bn), the reserves lost 0.45% ($180mn). The country's import and payment cover fell to 9.05months of imports from 9.09months at the end of January.



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Outlook

We expect a further accretion in the country's gross external reserves level due to higher oil prices. However, sub-optimal oil production and the CBN's increased intervention in the forex market could slow the pace of accretion. The naira is projected to trade relatively stable in the near term.

Implication

Exchange rate stability is positive for manufacturers and other import dependent companies. Cost of servicing dollar obligations will also remain stable.

[6]CBN , FDC Think Tank


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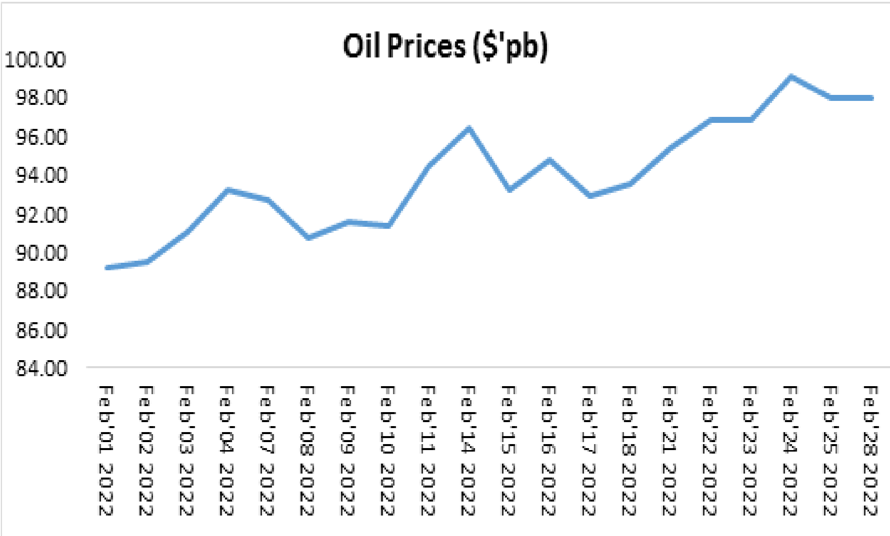
Commodities Market - Exports

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

Oil Prices

For the first time since 2014, Brent crude price crossed the $100pb threshold (intra-day trading) towards the end of February. This was due to Russia's invasion of Ukraine, which raised concerns about global supply disruptions. On the average, oil prices rose by 10% to $94.12pb from $85.57pb in January.

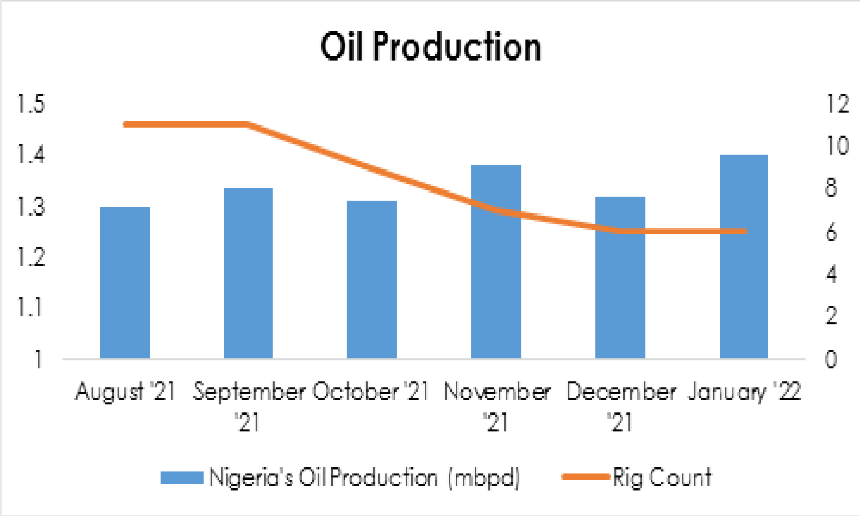


[7]

Oil Production

Nigeria's oil production rose by 6.23% to 1.40mbpd in January 2022 from a revised figure of 1.32mbpd in December 2022. However, the country's oil rig count was flat at 6. OPEC's crude oil production rose by 63bpd to an average of 27.98mbpd, supported mainly by increased production in Nigeria, Saudi Arabia, the UAE and Kuwait. Oil production declined in Venezuela, Libya and Iraq. OPEC and its allies have stuck to the output plan of 400,000bpd in April. The cartel had increased Nigeria's oil production quota to 1.72mbpd starting March.

