

# Unity Bank Digest

May 30, 2022

Finance

Economic News

Lifestyle



CBN hikes  
interest rate  
by 150bps  
amidst  
slowing  
growth

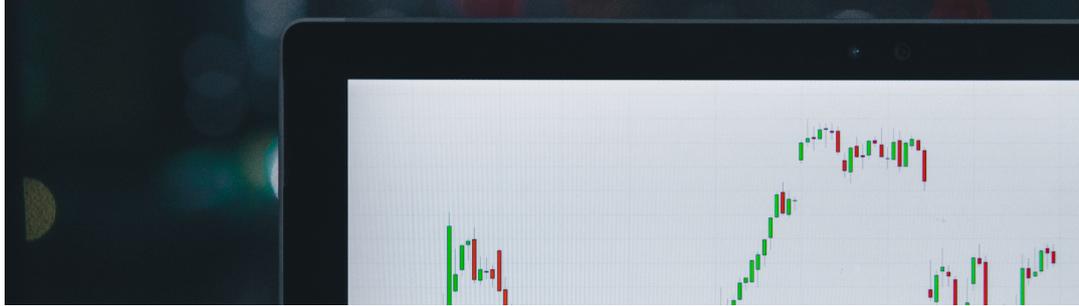
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# The Macro



## Monetary policy committee hikes rate by 150bps to 13%

At its May meeting, the CBN, in line with the global and regional trend, aggressively raised the monetary policy rate (MPR) by 150bps to 13.00% from 11.50%. The sole aim was to rein in inflation (16.82%), strengthen the Naira (N608/\$), moderate the capital outflows and restore investor confidence. This first interest rate hike in 70 months came after maintaining status quo for 20 months. All 11 members of the committee voted for a rate hike.

The CBN now making use of orthodox monetary policy tools to curtail inflationary pressures is a good incentive to investors. Interestingly, this coincides with the global monetary policy tightening spree. The US Fed recently raised rates by 50 basis points to 1.00% - the highest rate hike since 2000. The rise in the MPR (anchor rate) coupled with a positive GDP growth of 3.1% (Q1'22) would encourage investors to retain their Naira holdings. Capital inflows which have fallen by 72% to \$6.7billion (2021) could start rebounding; especially as Nigerian government backed securities are now relatively competitive with other emerging market economies.

However, for businesses and governments, it means a rise in the cost of borrowing, especially as bank lending rates could edge higher. This could heighten the risks of default. Also, due to the inverse relationship between rising interest rates and stock prices, we could see the NGX underperform in the coming months as investors reshuffle their portfolios to include safer securities like treasury bills.

## Nigerian economy records positive but slowing growth rate of 3.11% in Q1'22

Q1'22 growth rate for Nigeria slowed to 3.11%, 0.87% down compared to the previous quarter's growth rate of 3.98%. The slowdown can largely be attributed to economic shocks stemming from the backlash of the sanctions imposed on Russia for invading Ukraine as well as supply-chain disruptions which have buoyed spike in commodity and energy prices. The slowdown is also bookended by planting season effects. However, it has maintained its positive trend for six consecutive quarters after exiting recession in the fourth quarter of 2020. In comparison to the 0.51% growth rate in Q1'21, it rose by 2.60%, driven by the non-oil sector which expanded by 6.08% year-on-year. On a quarter-on-quarter basis, real GDP contracted by 14.66% in Q1'22, highlighting the impact of doubling of the price of diesel and PMS scarcity that hit the economy in February, escalating

production and logistics costs. Meanwhile, the oil sector remained a major drag on growth due to oil theft and other operational issues, resulting in lower oil production levels, capping the gains from high oil prices. Despite the slowdown of the Q1'22 growth rate, a sustained positive growth trajectory is expected to stimulate business activities and create more job opportunities. Also, it could boost Nigeria's attractiveness to investors, crowding in the much-needed investment to bolster growth and development in the country.

