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FDC

CONTENTS

SURGING FOOD PRICES & EMBATTLED HOUSEHOLDS IN POOR ECONOMIES

Emerging economies continue to struggle with surging food prices which are now at a very distressing level in poor countries. The prices of most commodities from oil and gas to corn and wheat have surged rapidly, leaving households' in an embattled state. Food takes a significant part of households' budgets in emerging markets. In SSA in particular, food covers above 40% of consumer spending.

Prior to the pandemic and the Russian- Ukraine war, prices have surges considerable as a result of extreme weather and production interruptions. With the impact of the Covid-19 pandemic coupled with the ongoing crises, global food prices have reached an all-time high in February and are expected to remain elevated in the coming months (FAO).

The impact of these higher food prices is far-reaching and would lead to a significant increase in poverty levels globally, especially in emerging markets. An estimate by the Centre for Global Development forecasted that up to 40 million people would further fall into extreme poverty as a result of Ukraine's invasion.

This is in addition to the earlier forecast by the World Bank that about 100m people will fall into extreme poverty in 2021 as a result of the covid-19 pandemic. This will put huge pressure on many countries. This all-time surge in commodity prices is happening at a time when total debt cost is mounting and debt service costs are excruciating as central banks globally gradually adopt a tightening monetary policy to rein in inflation.

The compounding impact of all these factors is worsening the conditions of poor countries. This has forced the government of some of these countries to devalue their currency. For instance, Egypt devalued its currency by 14%. Other countries are forced to drain their external reserves in order to defend the local currency. In addition, as the fiscal burden worsens for emerging countries, the government is further handicapped in supporting livelihood by providing food subsidy or palliatives to the households. This has left households of poor countries more miserable and poor.

Some of these countries (such as Sri Lanka and Egypt, etc.), have begun to approach some international financial institutions such as IMF for help as the impact of the war is causing commodity prices to surge at a rapid rate.

COOKING CLEAN & LIVING LONG (GREEN ENERGY)

The Nigerian government has signed its climate bill into law emphasizing the need to address climate change in the country.

This is in line with the country's commitment, at the 2021 United Nations Climate Change Conference (COP26), to achieve net-zero carbon emissions by 2060.[1] While the government has acknowledged the importance of clean cooking in achieving its climate goals, accessibility of clean cooking fuels remains a challenge. Despite the growing awareness and increased adoption of clean cooking fuels, particularly liquefied petroleum gas (LPG), its high cost has excluded many households. LPG adoption in Nigeria remains at a meager 5% as most households continue to depend on fossil fuels such as firewood and coal.

Nigeria's climate goals

Nigeria is considered one of the most vulnerable countries in the world to climate change, necessitating calls for the country to take definitive actions for climate resilience. In 2015, under the Paris Climate Agreement, Nigeria pledged to reduce its greenhouse gas (GHG) emissions by 20% unconditionally and 45% with international support by 2030.[2] In July 2021, this commitment was revised to a 20% unconditional reduction in GHG emissions by 2030 and 47% with international support.[3]

One of the fundamental climate goals is to increase the adoption of clean cooking fuels. Deforestation has been identified as one of the key factors contributing to climate change in Nigeria.[4] This is largely attributable to the felling of trees for cooking purposes. This leaves the country vulnerable to climate change through higher carbon emissions and reduced capacity to absorb existing carbon dioxide. To counter carbon emissions, the Nigerian government is seeking to boost LPG adoption to 90% by 2031 from the current 5%.[5] The government has announced plans to supply 10 million new gas cylinders as part of efforts to encourage LPG adoption and promote clean cooking.

The federal government has also recently signed the climate bill into law further highlighting the country's commitment to addressing climate change. The newly signed climate bill requires setting annual and five-year targets to ensure the country achieves net-zero GHG emissions between 2050-2070.[6] The president has already committed Nigeria to a net-zero carbon

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[1]Eklavya Gupte, 2021. "COP26: Nigeria vows to reach net-zero by 2060 but stresses role of gas." S&P Global Platts. https://www.spglobal.com/platts/en/market-insights/latest-news/energy-transition/110321-cop26-nigeria-vows-to-reach-net-zero-by-2060-but-stresses-role-of-gas

[2]Federal Ministry of Environment, 2021. "Nigeria's commitment to reduce GHG emissions" Department of Climate Change. https://climatechange.gov.ng/national-determined-contributions/

[3]Federal Ministry of Environment, 2021. "Nigeria's First Nationally Determined Contribution – 2021 Update." United Nations Climate Change (UNFCCC). https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Nigeria%20First/NIGERIA%202021%20NDC-FINAL.pdf

[4]ibid

[5]Obas Esiedesa, 2021. "FG targets 90% LPG use as cooking fuel in 10 years". Vanguard Newspaper. https://www.vanguardngr.com/2021/06/fg-targets-90-lpg-use-as-cooking-fuel-in-10-years/

[6]Chukwumerije Okereke & Sam Oniugbo, 2021. "Opinion: Significance of Nigeria's new climate change law." Vanguard Newspaper. https://www.vanguardngr.com/2021/11/opinion-significance-of-nigerias-new-climate-change-law/

target by 2060 at the 2021 COP26.

High LPG prices: Implications for Nigeria's climate goals

Considering the weak state of household finances, high LPG cooking gas prices could reverse previous progress on its adoption in Nigeria. The price of a 12.5kg cooking gas cylinder has risen to N7,500, 97.37% higher than N3,800 in December 2020. This has raised concerns about a possible shift back to firewood and coal as inflation continues to erode household incomes. (Nigeria has continued to maintain double-digit inflation, which stood at 15.6% in January 2022.) A recourse to unclean cooking fuels will have severe implications on Nigeria's ability to meet its climate target and increase its vulnerability to climate change. Beyond the unfavorable health implications of higher carbon emissions, the Nigerian economy will be at risk of other harmful climate change crises such as flooding, adverse weather conditions, and low agriculture productivity.

Way forward

Efforts to promote clean cooking to support Nigeria's climate goals may fall short of desired results if the cost factor of accessing clean cooking fuels is not addressed. For a country that has at least 40% of its population living in poverty, there is a need to explore practical ways to improve the affordability of clean cooking fuels to encourage increased adoption.

Option A: The Indian Model - Mix of methanol and LPG

India has a high LPG adoption rate, estimated at 99.5% in January 2021.[7] Although the LPG adoption success has been largely attributed to the Pradhan Mantri Ujjawal Yojana (PMUY) free gas program, cost reduction strategies have helped to encourage sustained LPG use in the country. In 2018, the government announced the methanol blended LPG gas plan in a bid to reduce the cost of cooking gas and cut down on LPG subsidies.[8] India has since adopted this strategy with remarkable success. The blended LPG gas strategy involves a 15%-20% mix of the methanol derivative, di-methyl ether (DME) in the LPG cooking gas supply. This is intended to reduce the cost of production and improve the affordability of cooking gas.

Option B: The Kenyan Model - Solar cooking

Another viable clean cooking option to support Nigeria's climate goals is solar cooking. In Kenya, more households are shifting to solar cooking in support of efforts to reduce deforestation and promote the realization of the government's climate objectives. In 2020, Kenya's decision to include solar cooking in its climate goals after a voluntary national review was recognized and applauded by Solar Coker International. This option is particularly feasible in the northern part of Nigeria, where LPG adoption is extremely low due to the high poverty rate in the region.[9] The provision of solar cooking stoves in rural communities across Nigeria, especially in the north, could encourage a shift to solar cooking and reduce the use of unclean cooking fuels. Considering the typically large families in the north and communal settlements, solar cooking could be an attractive alternative for the people.