[7]Bloomberg, FDC Think Tank



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Outlook

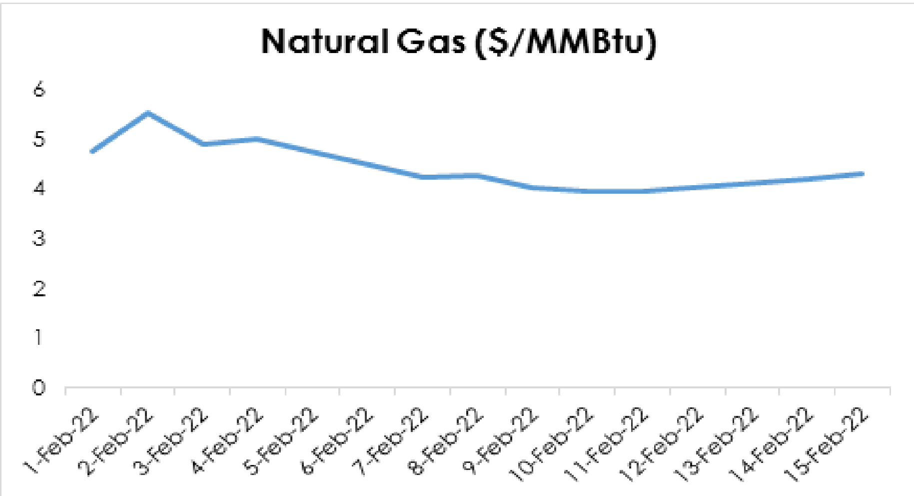
Oil prices are likely to remain elevated in the near term as supply worries linger. Nigeria's oil production is projected to increase but will remain below the OPEC quota due to operational challenges.

Impact

Crude oil, which accounts for approximately 75% of Nigeria's exports, is a major source of revenue for the country. While higher oil price is expected to boost oil revenues, the gains could be capped by sub-optimal oil production.

Natural Gas

The average price of natural gas during the review period was $4.46/mmbtu, which is 6.73% higher than the average of $4.18/mmbtu in the first half of January. This was largely supported by increased Winter demand. However, prices declined by 11.58% to $4.31/mmbtu on February 15th from $4.75/mmbtu at the beginning of the month as the Russia-Ukraine tensions abate.



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[8] OPEC, FDC Think Tank
[9] Bloomberg, FDC Think Tank

Outlook

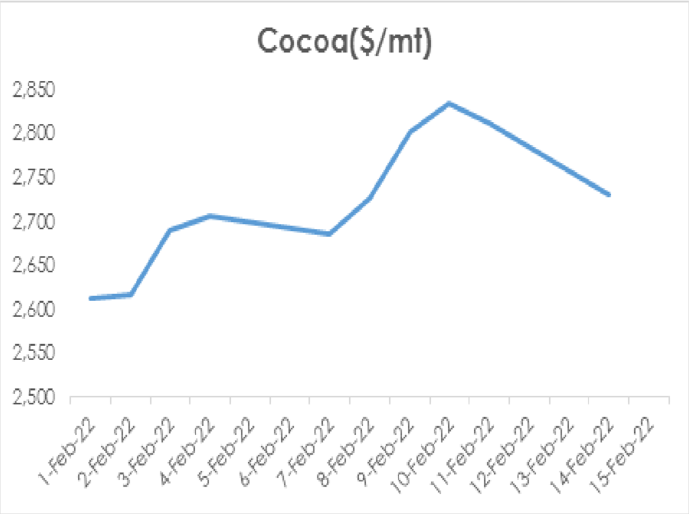
Gas prices are likely to rise in the near term as the cold weather linger into early March. However, the ease in political tensions could taper prices.

Implication

LNG is Nigeria's 2nd largest export commodity, accounting for 12.8% of total exports. Higher prices will boost export earnings as well as government revenue.

Cocoa

During the review period, the average price of cocoa soared by 7.62% to $2,722/mt from $2,530/mt in the first half of January. Prices also increased by 4.70% to $2,736/mt on February 15th from $2,613/mt at the beginning of the month. The increase is fueled by expectations of limited supply owing to the dry conditions in top producer Ivory Coast.



