Unity Bank Digest

June 20, 2022

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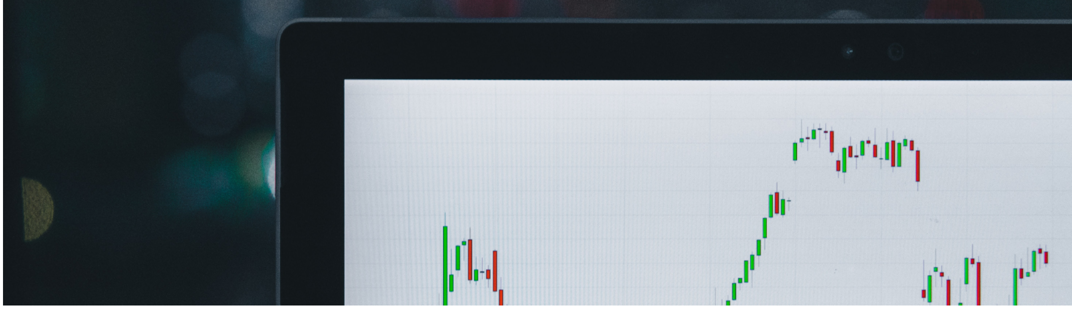
The Macro



Nigeria's inflation surged to 11-month high of 17.71% in May

The hope that inflation will start moderating after the rate hike by the CBN was dimmed as the recent report by the National Bureau of Statistics (NBS) shows that inflation further spiked in May. The headline inflation rose to 11-month high of 17.71%, up 89bps from 16.82% in April, driven by higher food and energy costs resulting from seasonality, war-induced global supply chain disruptions and other factors. Similarly, month-on-month inflation rate rose by 0.02% to 1.78% in May from 1.76% the previous month.

The breakdown of the inflation statistics showed that all other sub-indices moved in tandem with the headline inflation. Annual food inflation sub-index climbed by 1.13% to 19.50% due to increases in prices of bread, cereals, and other food products including tubers, fish, meat, wine and oils. The annual core inflation rose by 0.72% to 14.90% reflecting the impact of higher energy costs, particularly the price of diesel (N750/liter). The state breakdown showed that headline inflation for May was highest in Bauchi (20.62%), Akwa Ibom (20.34%) and Rivers (19.95%), while Kwara (15.45%), Kaduna (15.69%) and Jigawa (16.15%) recorded the lowest headline inflation. Urban and Rural inflation stood at 18.24% and 17.21% respectively.

Rising inflationary pressure will continue to put a strain on household's disposable income as purchasing power is constantly eroded. With escalating diesel prices, manufacturing cost is expected to rise and this will put further pressure on the price level. As inflation rate continues to outpace the interest rates, the negative real returns on investment widens. This unfortunately points to a further decline in investment flows into the country and sluggish economic growth. Persistent domestic inflation amid slowing growth increases the risk of stagflation. The monetary policy committee will however be compelled to hike interest rate even more aggressively. Interest rate will raise the cost of borrowing and this may heighten the rate of loan defaults. However, since higher interest rate wets the appetite of households and business to save more, it is expected that customers' deposit with commercial bank may increase.

US inflation hits 41-year high of 8.6% in May

US inflation back pedaled with an uptick of 300bps to 8.6% in May after declining from 8.5% in March to 8.3% in April. This is against the expectations of a decline, given the adoption of the monetary policy tightening. The US Fed had previously raised its benchmark interest rates by 50bps to 1.00% from its previous rate of 0.50%, in an effort to contain the spiraling inflation rate. The increase in the inflation rate for the month of May was primarily due to higher food, housing and energy prices. Energy prices rose by 34.6%, the highest since September 2005 while food prices recorded its highest increase since 1981 by 10.1% due to lingering supply chain disruptions stemming from the Russia-Ukraine war. Housing cost, which consist of one-third of the CPI, rose at the fastest pace in 31 years due to rising interest rate in the US.