Real GDP Growth (%)



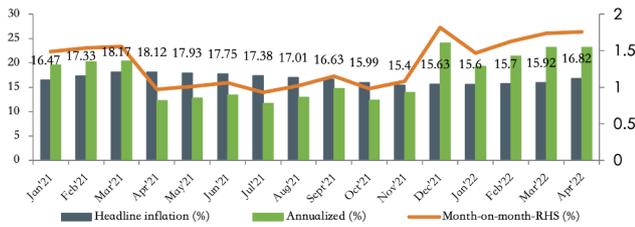
Source: NBS, FDC Economic Think Tank

In the coming quarter, Real GDP growth could remain positive but could slow to 2.8% owing to the supply disruptions stirred by the ongoing war in Ukraine, which has kept commodity and energy prices high. Furthermore, the combined effects of the planting season and currency constraints will have a significant impact on growth. In addition, the wave of global interest rate hikes is expected to increase Nigeria's debt service cost, forcing the government to divert funds that would have otherwise been used to fund the infrastructural development needed for growth, slowing growth even further.

## Headline inflation climbs eight-month high at 16.82% in April

Nigeria's headline inflation for April touched an eight-month high at 16.82%, up 90 basis points (bps) from the 15.92% recorded in March. The uptick was fueled by the persistence of the underlying legacy constraints and planting season - characterized by supply shortages, exchange rate pass-through effects, and higher energy costs. Similarly, month-on-month inflation rose by 2bps to 1.76% (23.19% annualized) - from 1.74% (23.15% annualized) in March due to cost pressures.

Headline Vs Month-on-Month Inflation (%)



Source: NBS, FDC Economic Think Tank

All sub-indices moved in tandem with headline inflation. Annual food inflation sub-index climbed by 1.17% to 18.32%, and core inflation rose by 27bps to 14.18% reflecting the impact of higher energy costs, particularly the price of diesel (diesel has spiked 209.5% to N650/liter YTD).

On the outlook, we expect inflation to remain elevated in the coming month. However, inflation could start moderating in the medium term as markets and economic agents begin to adjust to the monetary tightening regime of the CBN. Also, lingering supply bottlenecks, rising energy costs and increase in election spending would worsen inflationary pressures. Election spending increases money supply which is a major driver of inflation. Rising inflation will continue to erode consumer disposable income and worsen living conditions.

**World Bank to fund \$30 billion projects in Nigeria and other countries**

As part of its global measures to address the ongoing food insecurity, the World Bank is poised to disburse \$30 billion(bn) over the next 15 months to fund existing and new projects in Nigeria and other countries. Food security has been a major concern since the onset of the Russian-Ukraine conflict. The breakdown includes \$12bn for new projects and \$18.7bn for existing projects directly linked to food and nutrition insecurity, with the majority of the funds going to Africa, the Middle East, Eastern Europe, and Central and South Asia. The financing is expected to support agriculture, social protection<sup>1</sup>, nutrition, water, and irrigation, which will help to increase food and fertilizer production, improve trade, and support the vulnerable.

As part of the beneficiaries, this fund will support Nigeria’s effort to curb food insecurity through several agricultural expansion support schemes. It will boost local food production, bolster the country’s export earnings and guarantee stable commodity prices. Also, it will assist the Nigerian government in its efforts to expand employment in the agricultural sector which will, in turn, raise household incomes, lower poverty levels, and raise the standard of living of Nigerians. Meanwhile, the World Bank has encouraged countries to make concerted efforts to ensure output supply by boosting

fertilizer and energy production, and promoting cross-border trade through the removal of trade barriers.



**UK inflation hits a 40-year high at 9.0% in April**

UK inflation increased for the seventh consecutive month, reaching a 40-year high at 9.0% in April from 7.0% in March. The increase was largely driven by higher electricity and gas costs, which are worsening the UK’s cost of living crisis. Russia-Ukraine war sent energy prices soaring which caused an increase in gas prices by 46.5% between March and April. Other contributors to the Increase in inflation include the cost of food, transport, and housing which spiked by 6.7%, 13.5%, and 19.2% respectively. In addition, the UK economy slowed by 0.8% in Q1’22 compared to 1.3% growth in the previous quarter. With the UK experiencing stagflation, capital inflows into Nigeria are expected to decline. According to the latest capital importation report, the UK remains one of the largest sources of investment inflows into Nigeria, accounting for 34.15% of total capital imports. Meanwhile, the rise in inflation could force the Bank of England to increase interest rates again. The bank already raised policy rates early May by 25 basis points to 1.00%.



<sup>1</sup>Social protection: A range of policies needed and designed to mitigate the impact of poverty and vulnerability.