[10]

Outlook

Cocoa prices to remain elevated due to forecasts of lower supply in top producing countries as a result of unfavorable weather conditions.

Implication

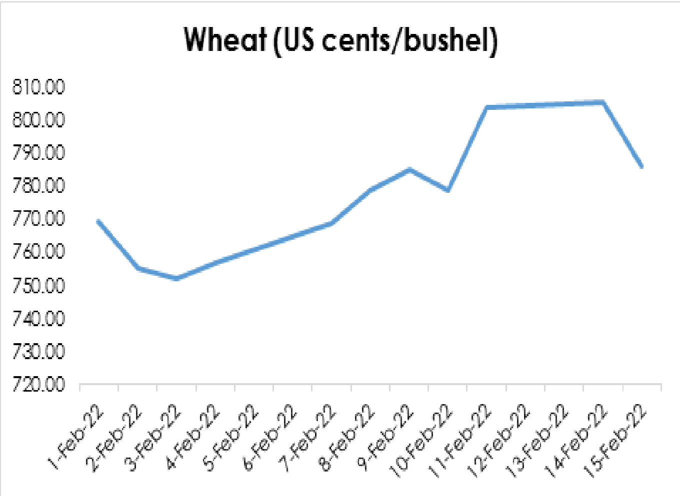
Cocoa is one of the major non-oil export commodities in Nigeria. An increase in the price of cocoa means higher government revenue. It will also have a positive impact on the country's foreign exchange earnings and external buffers.

[10]Bloomberg, FDC Think Tank

Commodities Market - Imports

Wheat

Wheat prices averaged $776.25/bushel between February 1st - 15th, a 2.79% increase when compared to an average of $755.15/bushel in the same period in January. Similarly, prices increased by 2.18% to $785.75/bushel on February 15th from $769.00/bushel on February 1st. This bullish trend was as a result of supply concerns due to the Russia and Ukraine tensions.



[11]

Outlook

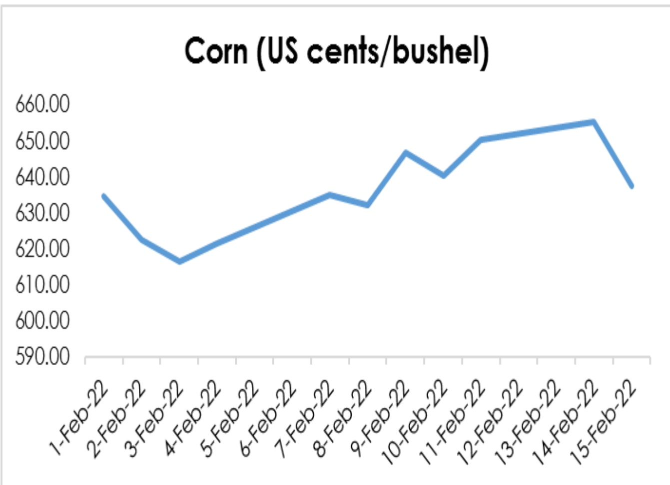
Wheat prices are likely to moderate as the Russia-Ukraine tensions abate, easing concerns about possible supply disruptions.

Impact

Lower wheat prices will reduce Nigeria's import bill and push down production costs for wheat dependent firms.

Corn

The average price of corn increased by 5.96% to $635.80/bushel in the first half of February from an average price of $600.03/bushel in the corresponding period in January. Corn prices rose to a 7-month high of $655/bushel before falling to close the period at $637.50/bushel as tensions between Russia and Ukraine eased, reducing supply disruption concerns.