Rising inflationary pressures will continue to put a strain on US households' disposable income and increase their cost of living. Worse still, the US recorded a negative growth rate (-1.5%) in Q1'22. This, coupled with rising inflation heightens the risk of stagflation and also raises worries about recession in the country. As a result, capital inflows into Nigeria and other emerging markets are expected to decline. The US was the third largest source of capital imports into Nigeria in Q1'22, accounting for 5.22% of total capital imports.

Meanwhile, in its most recent meeting, US Fed maintained its monetary policy tightening stance, raising interest rates by 75bps to 1.75% in order to rein in inflation. This is the third rate hike this year and the biggest increase since 1994.

However, the ongoing inflationary trend which has become globalized may linger longer than expected. Janet Yellen, the US Secretary of the Treasury, admitted that the current inflation is no more transitory but structural. This suggests that taming inflation will further require structural reforms and policy responses that will focus on the legacy constraints that are largely supply-driven.

3

OPEC+ boosts oil output by 648,000bpd, Nigeria's oil production falls by 44,000bpd

OPEC+ has resolved to boost oil output by 648,000 barrels per day (bpd) in July and August, up from the previous increase of 432,000bpd, in response to the global energy crisis caused by the ongoing Russia-Ukraine war. The increase came as a result of the plea from oil importing countries including the US to raise oil production to cover the void left by the EU's partial ban on Russia's oil exports. The rise in global oil prices has remained a threat to the global economy, as inflationary pressures continue to mount. The cartel's plan to raise oil supply could soften oil prices, which is now trading at above $100 per barrel. However, the lingering Russian-Ukraine tensions and expected increase in oil demand from Asian countries including China may keep oil prices elevated.

In addition, OPEC increased Nigeria's crude oil production quota by 27,000barrels per day (bpd) to 1.799mbpd in July, up from 1.772mbpd in June. Meanwhile, Nigeria's oil production declined by 44,000bpd in May to 1.262mbpd from 1.306mbpd the previous month. The country's output remains below the OPEC production quota, indicating that lingering oil theft, force majeure, and other challenges continue to impede the country's ability to take advantage of the current oil price rally. This will keep oil earnings limited and contribute to the erosion of the country's external reserves. A decline in reserves will further restrict the CBN's ability to support the Naira, forcing a faster exchange rate depreciation at the parallel market.

4

Balance of trade is positive as values increase

The total merchandise trade grew by 11.05% to N13.00 trillion (trn) in Q1'22 from the total of N11.71trn in the previous quarter. This was largely due to the increase in crude oil earnings which rose by 31.66% to N5.62trn (quarter on quarter), as well as the RT2000 policy launched by the CBN to incentivize export earnings. During the quarter, the country recorded a positive balance of trade (N1.20trn)for the first time since Q2'21, as the export value (N7.10trn) surpassed the import bill (N5.90trn).Compared to the previous quarter, export trade rose by 23.1% from N5.77trn while imports declined by 0.70% from N5.90trn. An improvement in the country's trade balance is positive for the federal government revenue and foreign reserves accretion. Higher export indicates a flow of funds into the country, which stimulates consumers spending and boost economic growth.

Crude oil remained the major oil export commodity, accounting for 79.16% of the total export trade.The contribution of non-oil commodities declined by 11.80% to N715.19bn in Q1'22 from N810.88bn in Q4'21 indicating that the FG's policies and CBN's intervention to support agric exports may have not had substantial impact. In the interim, we expect that the current MoU on trade, sports, legal treaty and tourism between Nigeria and Spain will further improve Nigeria's balance of payments. Spain accounted for 9.54% of Nigeria's export in Q1'22, making the country's second-largest export destination. The government could take advantage of the bilateral agreement to make up for a shortfall in global gas supply, thereby contributing to the country's revenue. On the other hand, the prolonged Russia-Ukraine war could disrupt trading activities between Nigeria and its trading partners.