### **Nigeria's oil production falls to 1.32mbpd in April**

Nigeria's crude oil production fell by 1.49% to 1.32million barrels per day (mbpd) in April from 1.34mbpd in March. The reduction is mostly due to persistent operational issues such as oil theft, vandalism, and divestment in the oil sector. As a result, the country has continued to fall short of its OPEC's quota pegged at 1.772mbpd. However, the country's active oil rigs rose to 11 in April from the previous count of 10 in March.

Nigeria's sub-optimal oil production level has continued to limit the gains from the rallying global oil prices. Brent crude is currently trading above \$100 per barrel. The country's inability to earn as much from oil exports will worsen the country's revenue problems, cause a steady depletion of the external reserves, and trigger a further depreciation of the Naira – currently over N600/\$. Furthermore, lower oil revenues would negatively affect FAAC disbursements to the three tiers of government. A lower FAAC allocation could worsen delay in salary payments, non-implementation of minimum wage and staff layoffs (in various states) that in turn will slow aggregate demand and consumption levels in the near term.

### **Nigeria's trade deficit rose by 175% to \$420.79mn in Q1'22**

According to the CBN, the total value of Nigeria's international trade deficit rose by 175.13% from \$152.94 million (mn) in January to \$420.79mn in March. The spike is largely due to the country's dependence on imports, which has also constrained the CBN's ability to manage forex demand. In Q1'22, the total value of foreign trade stood at \$28.77bn, with total imports at \$14.77bn and total exports at \$14.01bn, indicating a total trade deficit of \$764.69mn. Since 2019, the country's trade deficit has been persistent due to the land border closure and the inability to produce certain essential commodities locally.

The persistent trade deficit has caused the federal government to resort to external borrowing through Eurobonds and multilateral loans to finance the economy, boost its external reserves and stabilize the currency. However, this has continued to contribute to the country's rising debt burden (\$38.39bn), worsening the fiscal position. In the short term, a large portion of the federal government's limited revenue will go into debt servicing rather than infrastructural development projects that could boost living standards and improve economic growth. Being an import dependent country, the ongoing Russia-Ukraine war could trigger shocks in the economy due to the persistent rise in global commodity prices. On the other hand, the government can boost non-oil exports by massively investing in agriculture to increase the local production of commodities which usually are imported. This will increase the CBN's ability to control forex demand.

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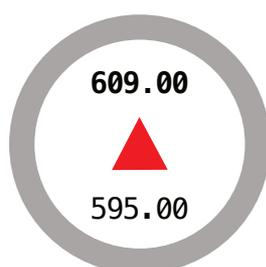


# The Business Environment

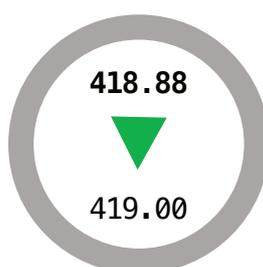
(May 17<sup>th</sup> - 27<sup>th</sup>, 2022)



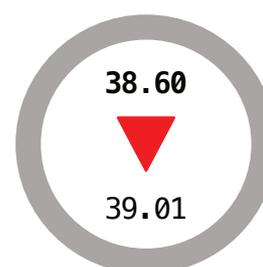
## Forex Market



Forex: Parallel (N/\$)



Forex: IEFX (N/\$)



External Reserves (\$/bn)

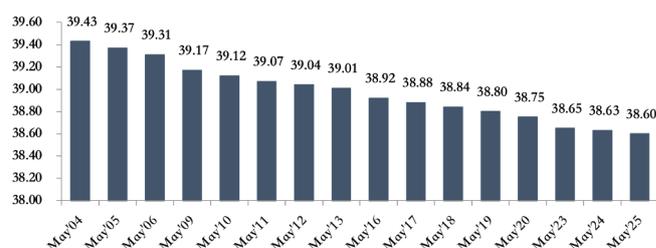
During the review period, the Naira at the parallel market traded above N600/\$. It depreciated significantly by 2.35% to close at N609.00/\$ from N595.00/\$ at the end of the previous period. The depreciation is due to the heightened demand for forex relative to the low forex supply. The demand for forex was perceived to be dominated by the demand for dollar by politicians ahead of party primaries. On the contrary, the IEFX rate gained 0.03% to N418.88/\$ from N419.00/\$ at the end of the first half of May.

Concurrently, gross external reserves maintained its steady decline throughout the review period, losing 1.06% to close at \$38.60bn compared to \$39.01bn. The steady depletion reveals the country's limited gains from high oil prices (currently above \$100pb) due to its sub-optimal oil production levels. The current level of external reserves is sufficient to cover 8.76months of imports, 0.79% lower than the previous import cover of 8.83months.