Conclusion

Promotion of green energy, particularly the need to combat deforestation and stimulate the use of clean cooking fuels, will remain mere talks if nothing practical is done to ensure accessibility of alternatives to average Nigerians. Affordability is key to establishing access to clean cooking fuel options. The Nigerian government may choose to adopt either the Indian or Kenyan models or a combination of both approaches. What is clear is that a strategy needs to be implemented to encourage the use of clean cooking fuels by Nigerians if climate change goals and the 10-year timeline are to be realized.

[7] Vivek Prakash Chaudhary, 2021. "East coast key to India's full LPG penetration." IHS Markit https://ihsmarkit.com/research-analysis/east-coast-key-to-india-lpg.html

[8] Rajat Arora & Yogima Seth Sharma, 2018. "Govt plans blending of Methanol with LPG to cut subsidy bill by 30%." The Economic Times. https://economictimes.indiatimes.com/industry/energy/oil-gas/govt-plans-blending-of-methanol-with-lpg-to-cut-subsidy-bill-by-30/articleshow/66020212.cms?from=mdr

[9] Solar Coker International, 2020. "Kenya Order of Excellence." Author. https://www.solarcookers.org/about/blog/kenya-order-excellence

THE BRIGHT FUTURE OF M&As AND COMBINATION IN NIGERIA

seplat + ExxonMobil

Mergers and acquisitions (M&A) have become a ubiquitous aspect of the global business climate. In 2021, M&A activities reached a record $5tn in deal volume globally.[10] This surge in activity was supported by soaring stock prices and an abundance of free cash for companies to play with. The boom in global M&A activity was not just limited to the west. Countries such as Nigeria also experienced a blockbuster year of M&A activity. Rising deal activity is indicative of a strong and healthy economy. It also signifies that corporates are optimistic about the prospects of the country and sectors they buy into.

What are mergers and acquisitions?

M&A's refer to the process of two corporate entities merging or combining together to form one larger, hopefully, more profitable, entity. It also refers to situations where corporate entities acquire stakes in other corporate entities, either taking majority or minority ownership. There are many reasons for M&As but the simplest explanation is because investors believe it will generate more income.

The Nigerian perspective

Nigerian M&A deals reached a whopping one billion dollars in

[10] Lawrence Fubara Anga and Oyeyosola Diya. 2021. "The Mergers and Acquisitions Review: Nigeria" The Law Reviews. https://thelawreviews.co.uk/title/the-mergers-and-acquisitions-review/nigeria

mid-2021, a 267% rise from the value recorded in 2020. There were 23 deals in the year, comprising 15 acquisitions, 5 minority stake purchases, and 3 mergers.[11] These deals cut across almost every sector including banking, financial services, oil and gas, consumer goods, and telecoms among others.

> *Nigerian M&A deals reached a whopping one billion dollars in mid-2021*

Amongst the most active deal hunters, last year was Access Bank. The bank completed four acquisitions and one merger, with deals in Zambia and South Africa among other countries. This buttressed the company's desire for continent-wide expansion. We also saw Flour Mills of Nigeria acquire a 71.7% stake in Honeywell Flour Mills, its closest competitor.

Another outstanding deal was Titan Trust Bank's takeover bid for Union Bank. In the oil and gas industry, Rainoil purchased a 61% stake in a rival company Eterna. In addition, Custodian Investment purchased 51% of the shares of the UAC of Nigeria property development company. The above are a few of the notable deals from last year.

The deal trend did not end in 2021. In the first two months of 2022, we have already seen a flurry of high-profile deals take place in Nigeria. The biggest oil and gas company in Nigeria by market value, Seplat Energy, recently completed its acquisition of ExxonMobil's shallow water business in Nigeria.

The Seplat-Exxon Mobil deal is only one of the latest in a series of deals, which have involved international firms dealing in the Nigerian market. Towards the end of 2020, we saw Nigerian fintech company, Paystack, get acquired by international fintech giant, Stripe for $200mn. At the end of 2021, we saw international internet firm, Equinix acquire Nigeria's MainOne for about $300mn. The Paystack and MainOne deals are reflective of a growing interest from western firms in the Nigerian market. In 2021, foreign investors in the startup and fintech firms also purchased record amounts of minority stakes across Africa and Nigeria.

Why does Nigeria need M&A?

One of the primary reasons why companies engage in M&A is because it offers the opportunity to foster more structured growth than what purely organic growth provides. The desire for faster and structured growth is especially relevant against the backdrop of Nigeria's

[11] Ronald Adamolekun. 2022. "How 2021 lit Nigeria's Mergers & Acquisitions scene with record breaking deals". Premium Times. https://www.premiumtimesng.com/business/business-news/503552-how-2021-lit-nigerias-mergers-acquisitions-scene-with-record-breaking-deals.html

developing economy. Certain aspects or sectors (such as agritech or e-health) are relatively new to the economy and may struggle to operate and scale-up. M&A achieves this more structured growth through a variety of paths. It allows companies to capture increased market share such as foreign firms, like Equinix, entering into the Nigerian market. M&A also allows smaller firms to become more competitive by providing them with the resources and scale necessary to compete with bigger more established members of their industry. Another major advantage that M&A supply is that it provides access to top talent. Nigeria has a young population with an abundance of fresh talent, especially in the realm of coding. M&A serves as an avenue by which firms may be able to acquire the cream of the crop of this fresh talent.

A bright future

The growing popularity of M&A in Nigeria paints an optimistically bright future for Nigeria's business climate. It offers a means of achieving faster-structured growth, and it offers foreign investors and multinationals an avenue into the Nigerian market. The fact that so many firms and investors are willing to stake billions on the future value of Nigerian businesses lends credence to the country's potential in the future.

Looking at the payments processing sector as an example, Nigerian fintech and payment processing firm Flutterwave recently reached a $3bn valuation and became the most valuable startup firm on the African continent. This valuation was driven by a wave of interest from foreign investors who were enamored with the opportunity of getting in on Nigeria's burgeoning payment scene. Investors view Nigeria as the next India or China, they are falling head over heels for the opportunity to get in at the ground level.

M&A presents a unique opportunity for Nigerian firms to develop and scale at lightning speed, without sacrificing the quality of service. The trend in deal-making is poised to continue into the near and far future, and we are likely to see Nigerian firms getting closer to catching up with their overseas counterparts in all facets of business operations.

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GLOBAL PERSPECTIVE:

5 Ways in Which Ukraine War will Change Your Business

Culled from the Economist Intelligence Unit

The war will add to supply-chain disruptions in sectors such as automotive, increasing the pressure for localization.

A surge in energy and other commodity prices will hasten public- and private-sector efforts to improve food security.

The investment needed to reduce Europe's reliance on Russian energy will affect funding for clean-energy investments in developing countries.

