FDC MONTHLY

ECONOMIC UPDATE

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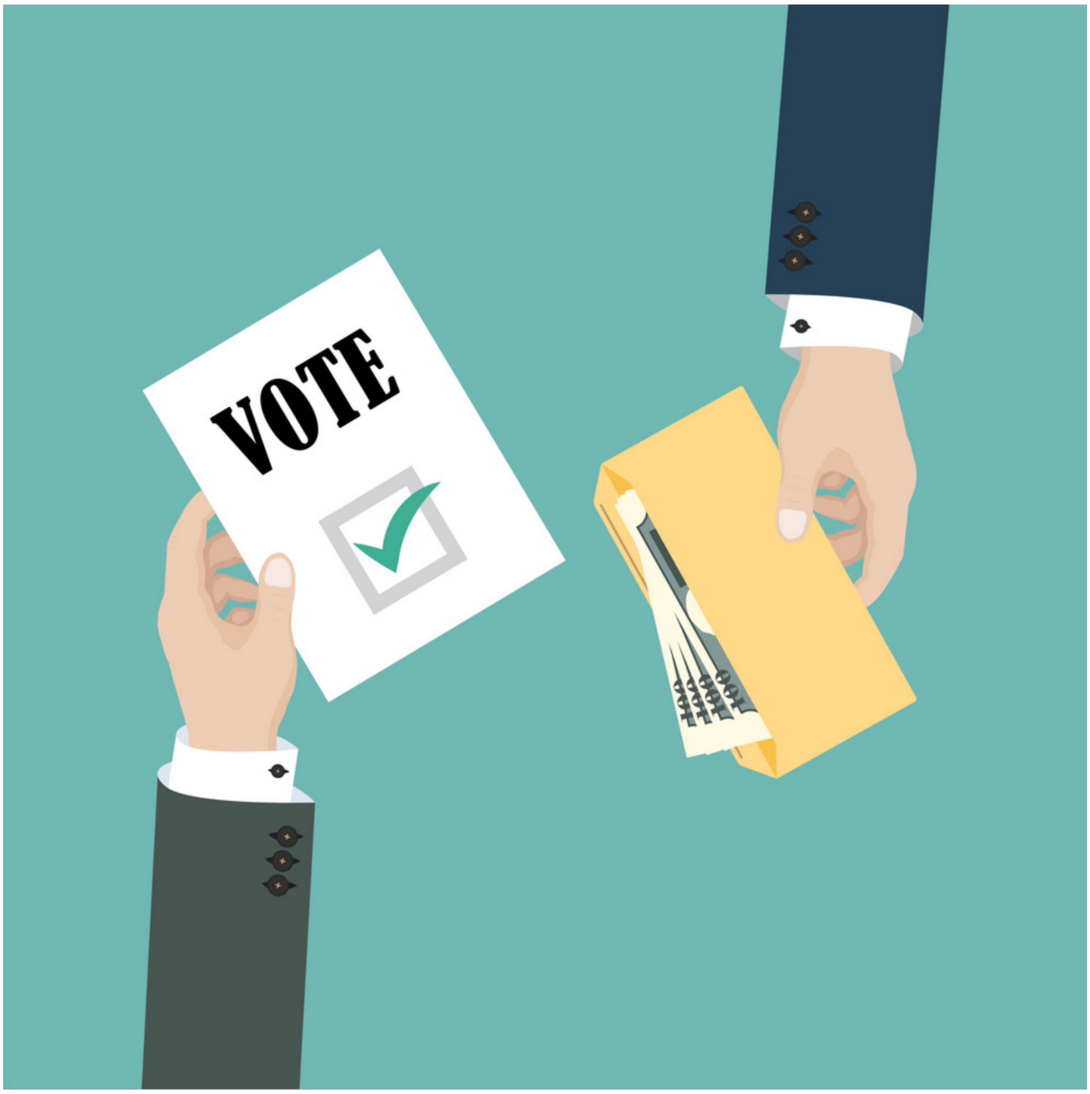
CONTENTS

2023 POLITICKING CROWDS OUT ECONOMIC CONSIDERATIONS



The election cycle for 2023 general election has begun amidst worsening economic conditions. While the 18 registered political parties are concerned with the permutations of gaining power in 2023, the citizens are expected to be worried about the choice of political leaders that will fix the economy. But as Bimal Jalan declared in his 2014 epic book, politics constantly trumps economics. With the signing of the new Electoral Act, 2023 general election appears to be taken a different turn. It started with political fragmentation as several candidates jumped into the foray and declared their intention to run for the highest office of the land, the office of the president of the Federal Republic of Nigeria. About 28 presidential aspirants bought the N100 million expression of interest form under the APC with the only female candidate paying 50% of the expected sum. Several policy makers, including ministers and central bankers threw themselves into the ring. APC raked in about N2.75 billion while the PDP generated about N646 million from 17 presidential aspirants.

Delegate voting, consensus candidacy and zoning

During the buildup to the party primaries, it appeared that political fragmentation was metamorphosing into political consolidation. But as the horse-trading and concomitant racketeering intensifies, the consolidated fronts began splintering as disgruntled party men felt shortchanged and began considering floating or solidifying the Third Force political movement. The PDP presidential primaries ended on Sunday 29th May with the emergence of Atiku Abubakar as the presidential flag bearer. The outcome of the PDP primaries could engineer a new wave of political permutation for the APC whose presidential primary is expected to hold on the 6-8 June. Many analysts believe that political dynamics in Nigeria could push APC to go for a northern presidential candidate so as to match the PDP flag bearer. But, with strong southern candidates in the contest, APC is more likely to go for a consensus candidate. Consensus candidacy, which has become a political new normal in Nigeria, seems to be shifting the goal post on one hand, and threatening the envisaged consolidation on the other hand. The zoning agenda appears to have been abandoned but uncertainty remains, especially in APC, as to who will be the consensus candidate.

From economic-focused activities to politics-focused activities

If economics is what makes politics as the first female president of South Korea, Park Geun-Hye, once said, it is expected that the choice of party flag bearers will be determined by economic considerations. However, in Nigeria, it appears that the reverse is the case. The Nigerian transactional politics seems to have defeated issue-based politics and it is fast shifting the attention of policy makers from economic-focused activities to politics-focused activities. Subsidy removal that was meant to usher in full implementation of the long-awaited Petroleum Industry Act (PIA) was halted because we are in an election year. ASUU (Academic Staff Union of Universities) and ASUP (Academic Staff Union of Polytechnics) strike that began on February 14 and May 16 respectively is unusually rolling on without any serious reconciliatory talks. With over 1.4 million federal university students frustrated at home, the security risks and economic losses are monumental. Already, the education sector contracted by 17.76% (QoQ) and lost about N162 billion in nominal terms when compared with Q4'21. Also, exchange rate has seen profound pressure as dollar purchase program by aspirants intensifies and this may further heighten inflationary pressure.

Interestingly, as policy makers increasingly get encumbered with political distraction, the pressing issues of the economy, worsening poverty, ballooning public debt, raging inflation, weak exchange rate and fragile growth appear to be abandoned. The consideration for presidential candidacy seems not be driven by economic concerns but by tribal sentiments and political interests. But beyond the elections and no matter who wins the poll, the concerns that there are hard times ahead will continue to gain traction. Only recently, the CBN appears to have risen to its core mandate of price stability. The CBN refused to be a maverick, raised interest rate in tandem with global policy responses and demonstrated its determination to contain inflation which has since entered into its growth-inhibiting region. This return to orthodox monetary policy regime signals the commencement of monetary tightening regime by the CBN.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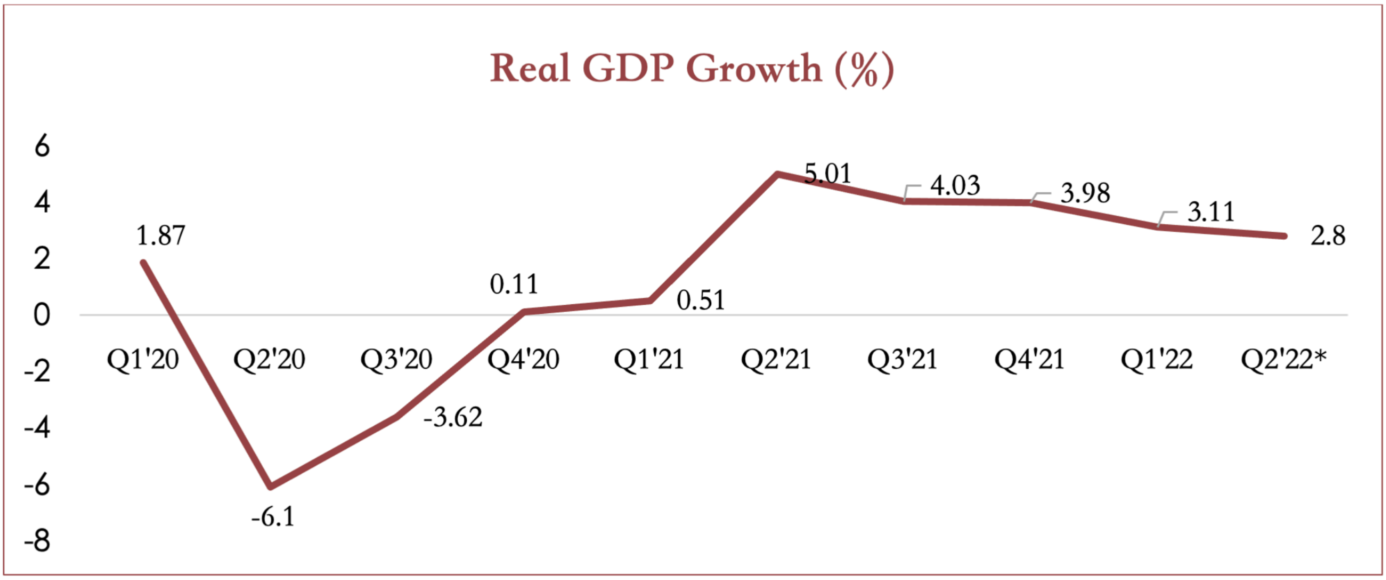
MILD GROWTH (3.11%) IN AN INFLATIONARY ECONOMY

Mild growth (3.11%) in an inflationary economy

The anticipated Q1'22 GDP data was released April 23 by the National Bureau of Statistics (NBS). As widely expected, real GDP growth sustained its positive trend for the 6th consecutive quarter. It grew by 3.11%, representing a decline of 0.88% relative to a growth rate of 3.98% in Q4'21. When compared to the corresponding period in 2021 (0.51%), it was higher by 2.6%. The slowdown in economic performance largely reflects seasonal effects (planting season) and the economic shock from the Russian-Ukraine crisis. The impact of the war-induced global supply chain disruptions is more evidenced in the quarter-on-quarter GDP growth, which contracted by 14.66%.