### Outlook and Implications

In the near term, there are indications that naira may further depreciate as excess demand widens. However, interest rate hike may strengthen the naira as capital outflow moderates and investor confidence buoys. Also, as primary election ends this weekend, it is expected that supply for FX will improve and the naira may slightly appreciate to N606/\$1 – N608/\$1.

Gross External Reserves (\$/bn)



SOURCE: FDCThinkTank, FMDQ

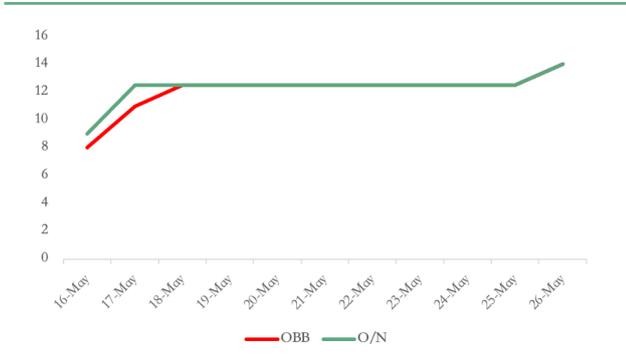
Exchange Rate (N/\$)



SOURCE: FDCThinkTank, CBN

# Money Markets

Short-term Interbank rates (%)

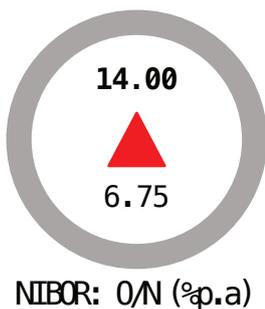
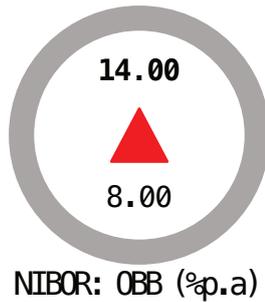


SOURCE: FDCThinkTank, FMDQ

Banks average opening position dipped by 36.36% to N224.08bn from the first half's close of N351.55bn. In like manner, the OBB and ON rates rose sharply by 600bps and 725bps to 14.00% and 14.00s% respectively from 8.00% and 6.75% on May 16.

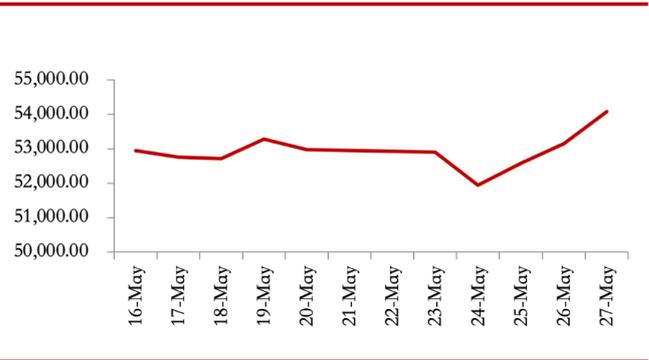
## Outlook and Implication

Interbank rate could remain elevated due to the current interest rate hike and the uncertainties surrounding FAAC releases.



# Stock Market

NGX ASI



SOURCE: FDCThinkTank, NGX

The NGX ASI gained 1.86% to close at 54,085.30 points, compared to 53,098.46 points at the end of the first half of May despite the recent interest rate hike. Similarly, the market cap increased by 1.85% to N29.16bn from N28.63bn. Of the 10 trading days, the bourse gained in 4 days and lost in 6 days. As at May 27, the 52 weeks and YTD returns stood at 42.16% and 26.61% respectively.

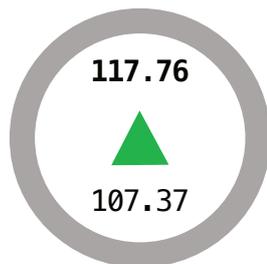


## Outlook and Implications

Although it is expected that the hike in interest rate will induce investors to begin rebalancing their portfolios from stock assets to fixed income in search of higher returns, improvement in investor confidence supported by the rate hike could keep the stock market attractive in the near term.