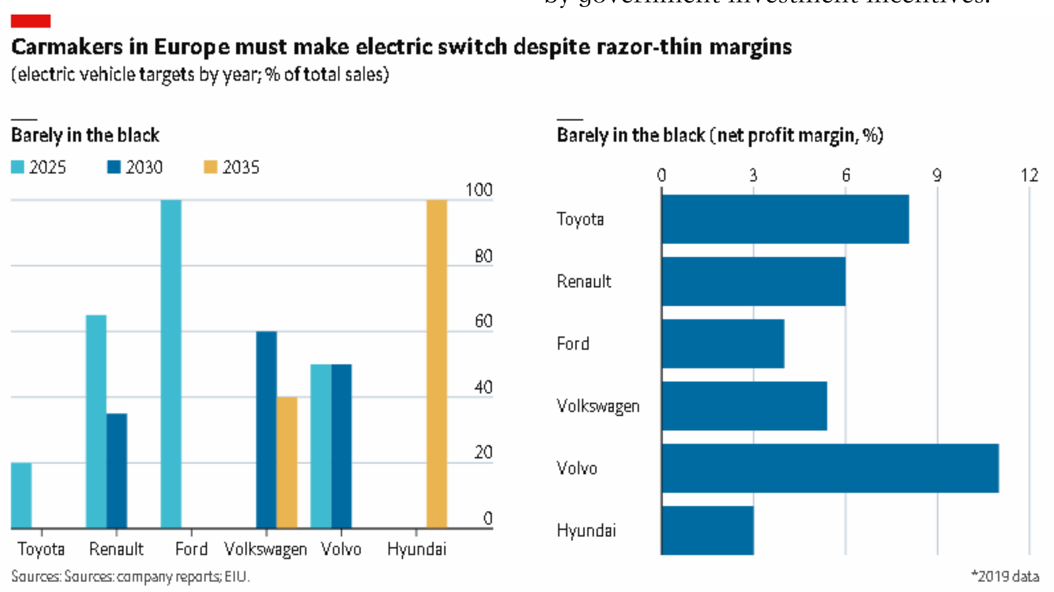
Financial sanctions against Russia may accelerate the transition from dollar-backed financial systems to interoperable central bank digital currencies (CBDCs).

Geopolitical tensions over technology - already central to the US-China trade war - will increase as Russia curbs internet access and technology sanctions are imposed

1 Supply chains will become increasingly localized

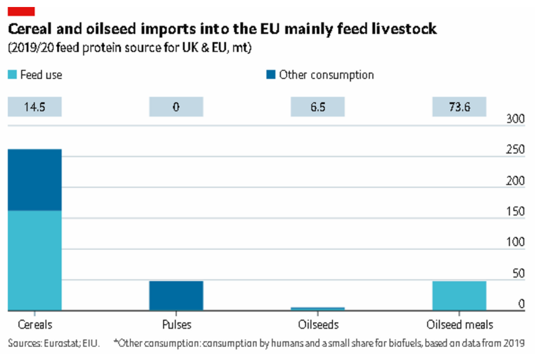
Supply chains have already been disrupted by the pandemic, as well as the earlier US-China trade war. The difficulties caused by the Russia-Ukraine war will prolong these disruptions and add to the pressure on companies in sectors such as automotive to shorten their supply chains and build resilience. This may mean increasing inventory levels for key components, reining back just-in-time production norms, or investing in more local suppliers.

Shorter supply chains are less prone to trade and geopolitical disruptions, as well as allowing for lower freight and insurance costs. Moreover, suppliers in countries such as China and Russia are gradually losing their low-cost advantage as labor costs rise, changing the sums in favor of more localized production. With automakers already investing heavily in EVs and battery production to underpin the transition to green vehicles, there is an opportunity to develop new supplier networks closer to home, often supported by government investment incentives.



2 The commodity rally will drive the adoption of sustainable food policies

The war in Ukraine will keep fuel and commodity prices elevated for much of the year. This will not only raise business costs but also heighten existing concerns about energy security and food security. The war is already forcing several governments to examine their food and agricultural policies closely, not just in Europe, but also in the Middle East,



Singapore, and China, among others.

Some EU countries, including Germany, have responded by trying to reduce the share of agricultural products used as feed, to scale back meat consumption, and to popularize alternate-protein products. With around 60% of EU cereal consumption going to animal feed, not humans, such an approach will help to insulate the region from global supply shocks. It will also help towards sustainability targets, reducing the high methane emissions from livestock.

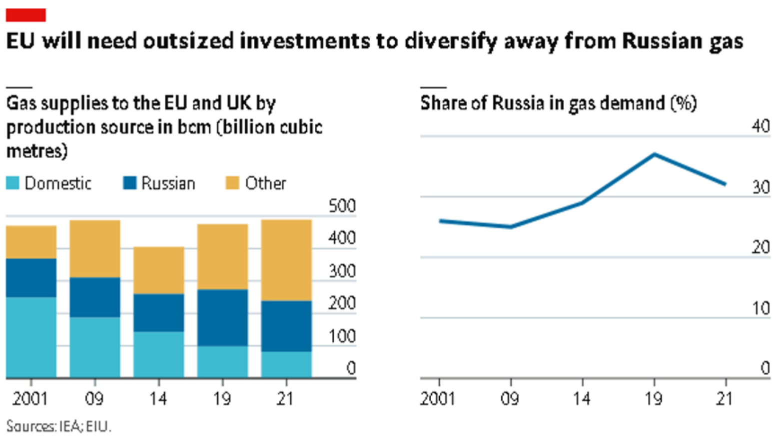
The Middle East, meanwhile, is likely to increase its investment into agritech and other ways of increasing agricultural productivity or reducing water consumption. All this will present opportunities for food tech and alternate protein companies, which will receive government attention and funds.

3 The energy transition will diverge for the developing and developed world

While unprecedented in scope, Western sanctions on Russia have kept open crucial energy supply lines to Western Europe. Although the US has banned Russian oil imports, Europe's dependence on Russian oil and gas has deterred it from taking similar steps.

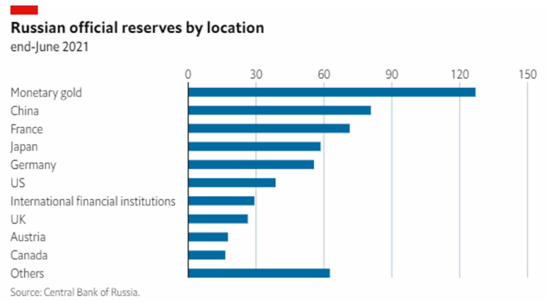
Even so, European nations will seek to diversify their energy supplies. This will require heavy investment to ramp up imports of liquefied natural gas (LNG). It will mean investing in greater energy efficiency and heating insulation, in order to trim gas demand for power generation, and maybe delaying plans to close or phase out nuclear and coal power plants. It would also entail significant public and private investment in renewable power, even as governments widen their defense budgets and commodity prices soar.

All this will make it harder for developed countries to provide financial support to the energy transition in emerging economies—support that has already fallen short of pledges. As a result, emerging economies will continue to invest in fossil-fuel power generation in order to cater for economic and population growth. The Ukraine-Russia war will, indirectly, widen disparities in the energy transition between developed and developing countries.