Oil sector remains a major drawback on economic growth

Despite the rally in oil prices, oil sector growth remained in the contraction territory, recording a growth rate of -26.04% in Q1'22. This is 17.99% lower than -8.06% in Q4'21 and 23.83% below -2.23% in Q1'21. The tepid performance was largely due to lower oil production owing to the lingering operational challenges, oil theft, vandalism and divestment by major IOCs. During the review period, oil production averaged 1.49mbpd, 0.67% lower than 1.5mbpd in Q4'21 and 13.37% below an average of 1.72mbpd in Q1'21. The sector contributed 6.63% to GDP in Q1'22, up from 5.19% in Q4'21 but lower than 9.25% in Q1'21.

SECTOR ACTIVITIES TRACKED

25

EXPANDED

11

SLOWED

10

CONTRACTED

Higher energy and food costs take a toll on major sectors in the economy

Like most other countries, the Nigerian economy was badly hit by the global supply chain disruptions emanating from the Russian-Ukraine war. Energy and other commodity prices touched record high levels. For instance, diesel prices, which are the most widely used fuel for power generation and logistics, surged by almost 300% to N750/litre before declining slightly to N650/litre. Aviation fuel also spiked by about 200% to N500/litre. The resulting impact of this was a spike in overhead costs for businesses. Most firms had to pass on the additional costs to consumers in form of higher prices, further squeezing consumer wallets.

Sector breakdown -25 sectors expanded, 11 sectors slowed, 10 sectors contracted

Out of the 46 activities tracked by the NBS, 25 expanded, 11 slowed while 10 contracted. The good news is that most of the expanding sectors are employment elastic. As widely expected, agric sector growth slowed, mostly reflecting the impact of the planting season. Road transportation sector was largely affected by heightened insecurity and increased kidnapping activities, leading to a shift to other means of transportation, particularly air and rail. The attack on the Kaduna bound train on the Kaduna-Abuja railway track has made air transportation the safest option. However, the sector is also embattled with rising operating costs due to the spike in the price of aviation fuel, forex scarcity and currency depreciation.

EXPANDING SECTORS

124.54%

25.43%

12.07%

6.54%

5.89%

4.83%

4.44%

EXPANDING SECTORS

Sectors	Q4'21 (%)	Q1'22 (%)	% Change
Rail transport & pipelines	37.74	124.54	229.99
Financial Institutions	25.19	25.43	0.95
ICT	5.03	12.07	139.96
Trade	5.34	6.54	22.47
Manufacturing	2.28	5.89	158.33
Construction	3.16	4.83	52.85
Real Estate	1.47	4.44	202.04

SLOWING SECTORS

Sectors	Q4'21 (%)	Q1'22 (%)	% Change
Agriculture	3.58	3.16	-11.73
Metal ore	46.96	30.76	-34.50
Water transport	14.54	7.58	-47.87
Air Transport	63.05	50.68	-19.62
Insurance	12.19	7.77	-39.77

CONTRACTING SECTORS

Sectors	Q4'21 (%)	Q1'22 (%)	% Change
Oil refining	-43.94	-44.26	-0.73
Crude oil	-8.06	-26.04	-223.07
Road Transport	30.39	-24.63	-181.05
Quarrying	42.92	-13.72	-131.97
Coal mining	62.91	-12.97	-120.62

MPC RAISES MPR TO 13%, FIRST TIME IN 70 MONTHS

After maintaining status quo for 20 months, the Central Bank of Nigeria (CBN) raised the monetary policy rate for the first time in 70 years. The monetary policy committee (MPC) decision to raise the benchmark rate by 150bps from 11.5% to 13% was supported by concerns to rein in inflation, moderate capital flow reversal and strengthen the weak naira which is currently trading above N610/$1 at the parallel market. The hike in interest rates, which is larger than expected, signals the commencement of monetary tightening. In line with the global trend, the CBN is committed to mopping up excess liquidity as a means of tackling demand-pull inflation believed to have been precipitated by its intervention programs aimed at supporting post-pandemic economic recovery. However, there are concerns that the current inflationary pressure is largely a supply shock phenomenon, which could require structural policy arsenal to contain. Furthermore, interest rate hike is expected to raise cost of borrowing for both government and private firms, while increasing their risk of default. On the other hand, it could help reduce speculation activities in the forex market as the currency begins to appreciate.

Outlook

Real GDP growth is expected to remain positive in the coming quarter but could slow to 2.8% due to seasonal factors and the lingering impact of the Russian-Ukraine war. The recent hike in interest rates may also pose downside risks to economic growth. Manufacturers are likely to begin to grapple with high borrowing cost while financial institutions could be faced with increased risk of default on loans lent to the private sector. Trade sector growth is expected to remain elevated due to the re-opening of three of the land borders.

ECONOMIC WARFARE:

THE WEAPONIZATION OF SANCTIONS & CURRENCY

Since time immemorial, human beings have waged war. Conflict is as ingrained into human nature as self-interest and the need to socialize. What is not set in stone, however, are the ways in which humanity has chosen to resolve conflict throughout the millennia. Conflict resolution has typically fallen under two broad umbrellas: coercion or force, and discourse or debate. Resolution by force over the years has usually involved militaristic action and resulted in heavy losses for both parties in terms of lives and property. Under this method, guns and other weapons of mass destruction are employed to force surrender or render the opposition non-resistant. However, there is another form of warfare or conflict resolution by coercion which does not employ the use of guns and other armaments, economic warfare. Economic warfare can undermine the foundation of nations and put the lives of individuals at risk.

The idea of waging war via economic means is not new - far from it in fact. Trade wars have been used historically and remain prevalent today. Conflicts, such as the Anglo-Dutch wars which took place from the 17th to late 18th centuries, the Shimonoseki campaign of 1863 to 1864, and the opium wars of the mid-19th century, are examples of trade wars of the past. More recently, however, was the trade war between the US and China which began in 2018 and has seen tariffs placed on billions of dollars of both Chinese and US products. The economic fallout of trade wars has been surging prices of goods, falling living standards, economic collapse, and in some cases, the loss of lives.

Apart from tariffs and trade wars, economic sanctions and embargoes are another popular weapon from the arsenal of economic warfare. One nation, notorious for making use of these sanctions is the US. The US has had long running sanctions placed on nations such as North Korea, Iran, Cuba, Venezuela, and Syria. The scope of these sanctions includes bans on exports, restrictions on economic aid, and other financial restrictions. These sanctions impose huge costs on the target nations and put them in precarious economic situations that are detrimental for living standards and economic growth. Sanctions are typically placed on nations that have violated human rights or pose a threat to global peace and stability. These sanctions are typically employed as the weapon of choice when diplomacy proves ineffective and military force too costly. Perhaps no example in history is better at illustrating the scope and devastation of economic warfare than the fallout of the Russian invasion of Ukraine.

Russia's decision to invade Ukraine in February 2022 sparked reactions over the world and led to Russia becoming the recipient of possibly the biggest pack of sanctions in history. The sanctions placed on Russia have come from several nations and have predominantly been targeted at Russian exports and overseas financial assets. The rationale behind these sanctions, other than to punish Russia, was to cut off cash flow that might enable the nation to finance its continuous advancement into Ukrainian territory. Sanctions have been placed on some of Russia's key export commodities such as oil, metals and food crops. Similarly, several countries that export goods to Russia have halted sales to the nation. Several multinational firms have either halted operations in Russia or pulled out of the country totally.

Russia's access to foreign currency and ability to do business in dollars (the currency in which most global commodities are priced) has been severely limited. The impact of all these factors has been a crash in the value of Russia's ruble, a surge in the domestic prices of food and necessities in Russia, and an economic crisis like the country has never seen. Economic crises often lead to civil unrest, and Russia is no exception. The country has become a powder keg of economic and geopolitical tension and it is set to blow at any moment.
Russia has not been taking economic blows from other nations lying down.

The country has retaliated in kind with possibly its largest economic weapon, and that is natural gas. Russia accounts for over half of the natural gas supply to the EU, an essential resource that several EU nations are unable to do without especially in the winter. Russia recently announced that it was fully halting all gas supplies to Poland and Bulgaria, and it would only accept payments for gas from these countries in rubles. This response threatens the US dollar's supremacy as the de-facto currency for global oil trade. Russia also hopes that by doing this it will hurt Poland, which has been a loud opposition voice against Russia's Ukraine invasion, and a destination of choice for numerous Ukrainian refugees fleeing the war.