# Commodities

## Brent prices (\$/b)

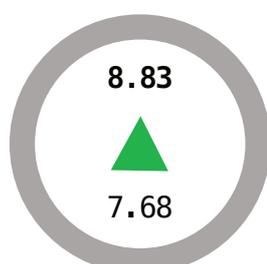


### Outlook and Implication

During the review period, Brent crude traded above \$100pb due to waning concerns about Chinese demand as COVID19 restrictions ease in the country. It rose by 4.07% to close the review period at \$117.76pb from \$107.37pb at the end of the first half of May. Similarly, the average price of Brent increased by 4.66% to \$113.60pb from the previous average of \$108.54pb due to lingering impact of the Russia-Ukraine war.

Oil prices are expected to remain bullish due to expectations of high US demand as summer approaches. This will be supported by increased demand from China as lockdown eases. Meanwhile, Nigeria's sub-optimal oil production level remains a major limitation to oil export earnings despite the rallying oil prices. This will cause the country's external reserves to deplete further and negatively affect subsequent FAAC payouts.

## Natural gas (\$/mmbtw)



### Outlook and Implications

In the coming weeks, LNG prices are expected to stay strong on supply shortages amid high demand from the EU and the US. Higher LNG prices will bolster the government's revenue and support reserves accretion.

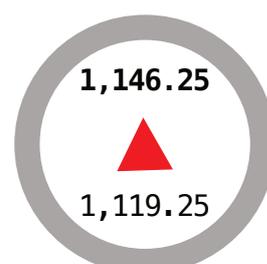
## Corn (\$/bushel)



### Outlook and Implications

Corn prices are likely to remain elevated in the near term on supply concerns due to the lingering Russia-Ukraine war and production issues in the US and Brazil. This will increase Nigeria's corn import bill and increase domestic prices of corn-related products like animal feed.

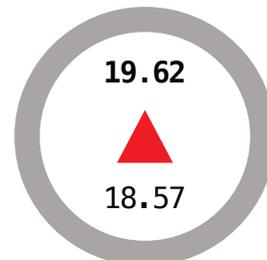
## Wheat (\$/bushel)



### Outlook and Implications

Wheat prices could uptick due to decrease in export by the US, a major wheat exporter. An increase in wheat prices would increase Nigeria's wheat import bill as well as the cost of production for wheat-dependent businesses. This will likely raise the price of flour and other wheat-related commodities.

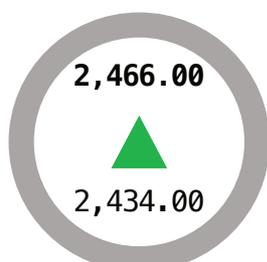
## Sugar (\$/pound)



### Outlook and Implications

Sugar prices could remain strong as India (the world's biggest producer and second largest exporter of sugar) plans to restrict sugar exports in June. Also, robust ethanol demand will support prices. High sugar prices will increase Nigeria's sugar import bill, and raise production costs for confectioners.

## Cocoa (\$/mt)



### Outlook and Implications

Improved supply in Ivory Coast and other major cocoa-producing countries may taper cocoa prices. Cocoa remains Nigeria's top agricultural commodity accounting for 8.98% of total non-oil exports. Therefore, lower global cocoa prices will weigh on Nigeria's non-oil export earnings in the near term.



# AMVCA AWARDS

## 2022

The Africa Magic Viewers' Choice Awards is an annual prestigious event held by MultiChoice to recognize outstanding achievements in African film and television.

This 8<sup>th</sup> edition of the awards show was an 8-day event that led to the official ceremony held at Eko Hotels and Suites on the 14<sup>th</sup> of May 2022. Top industry professionals and stars attended the event.

A total of 33 categories were announced, 12 of which were open to public voting. One of the public voting categories was the newly introduced "Best Online Social Content Creator", where Oga Sabinus, also known as "Mr. Funny" emerged as the winner.

Other notable winners were Osas Ighodaro and Stan Nze as Best Actress and Best Actor in the drama, Rattlesnake: The Ahanna Story.

When it came to the fashion game of the guests this year, many attendees understood the style assignment. The ladies strutted in elegant and regal pieces, while the men generally stepped up their game by ditching the safe and typical option- the black tuxedo.

Honorable style mentions must go to Actress and BBN star, Erica Nlewedim and Media Personality and Style icon, Denola Grey.