[12]

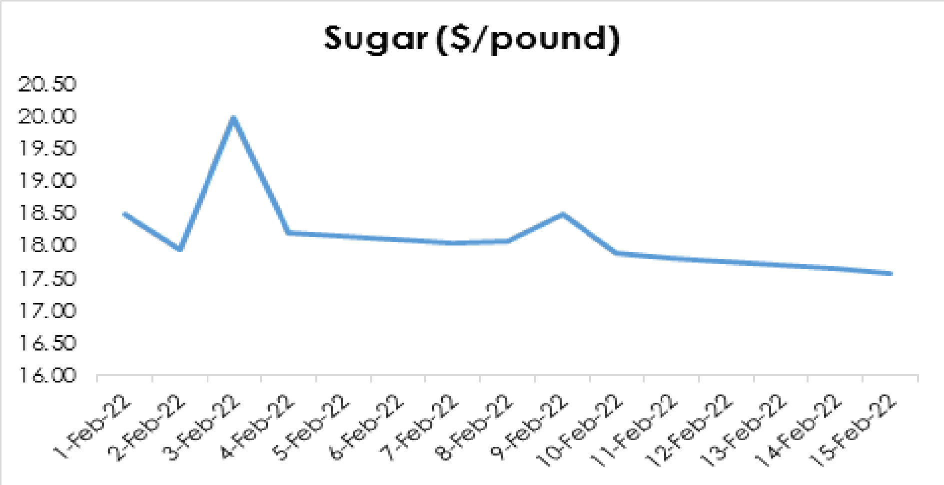
Outlook - Grains

Russia and Ukraine account for one-fifth of global corn exports. The ease in tensions means a possible boost in corn exports, which means prices are likely to fall in the near term.

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

Sugar

On average, the price of sugar fell by 0.44% to $18.19/pound in the first half of February from $18.28/pound in the corresponding period in January. Sugar prices also dipped by 4.92% to close the period at $17.57/pound from $18.48/pound on February 1st. This was as a result of improved supply from major exporting countries (Brazil and India).



[13]

Outlook

We expect sugar prices to decline further as supply continues to improve. Heavy rains in Brazil's center-south region have enhanced cane production prospects in the country's main sugar-growing region.

Implication

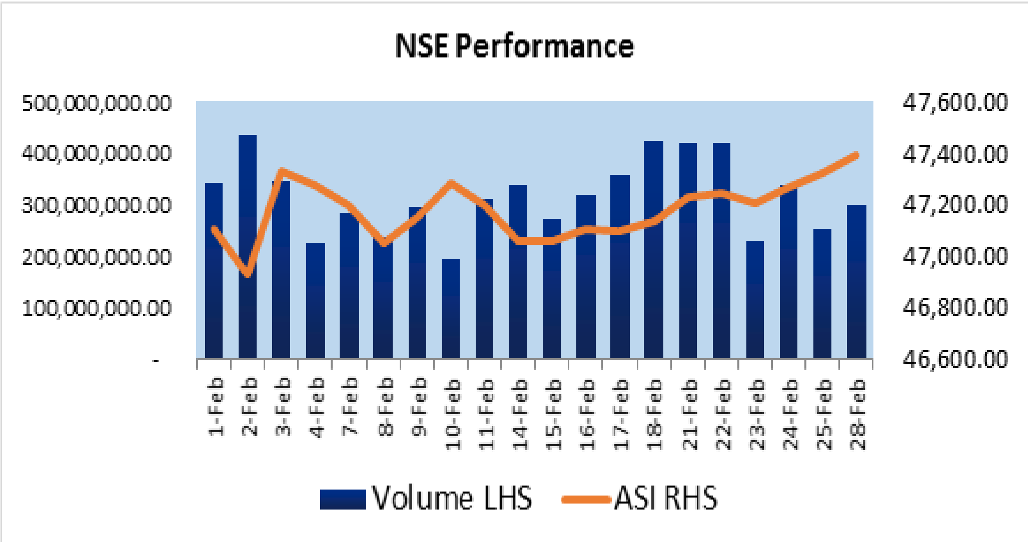
As sugar prices fall, the country's import bill will decline. This will in turn improve trade balances and will reduce pressure on the country's external reserves. It also implies reduced cost for con-fectioners.

[13]Bloomberg, FDC Think Tank

Stock Market Review

The NGX closed on a positive note on February 28th. It gained 1.65% to close at 47,394.53 points on February 28th from 46,624.67 points on January 31st. Also, market capitalization increased by 1.67% to N25.54trn relative to its close of N25.12trn on January 31st. The market YTD return increased to 10.95% from 9.15% in the review period.

The market breadth was positive at 1.97x as 63 stocks gained, 61 stocks remained unchanged while 32 lost.