The EU is currently contemplating a full ban on all Russian oil. The main opposition against this has been countries such as Hungary that have cited the EU's inability to fully substitute supply from Russia. If indeed the EU did move ahead with a total oil ban on Russia, this would crush Russia's largest and one of its few remaining income sources, further crippling the already embattled Russian economy. However, the fact that the Russian economy has lasted this long in the face of such insurmountable odds, speaks volumes to the economy's strength and how fortified Russia is from an economic perspective.

The utilization of currency, sanctions, and other economic means to wage war or coerce change is an underestimated yet highly devastating practice in the arena of geopolitical affairs. Money and economy are the life blood of nations, and to cut them off is like a gunshot to the chest. The sheer potential for desolation held by economic warfare is monumental. The sooner that nations can recognize this and begin to fortify themselves, much like the way they do against military attacks, the less likely they are to be caught off guard by economic blows. In a world where traditional warfare is shrouded by nuclear weaponry, economic warfare may be the only solution. The internal suffering caused by this strategy may see the Russian people decry the economic cost of this war while demanding a halt to the conflict.

BUILDING A RESILIENT ECONOMY STARTS WITH ACCOUNTABILITY

Two global catastrophes have impacted the Nigerian economy recently: the COVID-19 lockdown and the surge in price of food and energy commodities, following Russia's invasion of Ukraine. These events have worsened Nigeria's living standards and high levels of poverty, and like the catastrophes that have come before them, they have exposed Nigeria's inability to weather economic storms. That Nigeria needs to diversify its economy from oil is known. However, an utter lack of accountability regarding capital projects and policy implementation, also plays in destabilizing the economy.

For example, in April 2022, Nigeria borrowed four billion Naira from the international capital market to fund fuel subsidy payments, as its four refineries remain non-functional. Yet, the Nigerian National Petroleum Corporation (NNPC) spent N10.25 trillion on maintenance between 1994 and 2019.[1] In 2021 alone, Nigeria approved approximately N575 billion for refinery maintenance.[2]

Lack of accountability also impairs the fight against insecurity in Nigeria. Major crop growing regions are confronted with high levels of insurgency, leaving farmers unemployed and food supply in decline. In, Borno state, the result has been dramatic. Over 32,000 people were killed between 2011 and 2021, and while it used to produce 30% of Nigeria's wheat, it now contributes close to nothing.[3] The federal government has promised to fight insecurity and approved N770.60bn in the 2021 supplementary budget.[4]

However, insecurity has increased, spreading from rural areas to cities. There are no government reports detailing how insecurity has been tackled in the country.

Nigeria is in desperate need of a proper monitoring system that would hold those involved in the implementation of policies and capital projects accountable, promoting fiscal openness and transparency and in turn improving Nigeria's standard of living and its economic resiliency.

Encouraging proper monitoring systems and transparency in the public sector

South Korea stands as an example of how a country can improve its accountability practices. In 2000, South Korea ranked 41st out of 192 countries in terms of government effectiveness (the ranking captures the quality of policy formulation and implementation).[5]

However, by 2020, its ranking had risen sharply to the 22nd. In 2019, South Korea was also ranked sixth of 140 countries for its high-quality infrastructure.[6] A key to South Korea's success is the improvements it made to monitoring public officials and the performance of their portfolios. A monitoring system was put in place in South Korea in 1961. However, it was limited to monitoring the development of economic plans, inputs and processes. In 2006, the system took on an outcome-oriented focus, which also reflected more complexities in policy evaluations.

[1]News Agency of Nigeria. 2021. "Reps to audit funds spent on rehabilitation, repairs of refineries". The Guardian. https://guardian.ng/news/reps-to-audit-funds-spent-on-rehabilitation-repairs-of-refineries/.
[2]News Agency of Nigeria. 2021. "Reps to audit funds spent on rehabilitation, repairs of refineries". The Guardian. https://guardian.ng/news/reps-to-audit-funds-spent-on-rehabilitation-repairs-of-refineries/.
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[5]The Global Economy.com. 2022. "Government Effectiveness". South Korea Government effectiveness - data, chart | TheGlobalEconomy.com
[6]M. Szmigiera. 2021. "Top 100: Ranking of countries according to their quality of infrastructure 2019". Statistica. https://www.mordorintelligence.com/industry-reports/infrastructure-sector-in-south-korea.
[7]Seung-Bum Yang & Ador R. Torneo. 2015. "Government Performance Management and Evaluation in South Korea: History and Current practices". Public Performance and Management review. https://www.researchgate.net/publication/286922661_Government_Performance_Management_and_Evaluation_in_South_Korea_History_and_Current_Practices.

Specific evaluations are conducted by the Government Performance Evaluation Committee (GPEC).[7] South Korea's GPEC is a multisectoral evaluation agency that oversees all evaluation systems and is headed by the prime minister. It investigates ministries to determine their efficient execution of key national policies. The heads of the ministries are required to institute mid- to long-term policies or programs, as well as annual strategies. These are submitted to GPEC for assessment and refinement. Thereafter, an annual self-evaluation is prepared by each minister. The self-evaluation focuses on policy, processes, financial performance, and administrative capacity. Citizen-based committees are set up by the head of each ministry, which is the minister to oversee the self-evaluation process and the report is submitted to the prime minster for review. The same process applies to local governments, albeit run through the Ministry of Government and Home Affairs (MOGAHA).[8] The system has yielded results. In 2021, South Korea ranked 3rd in international economic resilience, following the brunt of the pandemic.[9]

Audit reporting is another area that must be improved if Nigeria is to improve its government accountability. The last audit report was published in 2016, nearly six years ago. Contrast this with Seychelles, which provides the public annual audit reports. According to the Global Synthesis report 2021, Seychelles had the highest independent supreme audit institutions out of 118 countries excluding the US, Canada, and EU countries.[10] The country was also ranked the most transparent in sub-Saharan Africa in the 2018 Transparency International Index. Nigeria, meanwhile, ranked 35th, with a score of 24 (0 is non-transparent and 100 is very transparent).[11]

A new day of monitoring on the horizon?

There are some signs of improvement. In 2020, for the first time ever, the NNPC publicly published an audit report.[12] This allowed for public assessment as various media outlets and economists identified the inefficiencies and loss of funds that had taken place within the corporation. It also supported the National House of Assembly's push to continuously carry out comprehensive audits on Nigeria's refineries.[13]

In a mid-term ministerial performance review retreat in October 2021, President Buhari launched a digital performance management system to help track government projects across the country in real-time, and monitor the performance of his ministers in two years. However, the structures to ensure effectiveness, transparency and continuity of this monitoring system are lacking. For example, the South Korean monitoring system is backed up by a law known as the Framework Act on Government Performance Evaluation, established first in 2001, and reformed in 2006.[14]

In addition, the two-year time frame for Buhari's digital performance management system requires progressive milestones to be successful. For example, during Babatunde Raji Fashola's tenure as governor of Lagos State (2007 -2014), he had a long-term goal to transform Lagos into a mega-city, alleviating poverty and providing sustainable economic growth. However, the achievement of this goal was hinged on short-term goals:

- Providing an efficient transportation network, such as the implementation of the Bus Rapid Transit System, which led to 2500 new jobs within two years.
- The massive construction and modernization of roads and bridges, and the installation of streetlights.[15]

The prompt achievement of these policies by the administration was due to the systematic pursuance of the short-term goals. Unfortunately, Fashola's administration did not establish a monitoring system to strengthen prompt delivery of public service, which may have helped to maintain the pace of development with subsequent administrations.

Adopting proper monitoring systems in the public sector will promote prompt and efficient delivery of public services in Nigeria. It will also aid proper assessment of failed policies and how they can be reformed. This will in turn build a resilient economy that will serve as a buffer to unpredictable global or domestic shocks.

[8]Seung-Bum Yang & Ador R. Torneo. 2015. "Government Performance Management and Evaluation in South Korea: History and Current practices". Public Performance and Management review. https://www.researchgate.net/publication/286922661_Government_Performance_Management_and_Evaluation_in_South_Korea_History_and_Current_Practices.
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[10]Seychelles Nation. 2021. "Seychelles audit authority ranked number one". https://nation.sc/articles/10092/-world-banks-supreme-audit-institutions-independence-index--seychelles-audit-authority-ranked-number-one--by-gerard-govinden.
[11]Transparency International. 2021. "Corruption Perceptions Index". https://www.transparency.org/en/cpi/2021/index/nga
[12]The Premium Times. 2020. "After 43 years, NNPC publishes audited financial accounts. https://www.premiumtimesng.com/news/top-news/397884-after-43-years-nnpc-publishes-audited-financial-accounts.html?msclkid=8d0a11d8cf6f11eca319018d6478775b
[13]The Guardian. 2021. "Reps to audit funds spent on rehabilitation, repairs of refineries". https://guardian.ng/news/reps-to-audit-funds-spent-on-rehabilitation-repairs-of-refineries/.
[14]Seung-Bum Yang & Ador R. Torneo. 2015. "Government Performance Management and Evaluation in South Korea: History and Current practices". Public Performance and Management review. https://www.researchgate.net/publication/286922661_Government_Performance_Management_and_Evaluation_in_South_Korea_History_and_Current_Practices.
[15]The Vanguard. 2009. "Transforming Lagos to a Mega City". https://www.vanguardngr.com/2009/06/transforming-lagos-to-mega-city-a-must-%e2%80%94-gov-fashola/?msclkid=469a2c88cf7511ec8983af0c3ec0ef8a.