Erica was stunned in a unique butterfly-inspired gown that offered her an ethereal and jaw-dropping look. Denola won best dressed at the event and there was good reason for this. He graced the red carpet in a perfectly crafted burgundy velvet beaded tuxedo by African designer, Mai Atafo.



*Culled from CNN<sup>2</sup>*

### *Welcome to the start of summer! Now slow down.*

You don't want to miss anything by hurrying past it. And there is no need to sweat even more unless you're also having fun while doing it. That's the wisdom of summer. It teaches us to be fully awake, engaged, and open to everything around us. It's about being outside, whether on populated streets or deep in nature.

It's the season for relaxing and the pursuit of happiness (a phrase immortalized one summer nearly 250 Fourth of July ago). And if there was a summer in our lifetimes that felt extra freeing, it's this one, as we emerge from our state of pandemic hibernation in the United States, squinting into the brightness of a new dawn.

Savor cherries, peaches, watermelon, funnel cake, and ice cream. Gulp lemonade. Get wet, see an outdoor performance or two, watch movies and thunderstorms, and enjoy books with scant literary merit just for the guilty pleasure of it. In his book "The Rural Life," Verlyn Klinkenborg referred to summer as "the season in which leisure swells like a tomato until it's round and red and ripe." Take a slow, juicy bite.

Summer is life. And life is precious and wild -- and it moves too fast.

### **Life is precious**

I understand the argument against the season: It's hot, sticky, and, sometimes, boring. Tempers can flare. There is not enough air conditioning and, because of the climate crisis, already too much. But summer is a state of mind. Whatever we do during its few months, summertime remains fixed in our collective consciousness. This is the season when many of our deepest memories are forged; it plays a starring role in the highlight reel of our childhood.

"Everything good, everything magical happens between June and August," author Jenny Han wrote. So dig in and make some new memories, even if your plans are no more ambitious than to take naps, read outside, sleep in a tent, and float in a pool. Not everyone can afford sailing trips and Caribbean vacations, but many of summer's greatest pleasures are simple and inexpensive.

Ask yourself what Pulitzer Prize-winning poet Mary Oliver does in her poem "The Summer Day": "Tell me, what is it you plan to do with your one wild and precious life?"

### **Life is wild**

Summer is full of simple outdoor pleasures, such as the feeling of sun and wind on your arms and legs, freshly uncovered. The season contains a kind of happiness born out of escapes of any kind. It tastes of roasted vegetables and fruit so ripe it dribbles off your chin. This is the time to get out as much as you can for as long as you can. Tend the garden, climb the trees, swim in the waves, eat outdoors, take a walk at dusk and sleep under the stars.

Studies have long established a link between mental health and nature. The more we connect with what is outside, the more content we become inside. "In those vernal seasons of the year, when the air is calm and pleasant," John Milton wrote, "it were an injury and sullenness against Nature not to go out." Internationally, summer holidays are large celebrations of nature. For example, the summer solstice -- the longest day of the year every June -- aligns with holidays in Sweden and Norway that are full of singing, dancing, eating, and partying.

Throw your solstice party, even if you're the only guest; just make sure the venue is outside.

### **Life moves pretty fast**

Summer is a wonderfully kinetic time, a season of youth, activity, celebration, and, revolution. It encourages dancing under sprinklers, sparklers, and stars. It beckons us on long bike rides and hikes. It's the season of swimming and tents, of giving in to the gravitational pull of trees and bodies of water. And historically the season of mass protest for progressive causes. But conversely, it's also the time to do as little as possible. It's the season to just ... be.

Let the heat encourage you to be sluggish so you have time to savor these pleasures. Waste time without guilt. "Deep summer is when laziness finds respectability," the philosopher Sam Keen wrote. 'Tis the season for laying in a hammock, sipping iced tea or a seasonal beer, and staring up at tree limbs swaying in the breeze. It's for blockbuster movies, entertaining book and magazine indulgences, and outdoor festivals. Long hours of daylight mean more daytime to greedily partake in more of everything. Dinners and bedtimes migrate late, and if you're really lucky sleeping in can stretch until the sun streams through the windows. Time shifts in summer -- there seems to be more of it while also going by too quickly. Then it's all over, a melting Popsicle fragment bleeding on the sidewalk.

Mary Oliver's "Summer Day" poem sums up the melancholy of bidding adieu to this sweet, succulent season when she writes, "Tell me, what else should I have done? Doesn't everything die at last, and too soon?"

*'To everything, there is a season'*



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