4 The weaponization of financial sanctions will lead to a bifurcation of the global monetary order

In response to Russia's invasion of Ukraine, the US and its allies have resorted to unprecedented economic and financial sanctions. These harsh penalties include the freezing of sovereign reserves, extraterritorial bans on the use of currencies, asset seizures, and anti-money laundering punishments. They have also entailed the expulsion of some Russian banks from the Belgium-based Society for Worldwide Interbank Financial Telecommunications (SWIFT), the secure messaging system that banks use to execute international payments. In the short term, this will have a limited impact on Russia's banking system. In the longer term, the weaponization of financial systems, including card-network systems, will compel Russia and others to look for alternatives to established systems centered around the US dollar.



Russia and China already have nascent SWIFT alternatives, but setting up a full-fledged bank-messaging system would be expensive and slow. Instead, any concrete alternative to a dollar-backed system for international money transfer is likely to use central bank digital currencies (CBDCs). Several countries, especially in Asia, are already trying to interlink their central bank-backed payments platforms and we expect more countries to embrace multi-CBDCs arrangements. The crisis will take this transition to the next stage.

5 Tech will become increasingly geopolitical and regionalized

In the US-China trade war, technology sanctions have focused on specific companies. In response to the Russia-Ukraine war, Western allies have — for the first time — imposed country-level technology export curbs on Russia, alongside other unprecedented sanctions.

Technology is becoming increasingly geopolitical and regionalized, in two ways:

First, access to technology is seen as a competitive advantage for countries, as seen with US attitudes to semiconductors. Because the chip sector is fragmented, and the product complex, every actor will need to use US equipment at some point. So any US technology sanction makes a country or company unable to purchase semiconductors.

Secondly, the internet is becoming more national and less global. China has driven this change by using a national firewall to restrict access to content its government deems dangerous, a measure that Russia wants to copy. The EU, through its values-led approach to data privacy and regulation of artificial intelligence, has also created regional barriers to the internet.

This regionalization of the internet will not necessarily lead to a splinternet, where different systems are completely separate and not interoperable. The broader battle is between the US, which wants to retain the multi-stakeholder governance model of the internet (open, decentralized, and industry-led), and China, which wants a cyber sovereignty model (closed, centralized, and country-led). However, the tensions are not just between democracies and autocracies, but also between blocs, as the relationship between the US and EU shows.

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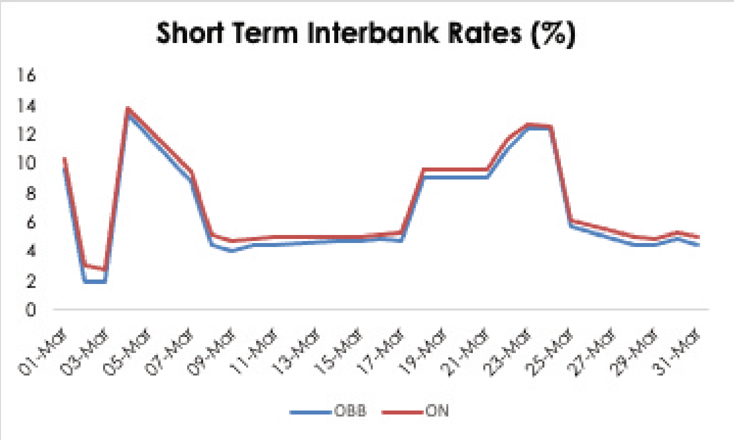
MACROECONOMIC INDICATORS 1ST -31ST MARCH

Money Market

The interbank money market had an average opening position of N268.24bn between March 1st – 31st, 16.61% lower than its average position in February (N321.68bn). Liquidity in the money market was partly supported by the OMO net inflow of N237.52bn (OMO repayment of N317.52bn and OMO bills of N80.00bn) which is lower than the net inflow in February (N404.47bn). As a result, average NIBOR rates (OBB/0N) rose by 31bps in March to 6.79% from 6.48% in February.



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Primary

T/bills Tenor	Rate on Feb 9th (% pa)	Rate on March 30th (% pa)	Direction
91	2.48	1.75	⬇
182	3.30	3.00	⬇
364	5.20	4.45	⬇

During the review period, total of N583.30bn was auctioned in the primary market. The 91-day, 182-day, and 364-day t/bill yields declined by 73bps, 30bps, and 75bps respectively. At the secondary market, all the three t/bills fell by an average of 52bps. Also, Nigeria conducted its first Eurobond sale in the year, with a total allotment of $1.25 billion. The Eurobond issued was to fund fuel subsidy payments.

Secondary

T/bills Tenor	Rate on Feb 28th (% pa)	Rate on Mar 31st (%) pa	Direction
91	3.18	2.49	⬇
182	3.50	3.15	⬇
364	4.83	4.32	⬇

Outlook

Interest rates in the money market are expected to respond to the changes in the liquidity system.

[12]Source: FMDQ, FDC Think Tank

Forex Market

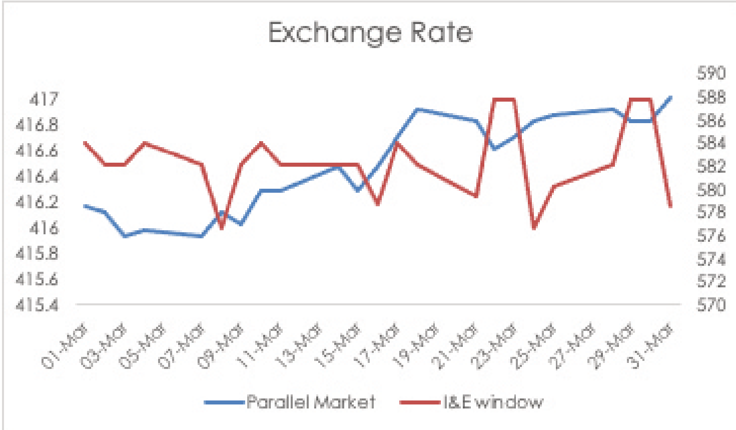
The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source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

Exchange Rate

At the parallel market, the naira depreciated marginally by 1.70% to close the review period at N588/$ from N578/$ at the beginning of March. I&E rates were relatively stable. It appreciated by 0.12% to end the month at N416.17/$. Rate hovered around N416/$-N417/$ under the review period. Average turnover declined by 0.56% to $125.94mn in March from $126.65mn in February 2022.

Outlook

Naira is expected to remain relatively stable in the near term in the I&E window, trading within the band of N416/$-N417/$ as surging oil prices support CBN's effort to stable the Naira. However, due to forex scarcity, demand pressure is expected to remain in the parallel market especially in the short term. Naira is expected to depreciate further in the parallel market, trading between N588/$-N590/$.



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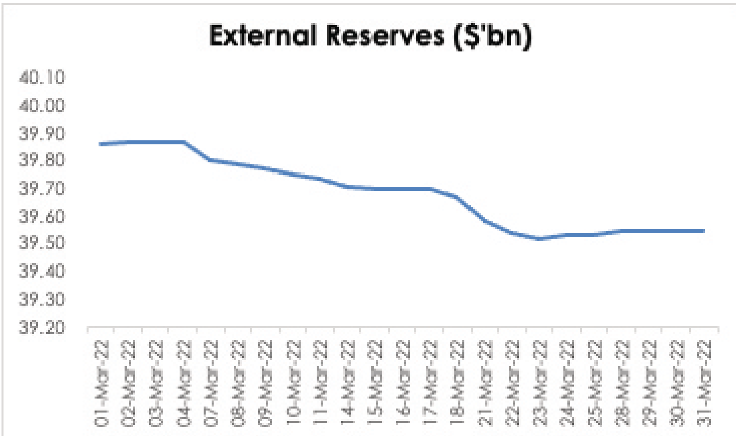
External Reserves

Nigeria's gross external reserves declined by 0.78% to close the month at $39.55bn from February 28th ($39.86bn) on the back of CBN's effort to stabilize the Naira. This is despite the surge in oil price, which came as a result of the Russia-Ukraine war. Oil revenues which should increase the country's external reserves have been limited by the country's low production levels.