Culled from Financial Times

EMERGING MARKETS HIT

BY "TOXIC" MIX OF RISING RATES AND SLOWER GROWTH

Currencies such as China's renminbi fall sharply as risks mount for developing economies. Emerging market currencies have fallen by their most since the early stages of the pandemic as a "toxic" mix of rising US interest rates and slowing Chinese growth dims the outlook for developing economies around the world. An MSCI gauge of emerging market currencies has tumbled by more than 4 per cent since early April as the Federal Reserve embarks on an aggressive tightening of monetary policy in a bid to rein in high inflation, boosting the US dollar while battering stocks and bonds. Draconian coronavirus lockdowns in China have piled on further pressure by threatening a crucial source of demand for emerging economies.

The Chinese renminbi fell to its weakest level against the dollar in more than 18 months on Monday after data showed the country's exports grew at the slowest pace in two years last month, spurring a further bout of selling across emerging market currencies. "We have had this cooling down of Chinese demand coming at a time when the Fed is hiking interest rates and inflation is still pushing higher," said Cristian Maggio, head of emerging markets portfolio strategy at TD Securities. "As if that weren't enough we still have the risks related to the war in Ukraine. It's a very toxic combination."

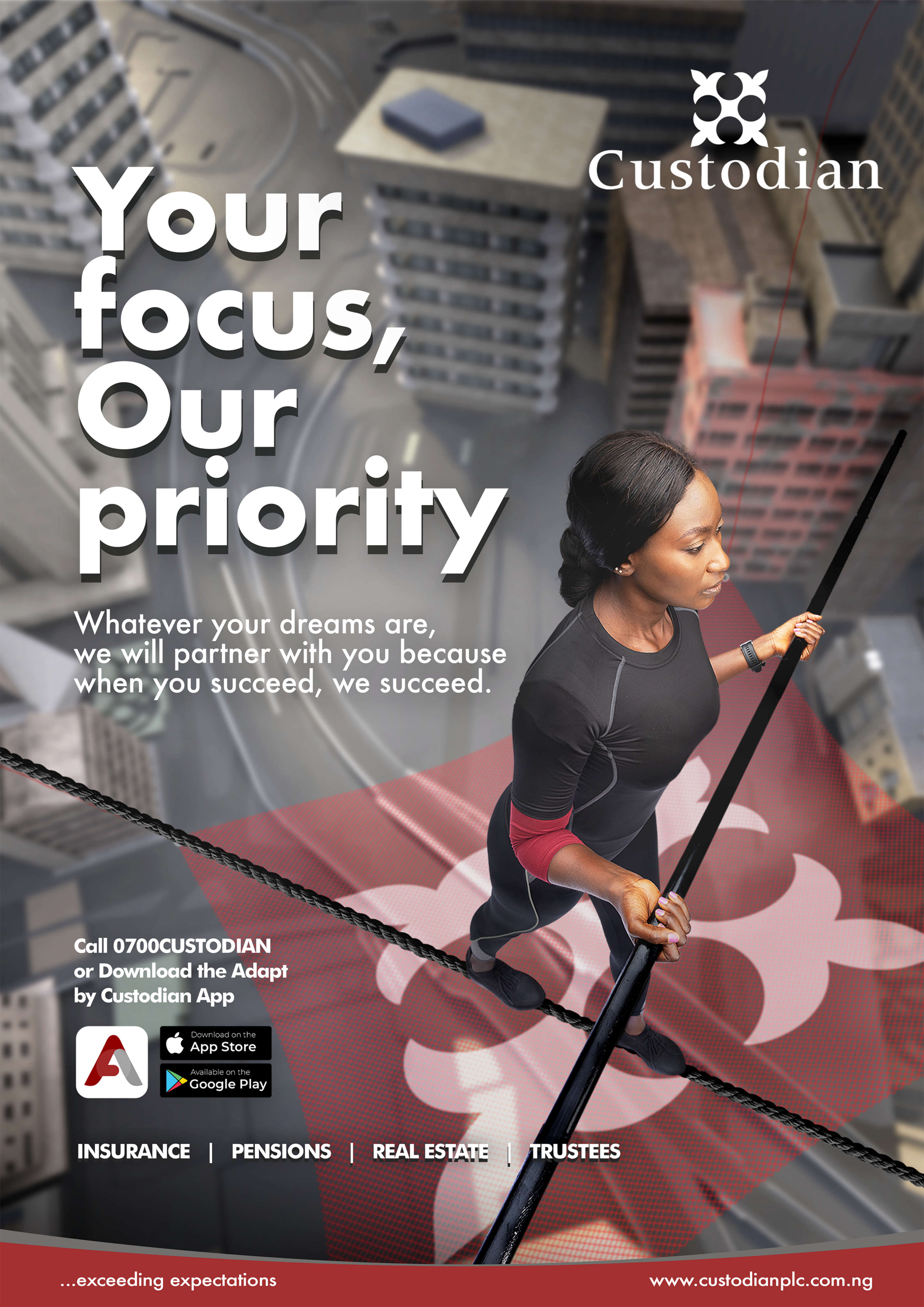
Rising US interest rates make emerging markets relatively less attractive to investors, prompting many to pull their money out of riskier economies and shift it to the relative safety of the American financial system. Even so, currencies in the emerging world had mostly shrugged off the prospect of tighter Fed policy until a month ago, helped by rate rises from emerging market central banks facing their own inflation problems last year.

Russia's invasion of Ukraine in February, which propelled the price of goods from oil to wheat higher, also bolstered currencies of commodity-exporting countries including Brazil and South Africa. "EM has had the tailwind of higher rates and higher commodities," said Polina Kurdyavko, head of emerging market debt at BlueBay Asset Management. "The question was always how long that would last."

But a more aggressive Fed, which last week increased interest rates by half a percentage point for the first time since 2000, has sparked a renewed sell-off in risky assets such as stocks while sending emerging market currencies lower.

Commodity-linked currencies including the Brazilian real and the South African rand have given up part of their earlier gains, while further pain has been heaped on commodity importers such as India, where the central bank was reported to be intervening in markets to support the level of the rupee on Monday.

"A lot of this pressure is coming from the Fed, and it isn't really specific to EM," said Uday Patnaik, head of emerging market debt at Legal & General Investment Management. "But right now you have a tightening of financial conditions everywhere, and EM can't escape that."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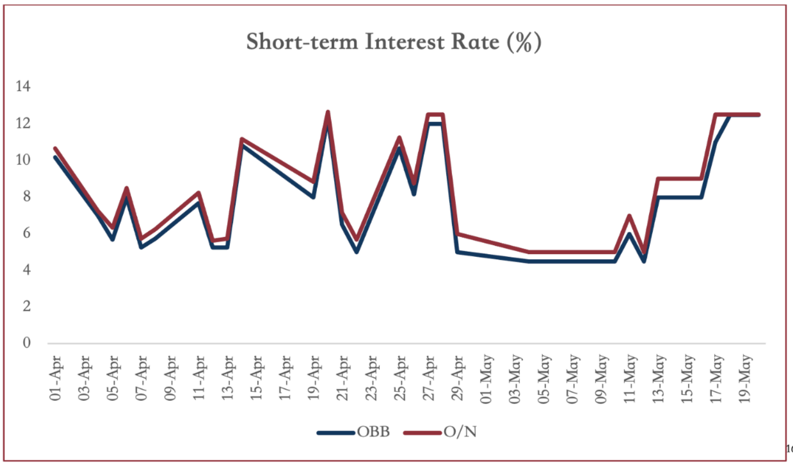
MACROECONOMIC INDICATORS (APRIL 1ST TO MAY 20TH)

Money Market

Banks' opening position was N161.39bn on the average in April. It declined by 39.84% when compared to N268.24bn in March. The decrease was relatively due to the OMO net outflow of N1.53bn (OMO bill of N50bn and OMO repayment of N48.47bn) compared to the OMO net inflow of N195.25bn in March. So far in May, liquidity declined by 115.83% to close May 20th at a negative balance of N51.30bn. Short term interbank rates averaged 8.19%p.a in April, 141bps higher when compared to 6.79p.a in March.
Interbank rates have so far increased in May by 775bps from a low of 4.75p.a at the beginning of the month to 12.5p.a in May 20th.

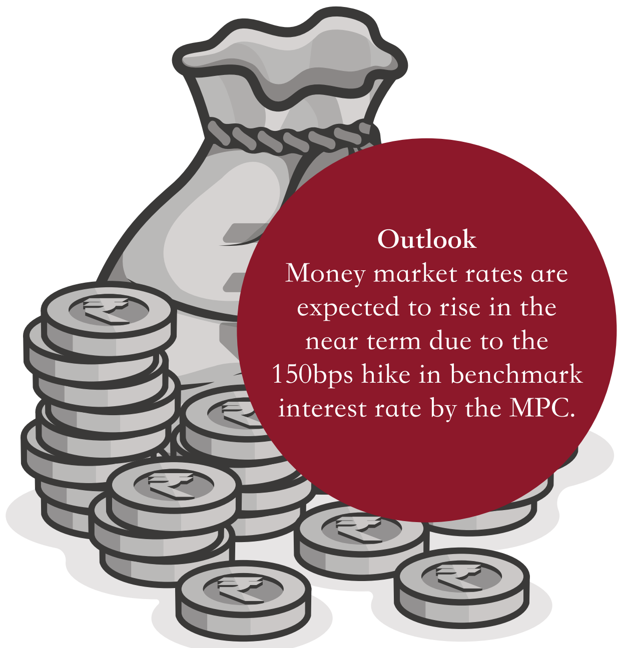
In the month of April, two Treasury bill auctions were conducted compared to the three in March. A total of N289.09bn were allotted at the auctions. This amounted to a net outflow of N26.86bn as a total of N262.23bn was repaid in April. Net outflow was 972.23% higher when compared to net outflow of N288bn (Treasury bill sales of N583.33bn and Treasury bill repayment of N295.33bn) in March. In May, only one primary market auction have been conducted so far, of which N137.86bn was allotted and N127.47bn was repaid, resulting in a net outflow of N10.39bn. Excluding the 181-day bill which remained unchanged from the last auction in March, the 91-day bill declined by 1bp while the 364-day inched up by 34bps in April. Rates rose by an average of 43bps across the maturities listed below in the secondary market in April when compared to the closing rates at the end of March.