Top Trading Products

Imported Products	% Share of total import	Exported Products	% Share of total export
Motor spirit	25.54	Crude Oil	79.16
Kerosene type jet fuel	4.96	Liquefied Natural Gas	9.24
Durum wheat	4.38	Urea	2.93
Cane sugar	1.38	Other petroleum gases	1.32
Safety or relief valves	1.26	Drilling or production platforms	1.27

Top Trading Partners			
Country of Origin	% Share of total import	Country of Destination	% Share of total export
China	25.55	India	16.57
Netherlands	10.49	Spain	9.54
Belgium	9.55	Netherlands	9.30
India	7.04	Indonesia	6.68
US	5.72	US	5.25

5

Subsidy payments hit 45% of Nigeria's fuel import bill

In Q1'22, the Nigerian National Petroleum Corporation (NNPC) stated that a total of N675.93 billion (bn) was used to fund fuel subsidy between January and March 2022. This represents 44.86% of the total amount of N1.51trn spent on the importation of premium motor spirit (PMS) in Q1'22. Despite the rising cost of the fuel subsidy payment, Nigerians have continued to battle with a hike in transportation costs due to the soaring energy prices, particularly diesel (N800/liter). The federal government had previously backtracked on the planned removal of fuel subsidy in June 2022. The reasons, according to the IMF, are corruption, political resistance, and pressure from interested groups. The fund has also warned that the fuel subsidy may hit N6trn in 2022, up from the federal government's estimate of N4trillion in the revised 2022 budget.

Rising subsidy payments will keep the country vulnerable to external shocks as new borrowings will be used to finance the subsequent budget deficit. However, Nigeria's international borrowing options would be restricted in the meanwhile, as the country recently halted its $950 million Eurobond issuance due to investors' demand for higher yields. To raise additional income, the government could resort to aggressive taxation, which is evident in the recent increases in electricity and phone taxes. Nigeria has previously been delisted from JP Morgan's emerging markets sovereign recommendations due to the country's inability to take advantage of the high oil prices as well as the country's hefty debt service burden. This means Nigeria will have to keep interest rates high in order to attract more investors, resulting in increasing debt service costs, worsening the country's financial situation.

6

FAAC allocation declines by 9.51% to N656.60bn in May

The Federation Account Allocation Committee (FAAC) disbursed a total amount of N656.60bn to the three tiers of government in May. This represents a 9.51% decline when compared to the total amount of N725.57bn disbursed in April. The decline was largely due to fall in revenue from petroleum profit tax, oil and gas royalties, import duties, company income tax, and value-added tax.The total amount allocated comprised gross statutory revenue of N461.19bn, VAT receipts of N166.52 billion, N8.89bn excess bank charges recovered and augmentation of N20.00bn. The excess crude account balance stood at $35.38 million (mn). The total allocation was shared as follows: the federal government received (N257.6bn), state governments N201.3bn and local government councils N149.3bn.

FAAC allocation is expected to decline in the coming month as the NNPC plans to withdraw a total of N503.3bn from June's FAAC allocation to fund the fuel subsidy. A decline in the FAAC allocation would exacerbate the state governments' financial difficulties, resulting in salary reductions and staff layoffs, which will likely affect aggregate demand and consumption levels as income levels remain squeezed.It could also reduce infrastructure and other capital spending at all levels of government.

7

Capital importation dips to a five-year low of$1.57bn in Q1'22

Nigeria's foreign capital inflows declined by 28.09% to $1.57bn in Q1'22 from $2.19bn in Q4'21. The value, which is the lowest first quarter inflow since Q1'17, declined year on year by 17.46% from $1.91bn in Q1'21. The decline can be largely attributed to weak growth, persistent forex challenges and a harsh business environment which have caused foreign investors to divert their investment to other countries. Declining foreign investments is negative for growth in the economy.

Lagos state remained the top destination, accounting for 71.16% of the total capital inflows in Q1'22. By source, portfolio investments received the largest amount, accounting for 60.87% ($957.58mn). This was followed by "other investments" which accounted for 29.28% or $460.59mn and foreign direct investment with 9.85% ($154.97mn). For sectors, banking received the highest inflow ($645.59mn) while the production and financial sectors received $223.67mn and $199.37mn respectively.