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Outlook

The country's inability to ramp up oil production will continue to limit its gains from higher oil prices. Therefore, the gross external reserves level is expected to decline further in the short term.

Implication

The CBN's ability to stabilise the Naira may be hampered by dwindling foreign exchange reserves, resulting in a short-term devaluation of the currency.

[13]Source: FMDQ, FDC Think Tank

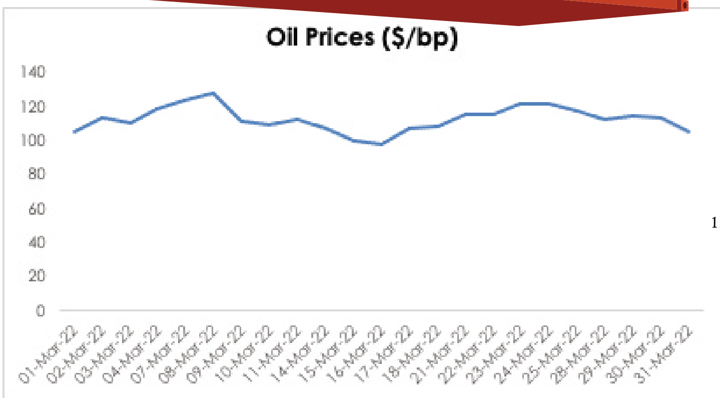
[14]Source: CBN, FDC Think Tank

COMMODITIES-EXPORTS

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

Oil Prices

Oil prices were bullish throughout the period in March. The bullish trend was largely supported by Russia's continued invasion of Ukraine and western sanctions on the Russian economy. Russia is the 2nd largest exporter of crude oil globally. Oil price rose to as high as \$139pb as US places ban on Russian oil exports, before falling to as low as \$98.02pb on March 16th, owing to hopes for a peaceful resolution to the Russia-Ukraine conflict and a fall in demand as covid cases rise in China. Average Brent oil price in the review period (March 1st-31st) was 17.92% higher (\$110.73pb) than \$93.92pb in February. Oil prices closed the month at \$104.71pb.



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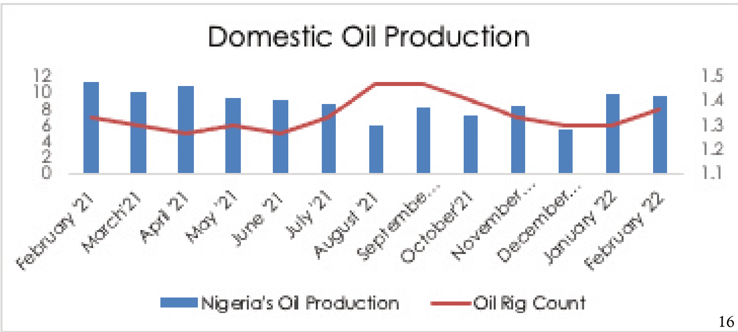
Oil production

Domestic oil production declined by 0.70% to 1.42mbpd in February 2022 from a revised figure of 1.43mbpd in January 2022. However, the country's oil rig count rose by 2points to 8 in February from 6 in January. OPEC's crude oil production rose by 440,000bpd to an average of 28.47mbpd in February from 28.03mbpd in January. Oil production increased largely in Saudi Arabia and Libya while it declined in Nigeria and Equatorial Guinea.



[16]

Outlook

Oil prices are likely to taper as the US announces it plan to release 1mbpd from its strategic oil reserves, while the International Energy Agency pledges to also release its largest. Operational challenges and increased rate of pipeline vandalism in the oil sector may continue to limit Nigeria's ability to ramp up oil production especially in the near term.

Impact

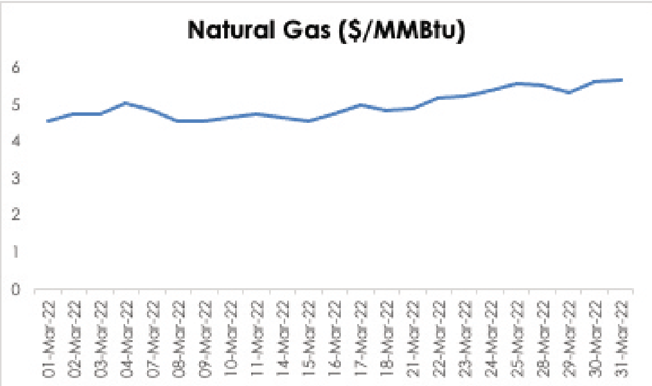
Crude oil is the largest source of the country's revenue, as a result, lower oil price will limit the country's oil revenue and foreign exchange earnings.

[15]Bloomberg, FDC Think Tank

[16]Source: OPEC, FDC Think Tank

Natural Gas

Average price of natural gas rose by 10.99% to $4.49/ mmbtu (March 1st -31st) from $4.49/mmbtu in February. This was as a result of the ongoing Russia's invasion of Ukraine. Price rose by 23.63% to close the month at $5.65/mmbtu from $4.57/mmbtu at the beginning of the month as European countries tries to cut gas import from Russia, thereby putting pressure on US gas inventory.



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Outlook

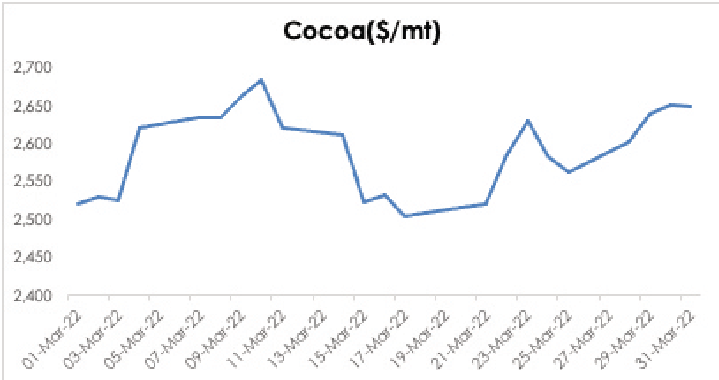
Gas price are likely to remain elevated if Russia-Ukraine war lingers, since Russia is the 2nd world largest producer of gas. However, gas price increase may ease as the winter season ends as well as European countries looking for alternative energy sources (wind energy and ethanol production) and other energy suppliers.

Implication

LNG accounts for 12.8% of total exports. Therefore, the decline in LNG prices will lower export earnings and government revenues.