So far in May, with the exception of the 364-day bill, whose rate dropped by 9bps, rates on the 91-day and 181-day have remained unchanged from their closing levels in April at the primary auction. In the secondary market, apart from the 11-Aug 22 maturity, whose rate fell by 25bps, other listed maturities rose by an average of 53bps in May.



[16]

Tenor	Primary market (March 30th 2022) (%)	Primary market (May 11th 2022) (%)	Maturity	Secondary market (March 31st 2022) (%)	Secondary market (May 20th 2022) (%)
91-day	1.75	1.74	11-Aug 22	3.22	2.97
182-day	3.00	3.00	24-Nov 22	3.44	3.70
364-day	4.45	4.70	23-Feb 23	3.61	4.40



Outlook
Money market rates are expected to rise in the near term due to the 150bps hike in benchmark interest rate by the MPC.

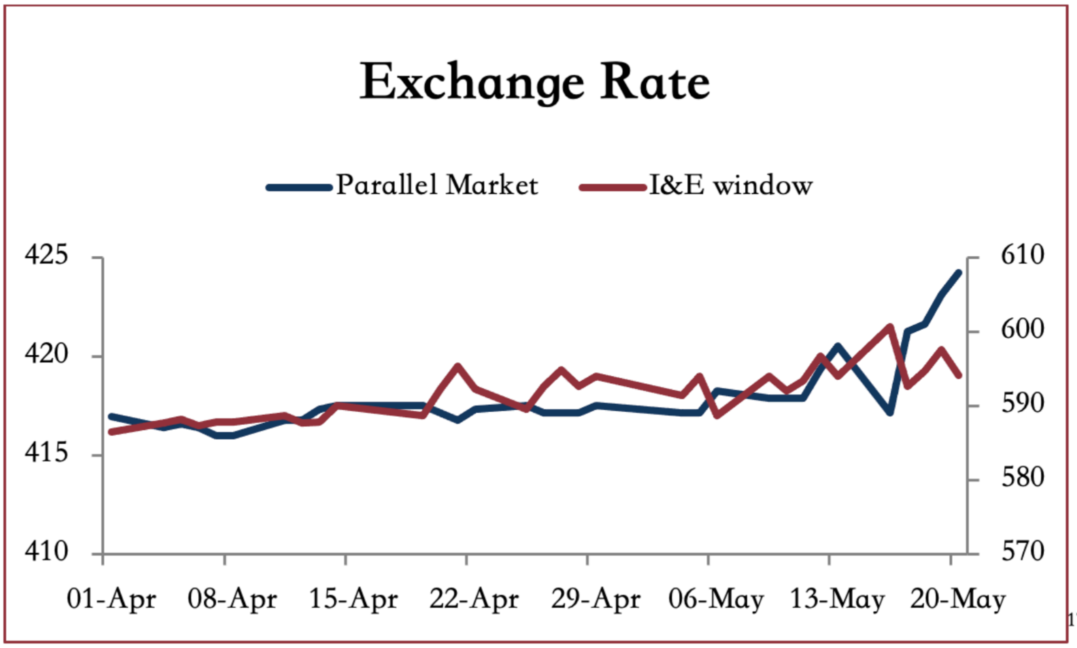
[16]Source: FDC Think Tank

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 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

Exchange rate averaged N417.53/$ in the Investors and exporters window in April. It depreciated by 0.24% when compared to the average rate of N416.53/$ in March. It traded around N416.17/$-N419.5/$ range in April. Likewise, exchange rate depreciated by 1.09% to an average of N588.47/$ in April from N582.13/$ in March. In the same vein, the Naira depreciated by 0.25% from N418/$ at the beginning of May to N419.03/$ on May 20th at the I&E window. The currency also depreciated by 3.57% at the parallel market to close May 20th at N608/$ from N589/$ at the beginning of May. The Naira depreciation is mainly fueled by increased demand pressure in the forex market.



[17]

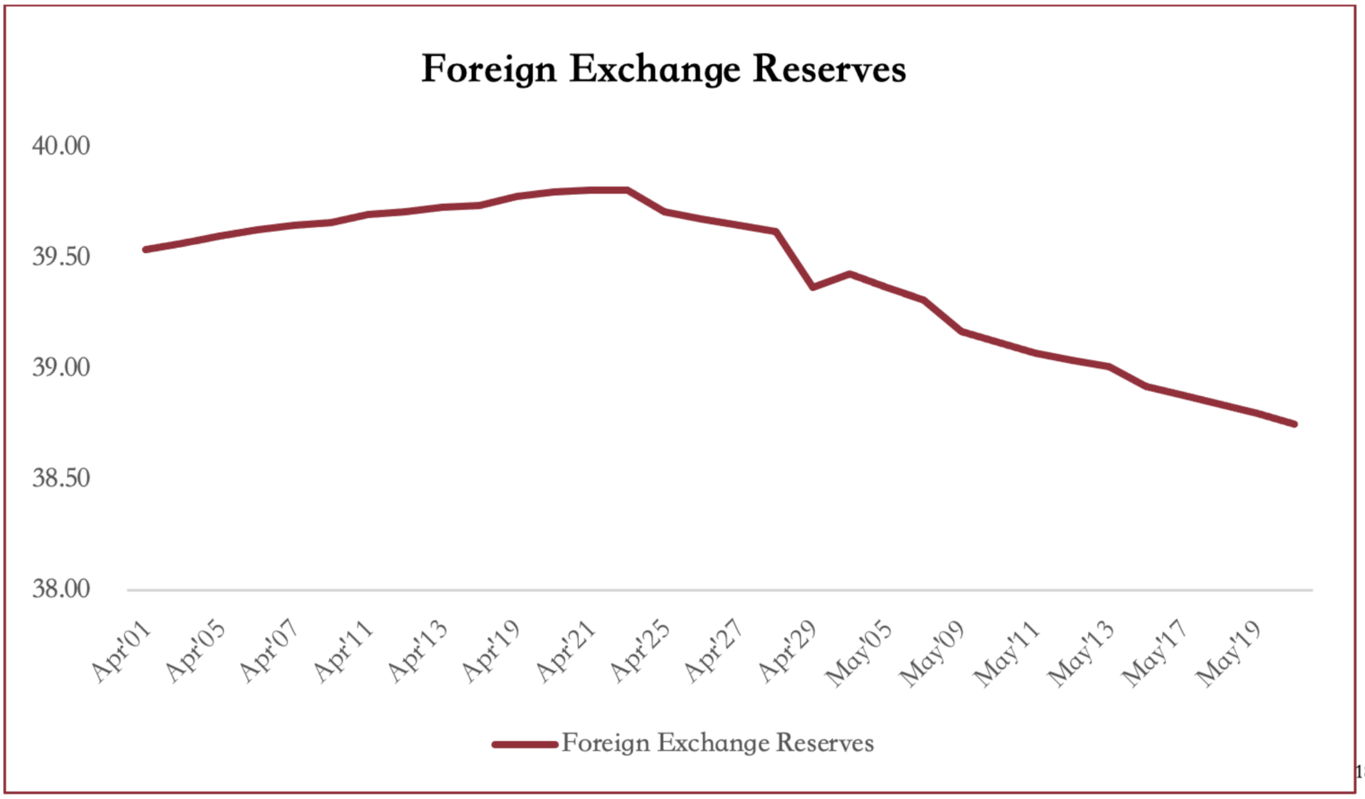
Outlook

The exchange rate is expected to appreciate in the near term as the increase in interest rates is expected encourage foreign portfolio investment and reduce demand pressure.
Rates are expected to trade around N416.50/$-N417.50/$ on the I&E window, while rates could appreciate to N595/$ in the parallel market in the near term.

[17]Source: FDC Think Tank

External Reserve

After reaching a high of $39.81bn in April 21, the foreign exchange reserves receded consecutively to close the month at $39.37bn. In the month of April, it lost by 0.43% ($170mn) from $39.54bn at the beginning of the April. Similarly, so far in May, the foreign exchanges reserves have constantly declined. It lost by 1.72% ($680mn) to close at $38.75bn on May 20th from $39.43bn at the beginning of May.



[18]

Outlook

The hike in interest rate is expected to limit capital outflows. This will likely reduce the pressure in the I&E window and slightly strengthen the naira. This will in turn lower depletion on the foreign exchange reserves as demand pressure tapers.

Impact

The impact of this will be the appreciation of the country's currency and stability in the foreign exchange market.