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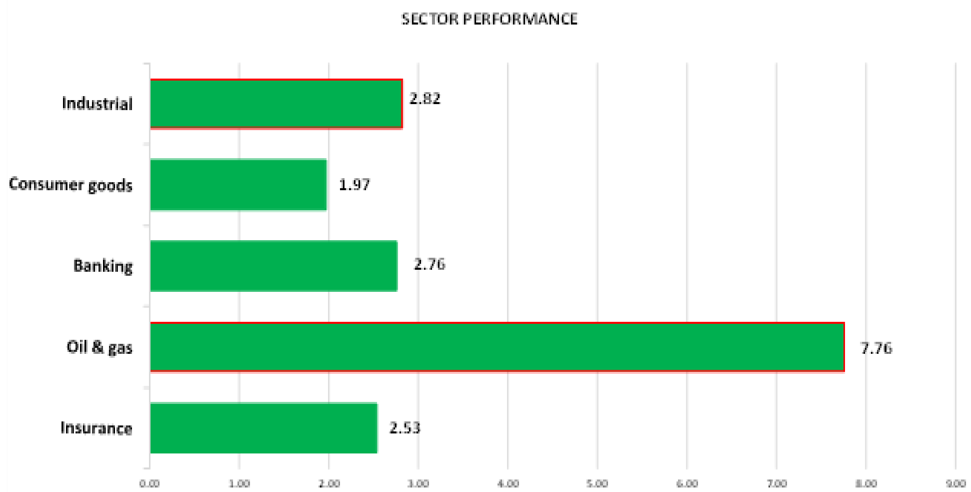
The average volume traded declined by 13.67% to 318.05mn units from 368.42mn units. Similarly, the average value of trades declined by 43.26% to N4.59bn from N8.09bn in the review period.



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[14]NGX, FDC Think-Tank
[15]NGX, FDC Think-Tank

The performance of sectors was positive in the review period, as all the sectors gained. The oil and gas sector recorded the highest gain (7.76%). This was followed by the industrial sector (2.82%), banking (2.76%), insurance (2.53%) and consumer goods (1.97%).

RT Briscoe Nigeria Plc topped the gainers' list with a (286.36%) increase in its share price. This was followed by SCOA Nigeria Plc (172.12%), Academy Press Plc (88.30%), Learn Africa Plc (86.43%) and Guinness Nigeria Plc (71.25%).