Cocoa

Average price of cocoa fell by 3.49% to $2589/mt in March from $2682/mt in February. However, cocoa price reached a high of $2683/mt over expectations of a decline in global output supported by dry weather conditions in top producing countries – Ivory Coast and Ghana. It rose by 5.12% to close the month at $2650/mt from $2521/mt at the beginning of the month as global fertilizer prices spike. In recent weeks, Ivorian cocoa exporters have had to reject more than half of bean from farmers due to low quality caused by lack of rain. In Nigeria, cocoa production has also declined as a result of the end of the harvest period of main cocoa crop in Mid-February. This supported the hoarding of cocoa product and led to a hike in its price. Farmers are looking forward to the mid cocoa crop in April to June 2022, as the majority of the hoarded cocoa products are almost totally traded.



[18]

Outlook

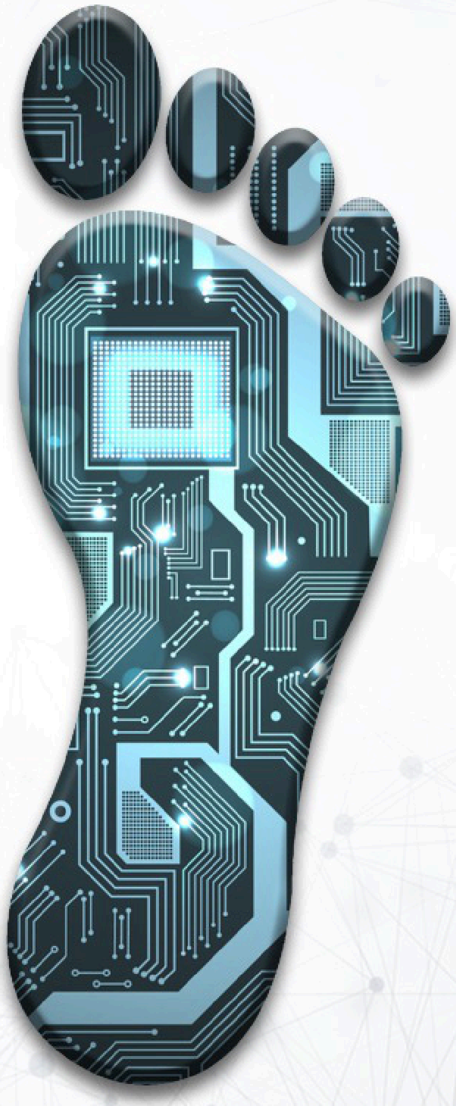
Cocoa prices are likely remain elevated as fertiliser shortage on cocoa farms affects quantity and quality of cocoa products.

Implications

Higher cocoa prices will increase the country's cocoa earnings, as cocoa is one of Nigeria's non-oil exports.

[17] Bloomberg, FDC Think Tank

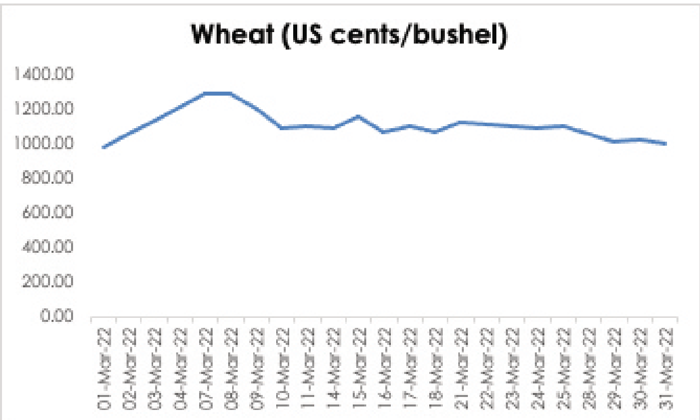
[18] Bloomberg, FDC Think Tank



COMMODITIES-IMPORTS

Wheat

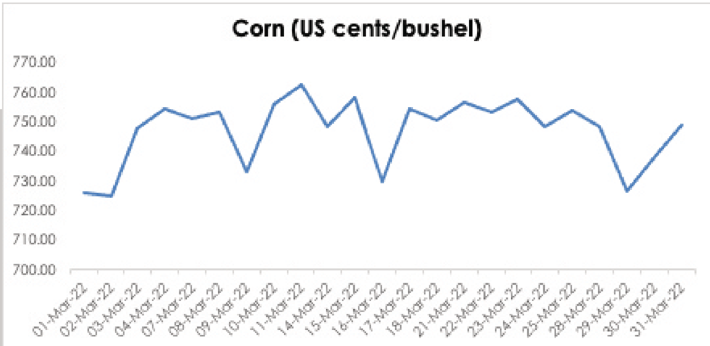
Average wheat prices climbed to $1108.17/bushel within the period under review (March 1st – 31st). This is 36.83% higher than the average price in February ($809.87/bushel). Prices settled to $1006.00/bushel in March 31st owing to a bigger harvest of wheat in Australia, after reaching a high of $1294.00/bushel in March 7th. The surge in price was a result of the supply disruption from the Russia-Ukraine war as both countries account for 30% of global trade in wheat.



[19]

Corn

The average price of corn rose by 15.10% to $746.95/bushel in March from an average price of $648.94/bushel in February. Corn price increased by 3.17% to $748.75/bushel at the close of the review period from $725.75/bushel at the beginning of March. Corn prices have risen due to reduced exports from Russia (the world's largest exporter), resulting from various sanctions imposed on its economy for invading Ukraine, as well as the present drought in corn-growing regions in the United States.[20]



Outlook

Wheat prices are projected to elevated in the short term as producing countries (Russia and Ukraine) experience logistics difficulties as a result of the closure of their major shipping lines. Prices of flour, processed from wheat, may remain elevated in Nigeria as well as other cost of other confectionary products which will be supported by higher wheat prices and forex shortages.

Impact

Higher wheat prices will increase Nigeria's import bill and worsen the country's trade balance.

Outlook - Grains

Prices are projected to remain high as producing countries (Russia and Ukraine) continue to experience logistics bottlenecks in exporting grains. Ukraine is the 4th largest exporter of corn while Russia ranks 6th.