[18]Source: CBN, FDC Think Tank

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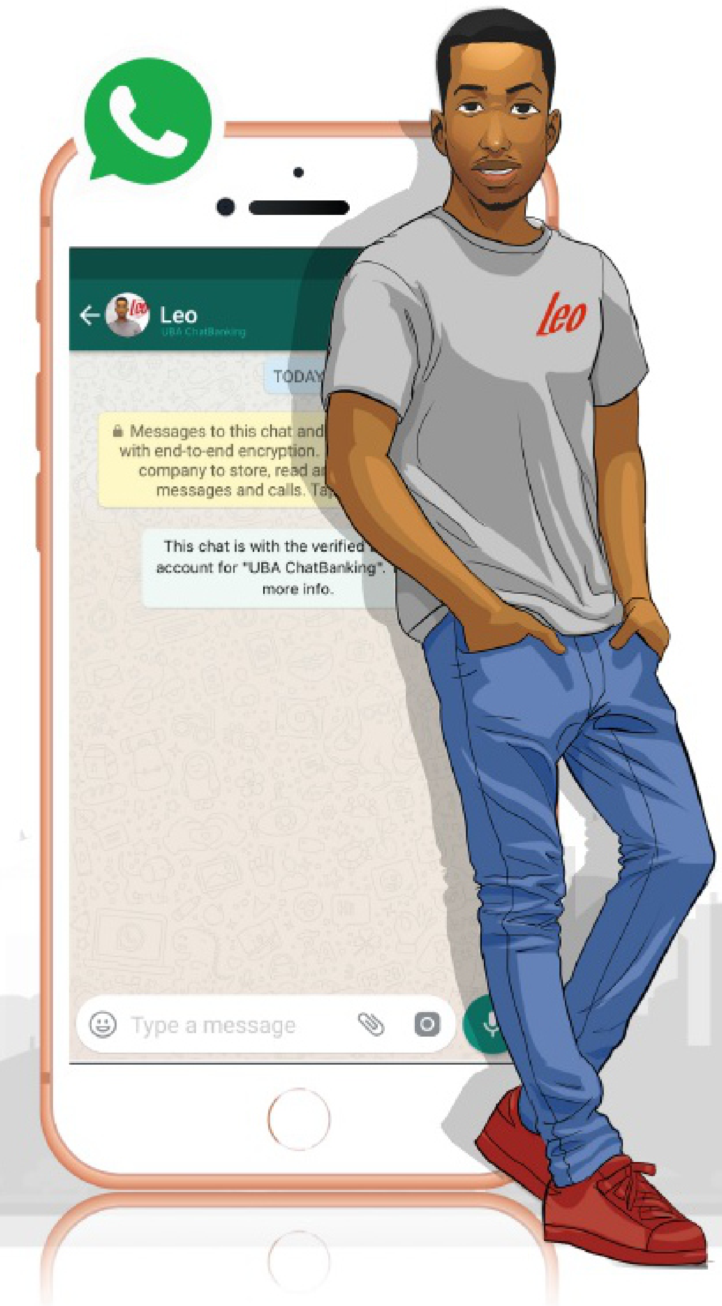

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COMMODITIES

EXPORTS

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

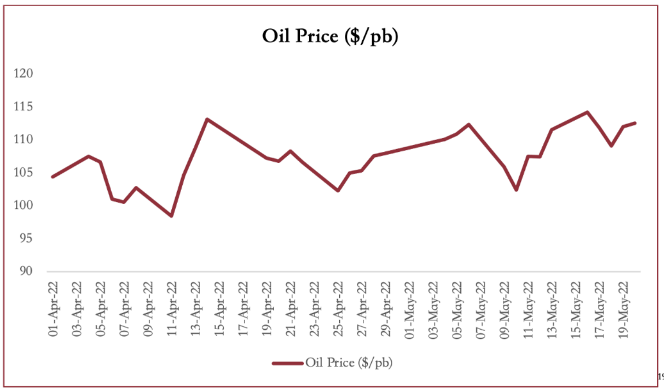
Oil Prices

Average price of oil declined by 6.17% to $105.54pb in April when compared to $112.48pb in March. This is due to the expectation of a pull-down in demand following the iteration of COVID cases in a top importer country, China which has heightened lockdown measures in affected cities. Correspondingly, the price of oil fell by 3.47% to close April at $108.01pb from $104.39pb at the beginning of the month.

On the other hand, oil price rose by 2.19% from $110.14pb at the beginning of the May to $112.55pb on May 20th due to supply tightness and increased demand. China recently eased its covid restrictions due to the decline in covid cases.

Oil Production

The gap between the country's actual oil production levels and its OPEC's production quota continues to widen. Domestic oil production declined by 1.49% (30,000bpd) to 1.32mbpd in April from 1.35mbpd in March. This is 23.92% (415,000bpd) lower than the country's OPEC production quota. On the other hand, its rig count increased by one point to eleven points from ten in March. OPEC's crude oil production averaged 28.65mbpd in April, up by 153,000bpd from a revised figure of 28.50mbpd in March. Oil production increased in Saudi Arabia, Iraq and the UAE, while declining in Nigeria and Libya.



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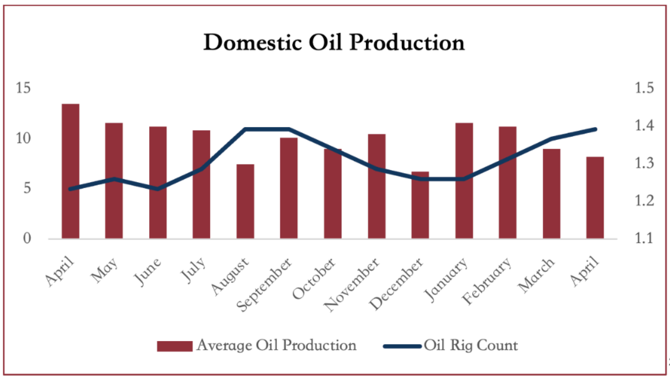


[20]

Outlook

Price pressure in the global oil market is projected to persist as supply continues to remain insufficient following the supply uncertainties from Russia over its invasion of Ukraine. Domestic oil production may continue to remain below OPEC production quota due to the insecurity and poor state of the country's oil. On the other hand, OPEC has raised the country's oil production quota to 1.772mbpd in June from 1.753mbpd in May.

Impact

The increase in the price of oil will bolster the country's foreign exchange earnings as well as raise its budget revenue. As a result, FAAC allocations to federal, states and local government will increase.

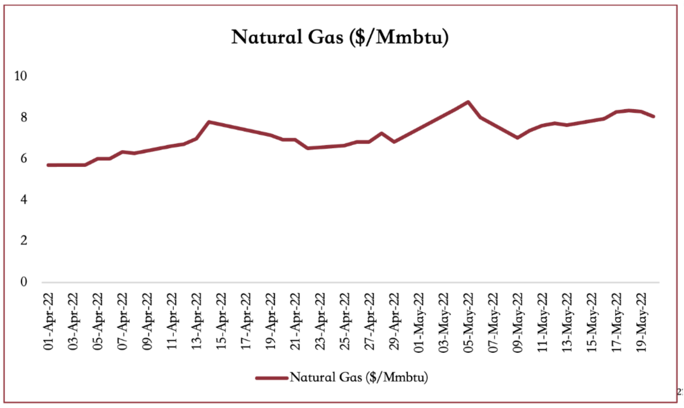
[19]Source: Bloomberg, FDC Think Tank
[20]Source: OPEC, FDC Think Tank

Natural Gas

Gas price soared by 33.58% to an average of $6.65/mmbtu in April from $4.98/mmbtu in March. It reached a 14-year high of $7.82/mmbtu before settling to close the month at $6.83/mmbtu. The surge in gas price was driven by European's decision to cut gas supplies from Russia. Russia had demanded that they pay its oil supplies in roubles (Russian currency) and cut supplies to Poland and Bulgaria for not doing so. The price of gas rose by 19.41% to close April at $6.83/mmbtu when compared to $5.72/mmbtu at the beginning of the month. However, gas price fell to close May 20th at $8.08/mmbtu after touching a high of $8.72/mmbtu. This was due to European Union's agreement that its member states can keep getting its gas supplies from Russia.

Cocoa

On the average, cocoa price increased slightly by 0.01% to $2588.95/mt in April from $2588.67/mt in March. However, it slowed by 0.73% to close the review period (April 29th) at $2580/mt from $2599/mt at the beginning of April. The stable cocoa price is due to the improvement in the supply chain of cocoa as sufficient rainfalls begins in producer countries (Ivory Coast, Ghana, and Nigeria) aiding the quality and quantity of cocoa production. So far in May, Cocoa price has also declined by 5.85% to $2429/mt (May 20th) when compared to $2580/mt at the beginning of the month.



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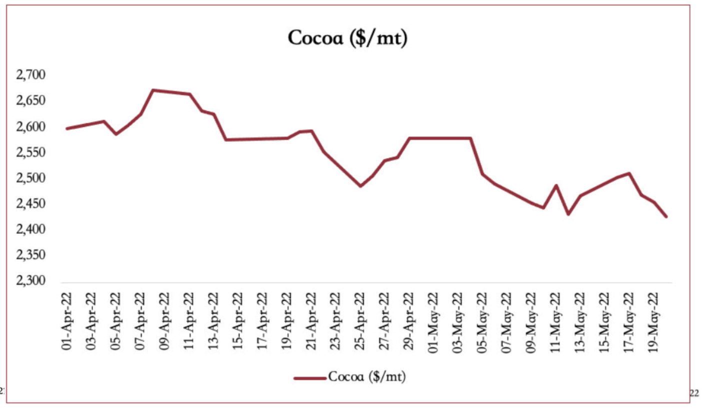


[22]

Outlook
Tight supplies compounded by soaring demand will continue to keep gas prices elevated in the near term.

Impact
Nigeria's export revenues and foreign exchange earnings will benefit from higher natural gas prices.

Outlook
The price of cocoa is expected to remain stable in the near term as supply continues to improve in producer countries (Ivory Coast, Ghana, and Nigeria).