By destination, the UK was the major source of capital imported into the country in Q1'22, accounting for 64.92% ($1.02bn), followed by South Africa with 7.47% ($117.50mn) and then the US, accounting for 5.22% ($82.07mn). While the recent rate hike could attract foreign inflows, lingering insecurity – kidnapping, banditry, insurgence, and vandalism - could cause a drop in foreign investment in the near term. This will be compounded by investors' growing concerns about political risks as election activities pick up.More so, the type of investment inflows, which are predominantly characterized by foreign portfolio investments(hot money), indicate that investment into the economy will remain volatile. For an economy to thrive on investments, foreign direct investments are usually preferred as they are less volatile and more pro-growth than foreign portfolio investments.

8

Federal government suspends $950m Eurobond issue

The federal government has deferred plans to raise $950mn Eurobond due to unfavorable market conditions and a late approval window. The planned bond sale was to come after the successful Eurobond issue of $1.25bn in March and was initially intended to balance the external borrowings of $6.1bn planned for 2021 to support the country's fiscal deficit. The bond's non-issuance can be attributed to a global wave of monetary policy tightening in response to mounting inflationary pressures resulting from the Russia-Ukraine conflict. This has caused coupon rates to rise, with Nigeria's seven-year bond reaching 8.375% in March, an increase compared to 6.125% coupon for maturity raised in July 2021. The deferral could have a positive impact on the federal government as debt levels are unlikely to climb further. Meanwhile, the federal government has decided to use the International Monetary Fund's special drawing rights to fund projects this year to reduce borrowing costs, especially now that the country has been delisted by JP Morgan's sovereign market recommendation.

9

Electricity tariffs surge by over 50% after N500bn subsidy suspension

The Association of Nigerian Electricity Distributors disclosed in its report that the removal of the N500bn electricity subsidy in 2020 led to the hike in electricity tariffs by 58.06% (N18/kWh) to N49/kWh from N31/kWh at the start of 2021.This is on top of the country's epileptic power supply, which is currently affecting the industrial, commercial, and residential sectors. Despite ongoing tariff increases, over 200 million Nigerians, including vital sectors, rely on less than 10,000 megawatts of electricity.

While the tariff hike has been beneficial to the Discos' earnings, it has left households and businesses embattled.It has contributed to households' already high cost of living, reducing their disposable income, and lowering their demand level. Businesses have resorted to diesel generators to sustain their operations due to a lack of dependable power supply. With the recent increase in diesel prices, their operating expenses have increased significantly, while some industries have opted for a petrol generator to reduce costs. As a result of rising costs and lower profits, businesses are forced to slash salaries or lay off employees. This also translates to a drop in personal income tax collection for the government, further compounding the country's revenue problems.

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The Business Environment

(June 1st - 17th, 2022)

Forex Market

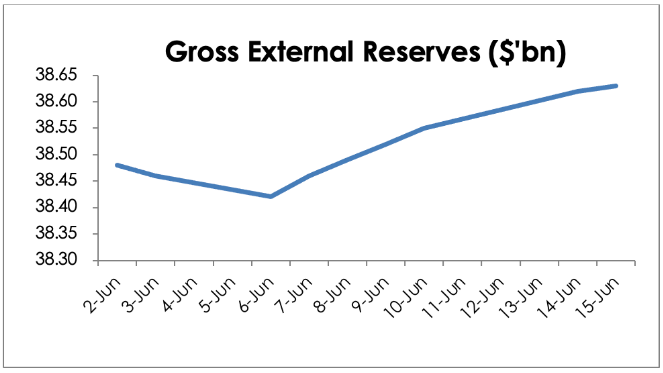
Forex: Parallel (N/ $)	Forex: IEFX (N/ $)	External Reserves ($/bn)
607.00	420.50	38.63
607.00	419.38	38.48

At the parallel market, the Naira traded flat at N607/$ from the beginning of the review period until June 7, before appreciating marginally by 0.16% to N606/$ on June 10. It further depreciated by 0.17% to close at N607/$ on June 17. Compared to the close of the last half of May (N607/$), the exchange rate traded flat at the parallel market. The slight appreciation in the parallel market was also supported by dollar sale by party delegates who were gifted hard currencies during the presidential primaries. At the official window, the Naira exchange rate depreciated by 0.27% to close at N420.50/$ on June 17. The downward pressure on the Naira at the IEFX window reflects slowdown in the supply of FX.