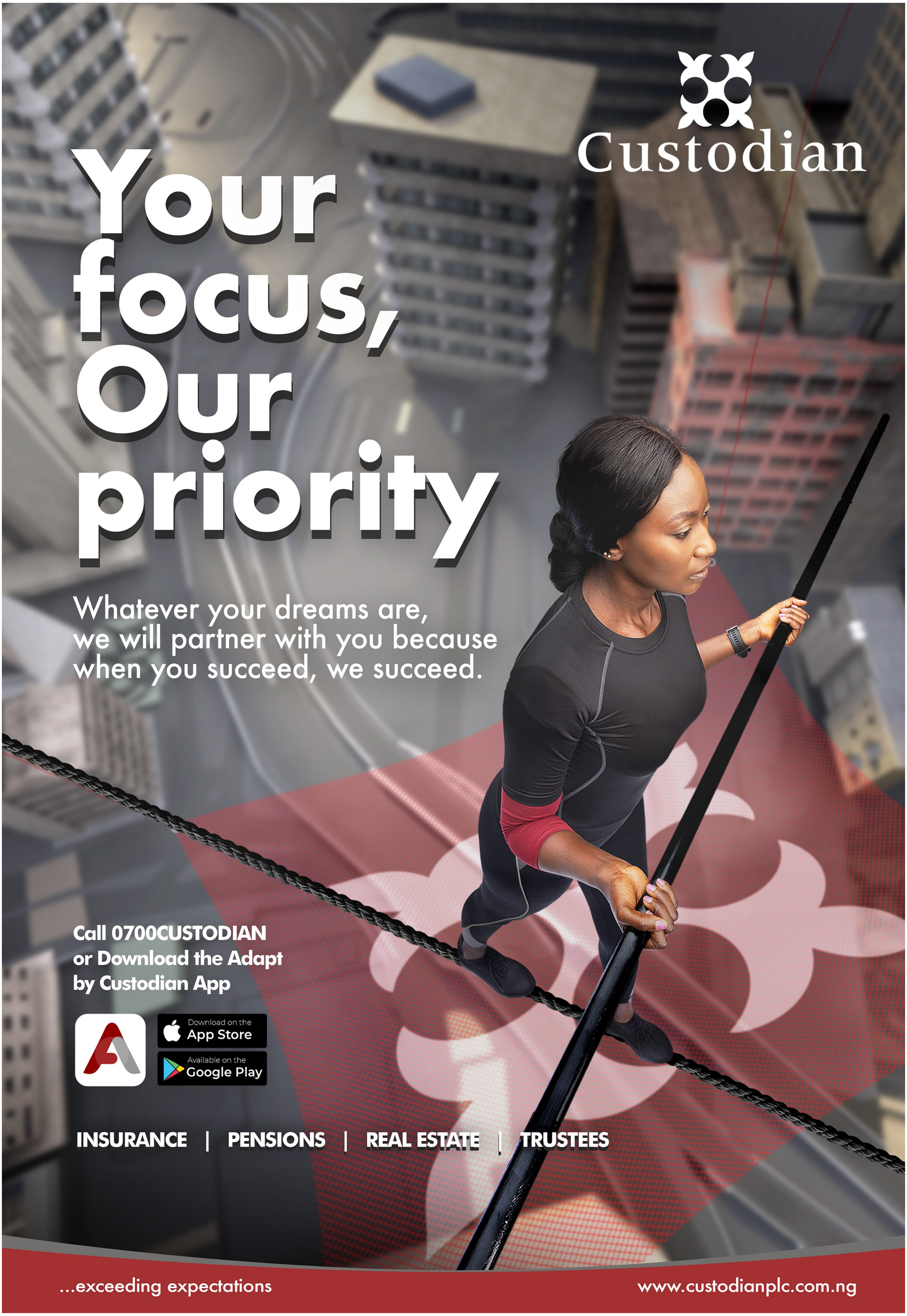
TOP 5 GAINERS				
Company	Jan-31 (N)	Feb-28 (N)	Absolute Change	Change (%)
RT Briscoe Nigeria Plc	0.22	0.85	0.63	286.36
SCOA Nigeria Plc	1.04	2.83	1.79	172.12
Academy Press Plc	0.94	1.77	0.83	88.30
Learn Africa Plc	1.40	2.61	1.21	86.43
Royal Exchange Plc	0.80	1.37	0.57	71.25

The laggards were led by Caverton Offshore Support Group (13.41%), Juli Plc (13.19%), Associated Bus Co Plc (11.11%), Pharm-Deko Plc (10.91%) and Consolidated Hallmark Insurance Plc (10.61%).

TOP 5 LOSERS				
Company	Jan-31	Feb-28	Absolute	Change
Caverton Offshore Support Group	1.79	1.55	(0.24)	13.41
Juli Plc	0.91	0.79	(0.12)	13.19
Associated Bus Co Plc	0.36	0.32	(0.04)	11.11
Pharm-Deko Plc	2.20	1.96	(0.24)	10.91
Consolidated Hallmark	0.66	0.59	(0.07)	10.61

Outlook

The release of more corporate earnings results, especially from bellwether stocks in the banking industry, will largely dictate the stock market performance in the near term.



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Market Capitalization: N131.21bn

Current Price: N32.00

Industry: Food, Beverage and Tobacco

Equity Report: Flour Mills of Nigeria

ANALYST NOTE

Flour Mills of Nigeria's stock is currently trading at N32.30 which is 11.38% higher than its opening price of N29 in 2022. While it has not fully compensated investors for inflation, it remains one of the most attractive stocks on the exchange. At the current price of N32.30, the stock is still a hold based on an earnings multiple of 8.08x, its double-digit growth across its entire business segments - buoyed by the company's aggressive backward integration into domestic agriculture - and a well-diversified brand portfolio. Moreover, Flour Mills of Nigeria continues to enjoy better access to forex following the CBN's licensing of only three companies for raw sugar importation in recognition of the company's backward integration efforts.