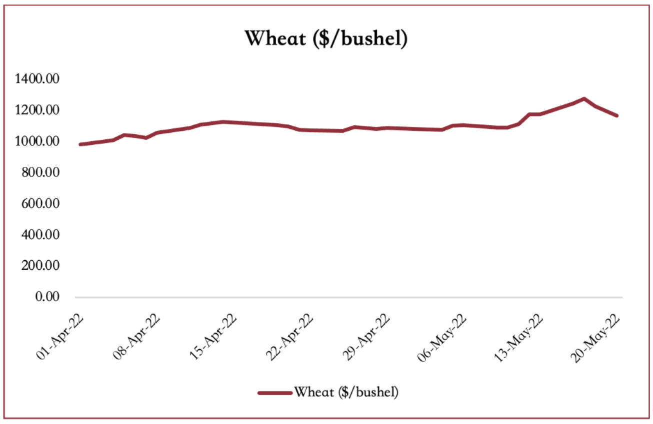
Impact
Lower cocoa prices will fall the country's exchange earnings as well as limit accretion in the country's foreign exchange reserves.

[21]Source: Bloomberg, FDC Think Tank
[22]Source: Bloomberg, FDC Think Tank

COMMODITIES
IMPORTS

Wheat

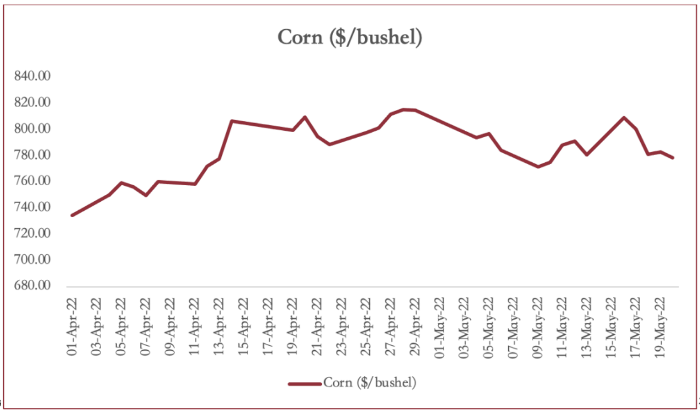
Average price of wheat fell by 3.08% to $1074/bushel in April when compared to $1108.17/bushel in March. This was due to the improvement in India's wheat exports, offsetting the from Ukraine, who have been unable to export wheat due to the invasion of its wheat-growing cities and the closure of its shipping ports. On the other hand, wheat price increased by 10.84% to close the month of April at $1091.25/bushel from $984.50/bushel at the beginning of April due to the supply insufficiencies. In May, wheat price have also increased by 8.57% to close the review period (May 20th) at $1168.75/bushel from $1076.50/bushel.



[23]

Corn

Corn price averaged $782.39/bushel in April, up by 4.75% from the average price of $746.95/bushel in March. Supply disruption from the invasion of a major exporter country-Ukraine continued to account for the increased price pressures in global corn market. In the same vein, corn price increased by 10.92% to close the April at $815.25/bushel from $735.00/bushel at the beginning of the month. Corn price settled by 1.80% to $778.75 in May 20th from $794.5/bushel at the beginning of May.



[24]

Outlook

Prices are expected to remain elevated in the near term as the market becomes more and tight due to the shortfall from major exporter-Ukraine. On the other hand, Russia recently suggested to provide humanitarian corridor to ships carrying food out of Ukraine in exchange for the removal of some sanctions on its economy. Ukraine's black Sea ports have been blocked since Russia deployed its troop into Ukraine in February 24th. Therefore, if this happens, the shortfall in global grain market will be abated and grain prices are likely to taper.

Impact

The escalating price of wheat have recently fueled demand for other alternative commodities like rice, manioc flour and sorghum as they are less exposed to supply disruptions and global inflation. However, as the price of wheat and corn escalates, demand for these commodities will increase and may proliferate the price of these substitutes. The increase in grain prices will also stoke the country's import bill and will also drive up manufacturing costs for firms that depend on processed wheat (flour) and corn for their production.

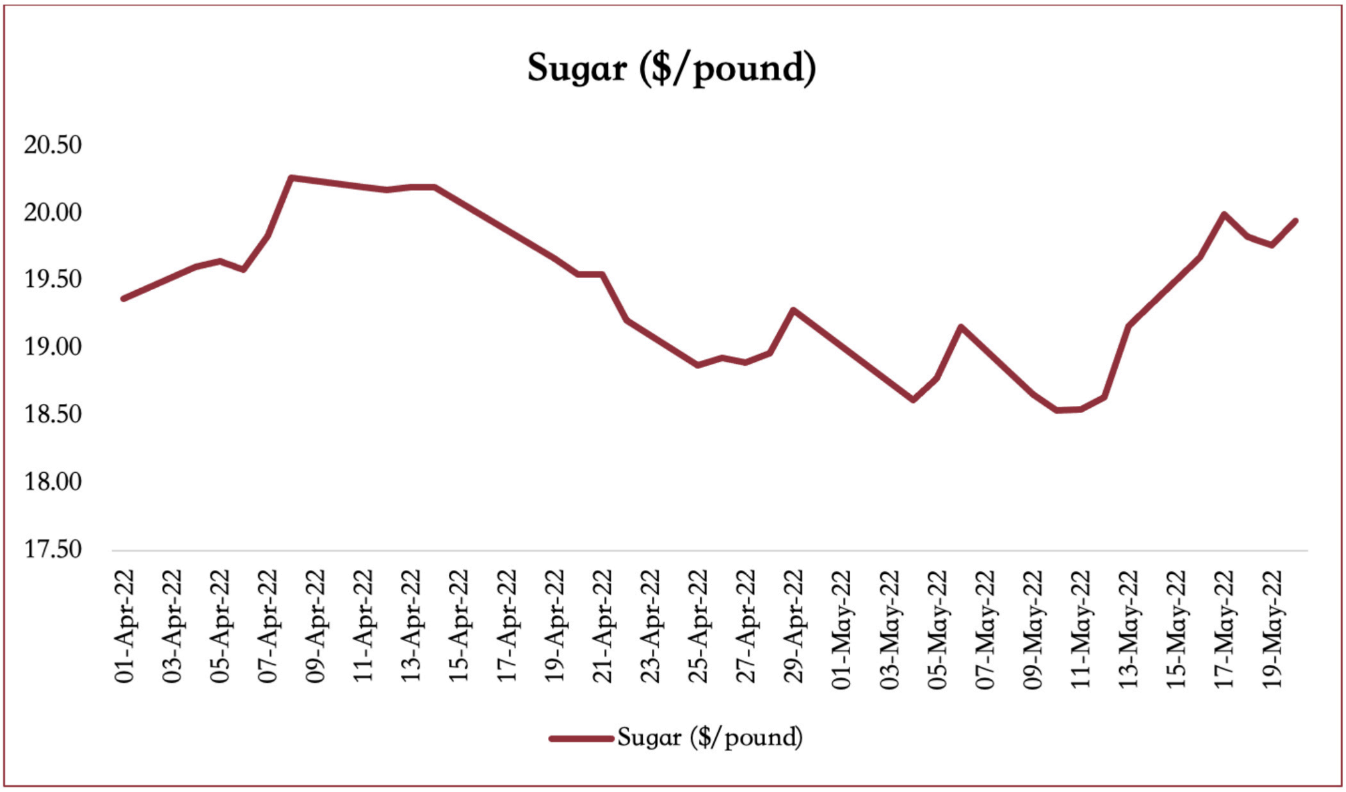
[23]Source: Bloomberg, FDC Think Tank
[24]Source: Bloomberg, FDC Think Tank

Sugar

The price of sugar increased by 2.48% to an average of $19.58/pound in April from $19.11/pound in March. The increase is driven by the lingering supply tightness in the global oil market as sugar producer countries (India and Brazil) redirect sugar canes to ethanol production from sugar. Sugar price however eased by 0.41% to close April at $19.29/pound from $19.37/pound at the beginning of April. In May, sugar price have risen so far by 7.14% from $18.62/pound at the beginning of the month to $19.95/pound at the end of the review period (May 20th).

Outlook
High demand for ethanol (a substitute for crude oil) following the high oil price will continue to push up the price of sugar in the near term.

Impact
As global price of sugar increases, demand pressure on the country's foreign exchange reserves will increase since it is one of its imports. More cost will also be incurred into the production of confectionaries.



[25]

Terms of Trade
The country's terms of trade is projected to be negative as the price of its imports rises in relation to its exports.

[25]Source: Bloomberg, FDC Think Tank

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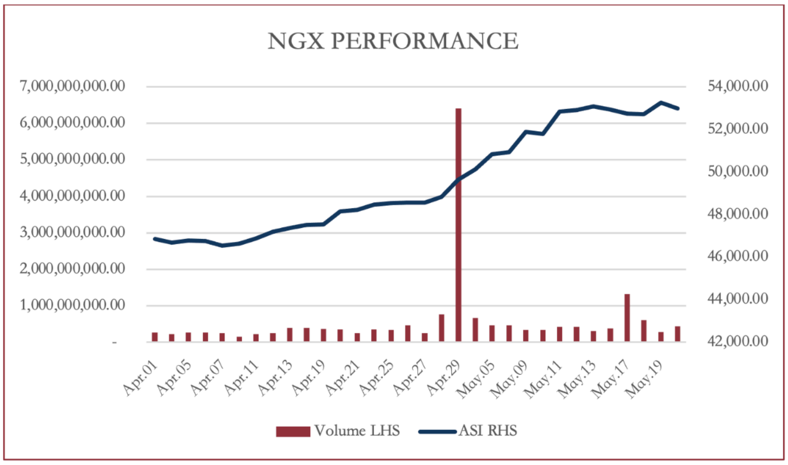
STOCK MARKET REVIEW APRIL 1ST - MAY 20TH

The NGX closed on a positive note from April1st – 29th. It gained 5.69% to close at 49,638.94 points on April 29th from 46,965.48 points on March 31st. Also, the market capitalization increased by 5.73% to N26.76trn relative to its close of N25.31trn on March 31st. The market YTD return increased to 16.21% from 9.95% in the review period. The market breadth was positive at 2.24x as 65 stocks gained, 62 stocks remained unchanged while 29 lost.