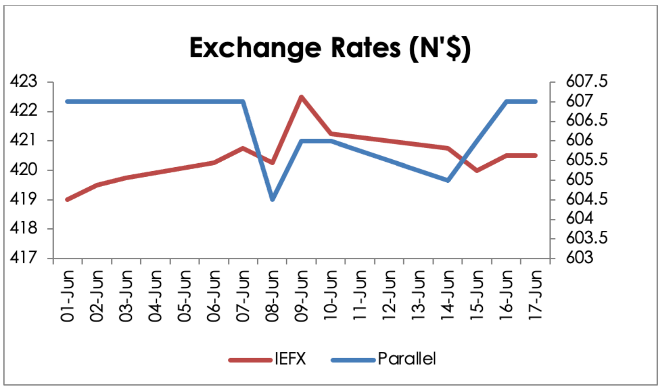
The gross external reserves declined at the beginning of the review period to a 7-month low of $38.42bn on June 6. The decline can be attributed to the continuous forex interventions by the CBN to stabilize the Naira. It could also be attributed to decline in oil revenue due to rising fuel subsidy costs. However, it increased marginally by 0.55% to close at $38.63bn on June 15. The current level of external reserves can only cover 8.77months of imports.

Outlook and Implications

The Naira is likely to depreciate marginally at the parallel market in the coming weeks as FX supply remains constrained.

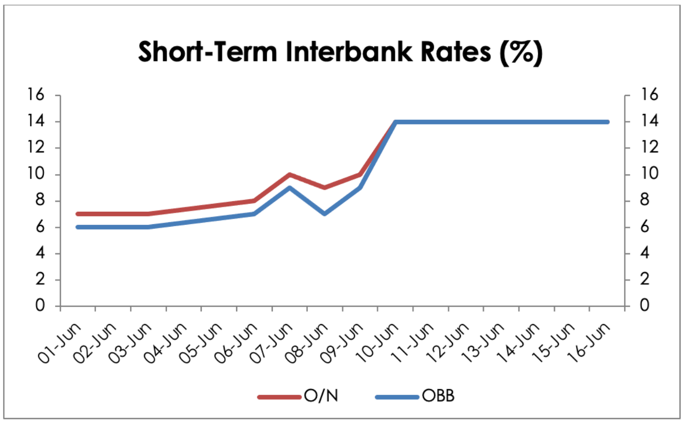


SOURCE: FDC Think Tank, FMDQ



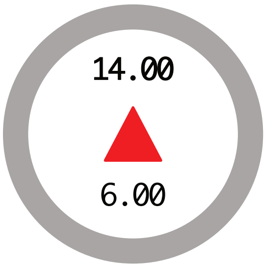
SOURCE: FDC Think Tank, CBN

Money Markets

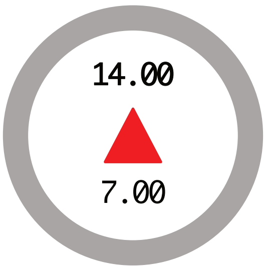


SOURCE: FDC Think Tank, FMDQ

Average opening position for banks spiked by 157.76% to N216.08bn from N83.83bn in the second half of May. The increase in market liquidity led to a sharp decline in the average short term interbank (NIBOR) rates by 196bps to 10.00% from 11.96% in the preceding period. Conversely, the OBB and ON rates rose by 800bps and 700bps to 14.00% and 14.00% respectively from 6.00% and 7.00% on May 31. During the review period, there was an OMO sale of N40.00bn and a repayment of N20.00bn, resulting in a net outflow of N20.00bn.