Double digit growth across the entire business segments

Flour Mills of Nigeria (FMN) reported a double-digit top line increase of 34% in 9M'22 to N824.98 billion from N555.34 billion in the corresponding period of 2021. When compared to the manufacturing sector's growth of 4.29% in Q3'21, FMN is significantly outperforming its sector. The company enjoyed both volume and value growth across all its businesses. The improvement in packaging as well as product innovation and efficient distribution channels drove a 55.42% growth in FMN's food business to N534.48 billion. The company's strategic reform and innovations in the agro-allied business delivered a 48.82% surge to N157.15 billion. Despite the forex challenges faced by the company due to regulatory restrictions, the sugar segment revenue rose by 19.69% to N107.97 billion. Similar to the reforms and innovation in the agro-allied segment, the growth in the sugar segment was on the back of continuous expansion through the group's backward integration strategy.

Positive growth in operating profit despite significant exchange rate loss

The group's operating profit increased by 14.87% to N40.44 billion from N35 billion in 9M'21, amid an impressive topline growth. Operating expenses also moved in the same direction with top line growth. Improved marketing and enhanced distribution channels, including employee related cost, contributed to the 24.13% increase in operating expenses to N31.16 billion. FMN remains vulnerable to exchange rate volatility from two sources: forex restrictions and exchange rate mechanisms. At the end of the period under review, the company recorded a foreign exchange loss of N11.63 billion, a 20.10% decline from N14.56 billion in the 9M'21.

Lower finance income moderated bottom line growth

The company's profit after tax grew by 9.40% to N17.05 billion in 9M'22. The moderate growth in FMN's bottom-line was largely due to the more than proportionate decline in finance income compared to finance cost growth. During the period under review, finance income fell by 71.88% to N935.38 million while finance cost rose to N16.12 billion, an 8.02% growth.

Company Overview

Flour Mills of Nigeria Plc is a dominant player in the Nigerian food and agro allied industry and controls about 80% of the flour milling industry in Nigeria. The group's operations are classified into four major sectors of Food, Sugar, Agro-allied, and Support services.

The group has retained its market share through an increased product mix, effective backward integration, investment in agriculture to boost local production and improved distribution network. The group's increased investment in the Business-to-Consumer (B2C) segment through improved distribution channels delivered a stellar performance in 9M'22.

Over the years, the industry's top player suffered stiff competition from smaller peers who gained entry into the market through attractive product pricing. However, Flour mills reported resilient performance in the period under review despite the increasingly difficult terrain and uncertainties.

Aggressive Backward Integration and Product Innovation

Following the Apex bank's forex restriction on wheat and sugar importation, FMN intensified its focus on local production of raw materials with aggressive investment in backward integration and strategic partnership with Flour Milling Association of Nigeria (FMAN) and local farmers in order to strengthen value chains. Also, in a bid to achieve self-sufficiency in the production of sugar in Nigeria, the group invested heavily in sugar production. The group's Sunti Golden Sugar Estates remains one of the best performing under the National Sugar Master plan.

The group recently launched a breakfast cereal (Amazing Day) to deepen its penetration in the FMCG industry and to meet the increasing demand for Ready-To-Eat Cereal (RTEC), which represents about 65% of breakfast consumption in Nigeria. Based on the group's innovative strategy and the need to meet dwindling consumers' disposable income, the group had other new products introduced into the market (Auntie B Spaghetti and Spaghetti Slim).

Bulls and Bears say

Bulls Say:

- Largest market share (45%) in flour
- Strong brand name- Golden Penny/ Semovita
- Capacity expansion located at the port with its own terminal

Bears Say:

- Stiff competition from other players
- Weak consumer purchasing power
- Harsh operating environment
- Heightened insecurity

Economic Outlook for the Next Month

Global oil prices look set to stay above $100pb in the near-term as the Russia-Ukraine war advances. However, production shortfalls as a result of pipeline vandalism will continue to limit Nigeria's ability to benefit from sky-high oil prices. We expect sustained accretion in the gross external reserves due to higher oil prices. This will improve the CBN's ability to defend the naira in the near-term.

Inflation pressures have remained elevated despite projections of another decline in inflation in February. Inflation is forecast to decline further to 15.4% in February from 15.6% in January. However, the ongoing domestic energy crisis and war-induced spike in global commodity prices could trigger an uptick in inflation in March. Fuel scarcity has driven intra-city transport costs higher and will also feed into supply chain disruptions and elevate domestic commodity prices in the near term. The steep increase in the price of diesel to N410-N420/litre, the planting season, and currency constraints are all likely to trigger another price hike cycle.