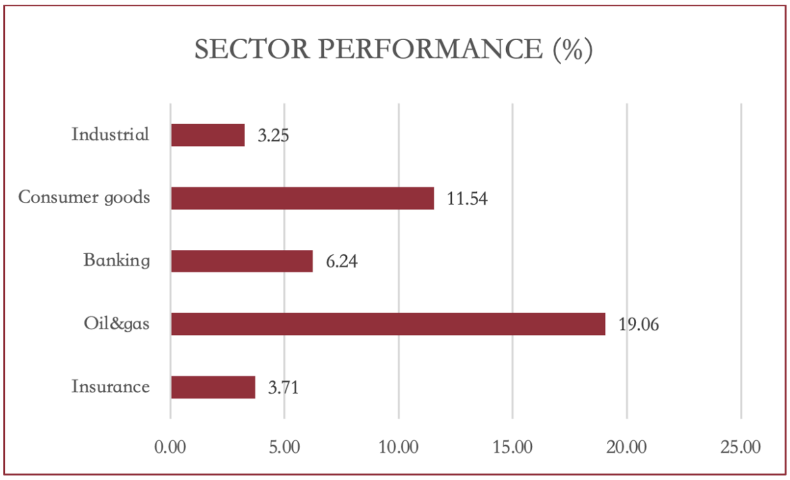
So far in May, the NGX closed on a positive note on May 20. It gained 6.73% to close at 52,979.96 points on May 20th from 49,638.94 points on April 29th. Also, the market capitalization increased by 6.73% to N28.56trn relative to its close of N 26.76trn on April 29th. The market YTD return increased to 24.03% from 16.21% in the review period.



Market activity level was positive in the review period. The average volume traded increased by 68.56% to 639.38mn units from 379.31mn. Similarly, the average value of trades increased by 34.16% to N5.42bn from N4.04bn in the review period.

So far in May, average volume traded stands at 495.01mn units as at 20th of May and average value of trade stand at N6.04bn as at 20th of May.

The performance of the sectors was positive in the review period, as all five sectors gained. The oil and gas sector recorded the highest gain (19.06%). This was followed by the consumer goods sector (11.54%), banking sector (6.24%), insurance sector (3.71%) and the industrial sector (3.25%).



In the month of May, the performance of the sector has been mixed as three sectors gained while two lost. The consumer goods sector recorded the highest gain (11.37%). This was followed by the oil and gas sector (6.09%) and the industrial sector (4.98%). Meanwhile, the banking sector recorded the highest loss (-0.94%) and was followed by the insurance sector (-0.37%).

Meyer Plc topped the gainers' list with a 354.55% increase in its share price. This was followed by Nigerian Aviation Handling Company Plc (52.56%), Nigerian Breweries Plc (41.16%), Oando Plc (30.71%) and Guinness Nigeria Plc (30.62%).

So far in May, McNichols Plc tops the gainers' list with a 204.29% increase in its share price. This is followed by Cadbury Nigeria Plc (72.68%), International Breweries Plc (60.78%), Champion Breweries Plc (54.76%) and Abbey Mortgage Bank Plc (47.32%).

Company	Mar-31 (N)	Apr-29 (N)	Absolute Change	Change (%)
MEYER	0.66	3	2.34	354.55
NAHCO	3.9	5.95	2.05	52.56
NB	40.45	57.1	16.65	41.16
OANDO	4.82	6.3	1.48	30.71
GUINNESS	71.20	93	21.80	30.62

The laggards in the month of April are NPF Microfinance Bank Plc. (-20.48%), CWG Plc (-18.52%), SCOA Nig. Plc (-18.49%), John Holt Plc (-17.44%) and Academy Press Plc (-16.95%)

In the month of May, the laggards are Academy Press Plc (-16.33%), Ikeja Hotel Plc (-14.29%), FTN Cocoa Processors Plc (-13.51%), Trans-Nationwide Express Plc (-9.88%) and FCMB Group Plc (-9.79%)

Company	Mar-31 (N)	Apr-29 (N)	Absolute Change	Change (%)
NPFMCRFBK	2.49	1.98	-0.51	-20.48
CWG	1.08	0.88	-0.20	-18.52
SCOA	2.38	1.94	-0.44	-18.49
JOHNHOLT	0.86	0.71	-0.15	-17.44
ACADEMY	1.77	1.47	-0.30	-16.95

Outlook

With the 150 basis points interest rate hike by the MPC, we expect a boost in the level of investors' confidence in the country. However, given the inverse relationship between the interest rate and the equities market, we expect a weakened market performance in the near term as fixed income assets becomes more attractive.

CORPORATE FOCUS:

Industry:

Cement

Share Price

N 204.00
per share

Market Capitalization

N4.15 trn

DANGOTE CEMENT

Analyst's Note

Robust performance, despite lower volumes

In the face of persistent challenges in its primary operating environment, Dangote Cement Plc recorded an impressive performance in the quarter ended March 31, 2022. The company's revenue rose to N418.18bn, a 24.21% growth from N332.65bn in the corresponding period in 2021. This was despite a 3.63% decline in the company's sales volume, which fell to7.25mn tonnes, amid sustained supply chain disruptions and energy supply challenges owing to low supply of gas in Nigeria. Similarly, gross earnings rose by 26.59% to N259.91bn from N204.66bn in the quarter ended March 31, 2021, even with a 20.40% growth in the cost of sales. The growth in gross profit was driven by higher average net realized prices and strong across all markets. Higher cost of raw material and fuel & power consumed spurred a 20.40% increase in production cost of sales to N154.11bn.

During the review period, Dangote Cement Plc's operating profit grew 20.47% to N182.80bn from N15174bn in the same period in 2020. This was despite a spike in the company's administrative and selling expenses and a slump in other income. The sharp growth in total administrative, selling and distribution expenses was 36.6% higher, driven by higher haulage expenses, AGO costs and other general administrative expenses. It was also affected by inflationary and currency pressures. The administrative costs for the company grew by 7.4% to N16.9bn, from N15.8bn while selling and distribution expenses spiked 47.8% to N60.7bn. On the other hand, an 80.59% fall in sundry income resulted in a 74.0% decline in other income, which stood at N1.02bn.

Dangote Cement Plc reported a 183.42% surge in its finance income to N10.36bn. On the other hand, a foreign exchange loss of N18.22bn pushed up the company's finance cost by 45.32% to N36.76bn. Despite the offsetting impact of the growth in finance cost on finance income, profit after tax rose 18% to N105.85bn.

Industry and Company Overview

The Nigerian cement industry has experienced substantial growth over the past few years. With a population of about 200 million people and a population growth rate of approximately 3% per annum, the demand for and consumption of cement is expected to increase. The cumulative average growth rate for global cement consumption in the last three years is about 2.96%. In 2021, global cement consumption was estimated to have risen to about 4.4 billion tonnes and is projected to grow by 2.45% in 2022.

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

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

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

Company Overview

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

Dangote Cement's exposure to East and West African markets places it ahead of its peers in Nigeria. In the first quarter of 2021, robust domestic demand forced the company to halt clinker export. However, the company's clinker strategy remains viable and is expected to take advantage of the absence of limestone in majority of West African countries who typically import bulk cement and clinker from Asia and Europe.

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

We expect the continued improvement in profitability to further bolster earnings and a resultant uptick in share prices. The share price of the company has shown resilience compared to its peers and the share price also presents an attractive upside potential for long term investors.

Management & Governance Overview

Dangote Cement's management has successfully operated the company since inception as evidenced by the firm's continuing record of excellent returns on invested capital. Management has done remarkably well in maintaining the firm's reputation as a force to contend with in the industry.
We find most of the qualities of the board to be in line with best practices. The board members have the necessary skills and vast experience across regions that make them more than capable to implement sound decisions. The role of the Chairman is separated from the CEO's and the board looks at risk and strategy on both short- and long-term bases.
Alhaji Aliko Dangote is the Chairman of the Board of Directors. He holds a BSc in Business Studies from the Al-Azahar University, Egypt. He is the founder of the Dangote Group. He serves on various boards, foundations, institutes and committees of the Federal Government of Nigeria.

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

Bears say:
- Government delay in the implementation and release of funds for capital projects
- Key market risk, the Nigerian economy remains the major driver of revenue
- Impact of currency pressure on costs and purchasing power
- Higher material and energy cost could erode profit

Risks

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

OUTLOOK
FOR THE MONTH OF MAY

Price pressure is expected to continue in the global oil market as supply shortage continues on the back of uncertainties hovering over the Russia's invasion of Ukraine. Conversely, the spike in COVID-19 cases in China and the lockdown response aimed at curtailing the spread will likely slow down global demand for oil, thereby stabilizing oil prices above $100. Sadly, Nigeria will still not benefit from this high oil prices as it continue to produce sub-optimally. This is negative for external reserves accretion and will definitely eat into the monthly FAAC allocation.

Headline inflation is expected to remain elevated in May. However, moderate letup is expected in June as markets, firms and households begin to price in the rate hike. This notwithstanding, elevated costs of energy and food prices will continue to precipitate upside risk to inflation. With the conclusion of party primaries expected before mid-June, dollar purchase program of political parties may slow down and this may buoy dollar supply and reduce dollar demand in the FX market. Overall, if the CBN continues to intervene in the FX market, the exchange rate may remain within the N600-N610 range in the coming month.

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