[19]Bloomberg, FDC Think Tank

[20]Bloomberg, FDC Think Tank

Sugar

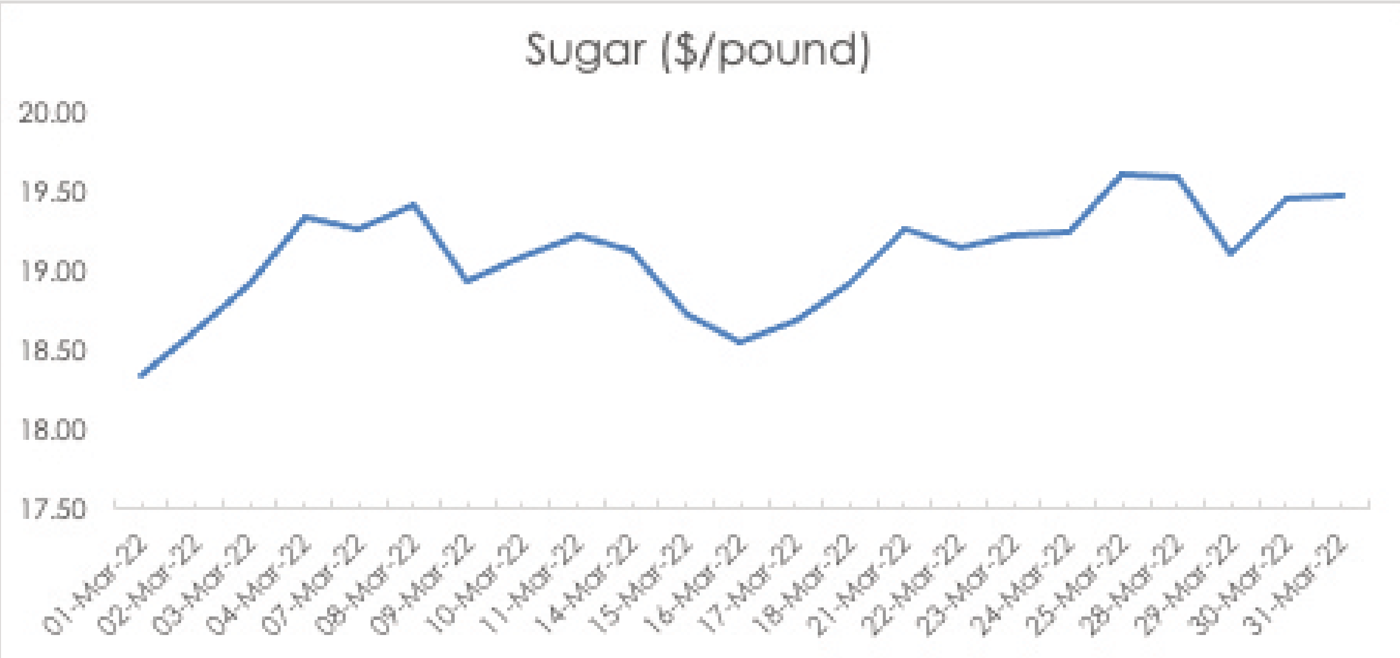
The average price of sugar rose by 6.21% to $19.11/ pound (Mar 1st -31st) from $17.99/pound in February. The price of Sugar rose to a high of $19.59/pound, before settling at $19.49/pound to close the review period (March 31st). The upward trend was caused by expectations of reduced supply of sugar as a result of Brazil and India's (top producing countries) diversion of sugar canes to ethanol production, a substitute for gasoline.

Outlook

Sugar price is expected to rise in the near term as top producing countries- Brazil and India, plan to redirect sugar canes to ethanol production, reducing sugar production.

Implication

High sugar price is expected to raise the country's import bill, increasing its trade imbalances and pressure on its reserves. This will also increase manufacturing costs for confectioners.



[21]

Outlook for Terms of Trade

The country's terms of trade is expected to improve in the near term mainly as a result of the higher oil prices. However, downside risk exist from the country's inability to ramp up oil production, and the increase in global commodities and energy prices, which will further push up the country's import bill.

[21]Bloomberg, FDC Think Tank

STOCK MARKET REVIEW

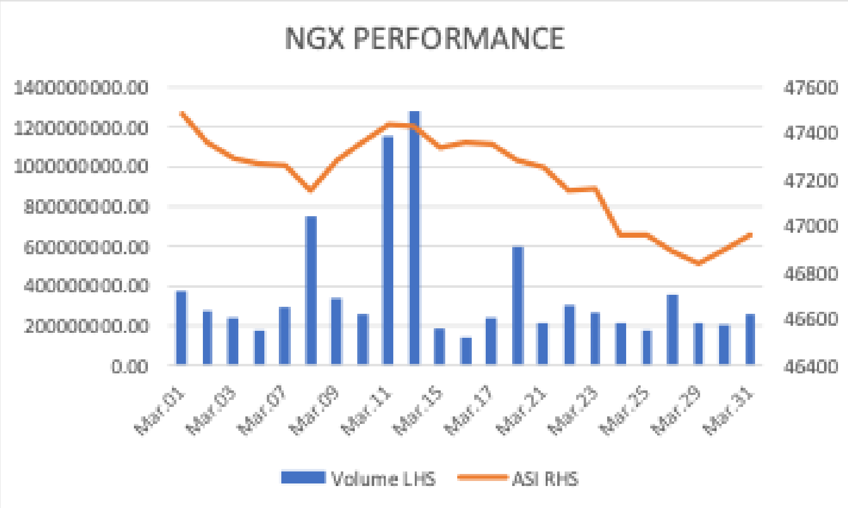
1ST - 31ST MARCH

Bouncing around with no direction

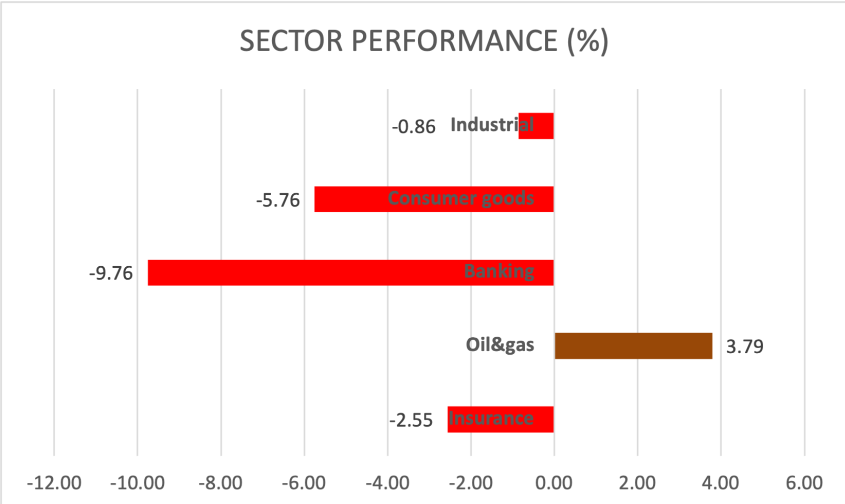
Up today, down tomorrow

The NGX closed on a negative note from March 1st – 31st. It lost 0.91% to close at 46,965.48 points on March 31st from 47,394.53 points on February 28th. Also, the market capitalisation decreased by 0.90% to N25.31trn relative to its close of N25.54trn on February 28th. The market YTD return decreased to 9.95% from 10.95% in the review period. The market breadth was negative at 0.31x as 13 stocks gained, 59 stocks remained unchanged while 74 lost.

Market activity level was positive in the review period. The average volume traded increased by 19.26% to 379.31mn units from 318.05mn. Meanwhile, the average value of trades decreased by 11.98% to N4.04bn from N4.59bn in the review period.



The performance of the sectors was negative in the review period, as only one sector gained while four lost. The Oil and Gas sector gained 3.79% due to higher oil price, while the banking sector recorded the highest loss (-9.76%). This was followed by the consumer goods sector (-5.76%), insurance sector (-2.55%) and the industrial sector (-0.86%).



TOP 5 GAINERS				
Company	Feb-28 (N)	Mar-31 (N)	Absolute Change	Change (%)
WEMABANK	0.96	2.73	1.77	184.38
PZ	7.00	10.55	3.55	50.71
PRESCO	104.00	133.00	29.00	27.88
MEYER	0.55	0.66	0.11	20.00
NPFMCRFBK	2.10	2.49	0.39	18.57

Wema Bank Plc topped the gainers' list with a 184.38% increase in its share price. This was followed by PZ Cussons Nigeria Plc (50.71%), Presco Plc (27.88%), Meyer Plc (20.00%) and NPF Microfinance Bank Plc (18.57%).

TOP 5 LOSERS				
Company	Feb-28 (N)	Mar-31 (N)	Absolute Change	Change (%)
NIGERINS	0.30	0.20	-0.10	-33.33
RTBRISCOE	0.85	0.59	-0.26	-30.59
LEARNAFRCA	2.61	1.96	-0.65	-24.90
CAVERTON	1.55	1.18	-0.37	-23.87
INTBREW	5.75	4.40	-1.35	-23.48

The laggards were led by Niger Insurance Plc (-33.33%), RT Briscoe Plc (-30.59%), Learn Africa Plc (-24.90%), Caverton Offshore Support Grp Plc (-23.87%) and International Breweries Plc (-23.48%)

Outlook

Bellwether stocks proved their name in the NGX this period as their positive earning - reports boosted the market amid the decline in the first half of the period due to the Russia Ukraine war influencing global market. March inflation report is expected to be a beacon for investor's sentiment, although looking bearish as there is expectation of interest rate hike in the next MPC meeting to rein in inflation. The rise in interest rates will make fixed income assets more attractive.

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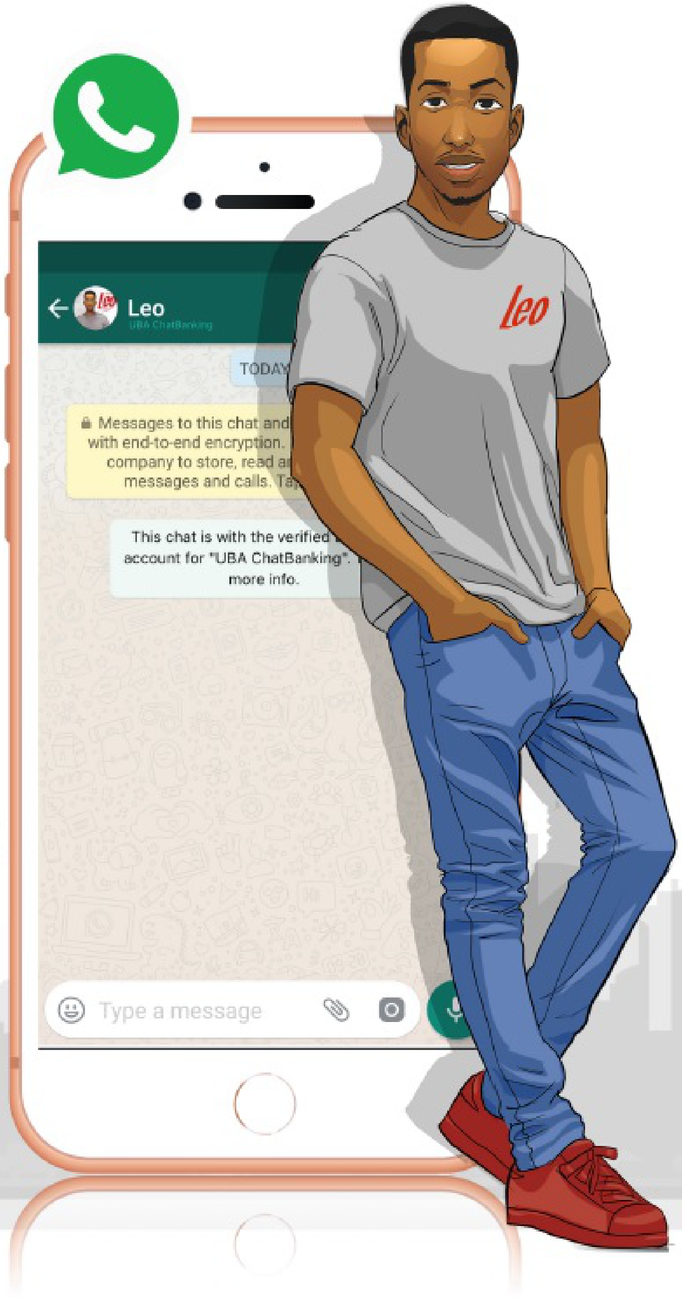

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EQUITY REPORT: Okomu Oil Palm Plc

Current Price

N 142.00 per share

Market Capitalization

N135.46 bn

Industry:

Consumer Staple Products

Okomu Oil palm Plc is one of the two local oil palm processing companies in Nigeria. In the year ended December 2021, the company's turnover rose by 60% to N37.46bn from N23.41bn in the corresponding period in 2020. This was supported by the surge in global commodity prices. In the year ended December 31 2021, the average CPO and rubber prices were up 50% y-o-y and 20% y-o-y respectively. Notwithstanding the sustained challenges posed by the coronavirus pandemic, the company recorded a 55.56% growth in local sales as well an accelerated growth of 91.07% in exports.

Sustained top and bottom-line growth despite higher operating costs

Okomu oil palm Plc was able to sustain a positive performance, in terms of revenue and profit after tax, even with rising operating cost, which increased by 42.21% to N9.67bn. In FY'21, the gross profit margin was 64.23% higher at N25.80bn compared to the corresponding period in 2020. We attribute the growth in the gross profit margin, which was despite a 51.43% increase in the cost of sales, largely to the higher turnover during the period.

During the period under review, Okomu oil palm Plc's profit before tax surged by 84.07% to N16.29bn. The growth in PBT was supported by a 5,232% acceleration in finance income to N380.19mn, which offset the 175% increase in the company's finance cost. Similarly, profit after tax surged by 80.46% to N14.04bn from N7.78bn.

Industry Overview

Prior to the emergence of Indonesia as the largest global producer of palm oil, Nigeria was a major player in the global space. It is now currently the fifth largest producer, accounting for less than 2% of global production. However, Nigeria remains the largest producer in Africa (1.02mmt in 2019). [1]

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

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

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

Since 2021, leading global producers of palm-oil have been faced with multiple production challenges including labour shortages in Malaysia. This, flooding in parts of Malaysia as well as COVID-19 related logistics constraints have resulted in supply tightness, which has been stoking palm oil prices. Other factors including higher energy prices have also provided support to palm oil prices, due to its usage in biofuels.

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

Company Overview

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

Governance Structure

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

Risk and outlook

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

Bulls Say:

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

Bears Say:

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

ECONOMIC OUTLOOK FOR APRIL

What Happens to Tentative Investors as Ramadan and Easter Coincide??

As the Russian-Ukraine war persists, commodity prices will remain elevated in the near term. Global oil price will stay above $100pb. However, Nigeria will continue to struggle to benefit from the oil price rally, owing to sub-optimal production as a result of oil theft and vandalism. This will have a trickle-down effect on the external reserves which have been on a decline and are expected to decline further in the short term. This will further worsen the value of the Naira which is currently trading at N590/$ in the parallel market.

The MPC left all parameters unchanged at its last meeting. This will have a neutral impact on money market rates. However, as the global economy gradually adopts a tightening monetary policy, the cost of borrowing becomes more expensive and debt service cost becomes more excruciating. In addition, inflationary pressure will remain elevated on the back of the energy crises coupled with the spike in global commodity prices and seasonality as we approach the planting season. This will have a knock-on effect on transport fares, operation costs, and domestic prices.

In addition, the impact of lingering inflationary pressures on consumers' purchasing power is slightly eroding the savings and investment pattern of rational investors. Tentative investors will be left with little or nothing to save as the upcoming Ramadan and Easter needs unfold. Also, Investors are expected to trade cautiously as economic and political uncertainties continue to drive volatility of the stock market.

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