NIBOR: OBB (%p.a)

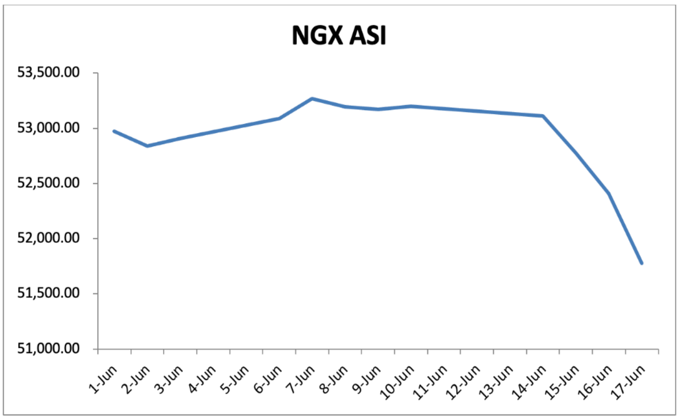


NIBOR: O/N (%p.a)

Outlook and Implications

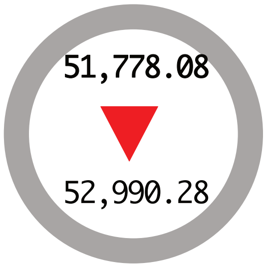
Interbank interest rates will likely remain elevated due to the current hike in interest rate.

Stock Market

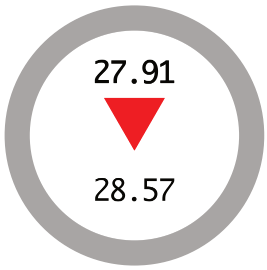


SOURCE: FDC Think Tank, NGX

The NGX ASI closed the review period on a negative note. Compared to 52,990.28points at the end of the last half of May, it lost 2.29% to close at 51,778.08points following the surge in May inflation rate to 17.71%. In like manner, the market cap declined by 2.31% to N27.91bn from N28.57bn. Of the 12 trading days, the bourse gained in 4 days and lost in 8 days. The 52 weeks and YTD returns stood at 33.71% and 21.21% respectively, as at June 17.



NGX ASI



Market Cap. (N'trn)

Outlook and Implications

The stock market will be volatile in the coming weeks as investors remain tepid due to mounting political uncertainty, soaring inflation, and the likelihood of future interest rate hikes. This will also be supported by investors' skepticism ahead of the release of Q2 corporate results.

Commodities

Brent prices($/b)

119.42

115.60

Outlook and Implications

Brent prices traded above $100pb due to demand recovery in China as the Covid-19 lockdown and travel restrictions eases. This was despite OPEC+'s increase in oil supply to 648,000bpd from the previous 432,000bpd. On average, the price of Brent increased by 5.05% to $120.37pb from the previous average of $114.58pb due to the impact of the prolonged Russia-Ukraine war. Oil prices are expected to remain high owing to expectations of strong demand from the US, supported by supply tightness caused by the lingering Russia-Ukraine war and increased Chinese demand. OPEC recently increase Nigeria oil production quota by 27,000mbpd to 1.799mbpd for July. Meanwhile, Nigeria's oil production level (1.262mbpd) remains below OPEC's quota due to lingering oil theft and other operational challenges. As a result, the benefits of the current elevated oil prices remain limited. This implies lower oil earnings, resulting in external reserves depletion and lower FAAC payouts.

Corn ($/bushel)

744.25

771.25

Outlook and Implications

Expectation of bumper corn supply from Brazil and the US would weaken corn prices in the near term. A decline in corn price will be favorable for Nigeria's corn import bill. This will in turn cause the domestic prices of corn and corn-related products like animal feed to fall.

Natural gas($/mmbtw)

7.41

8.76

Outlook and Implications

LNG prices could rise on tight supply from Russia amid high demand from China, the EU and the US. LNG accounts for 9.24% of Nigeria's total exports, higher prices will boost the FG revenue and support reserves accretion.

SOURCE: FDC Think Tank, Bloomberg

Wheat ($/bushel)

1,094.50

1,131.50

Outlook and Implications

Wheat prices could stay low owing to bumper harvest in China. Also, the expectation of increased wheat supply due to the forecast of the early monsoon rain in China would soften wheat prices. Lower wheat prices would reduce Nigeria's wheat import bill as well as the cost of production for wheat-dependent firms. The price of flour and other wheat-related commodities will most likely fall as a result.

Sugar($/pound)

19.00

19.80

Outlook and Implications

Increased sugar production in India, the world's second largest sugar exporter; and anticipation of higher sugar production in Brazil, the world's top producer would taper sugar prices in the coming week. Lower sugar prices will reduce Nigeria's sugar import bill, easing production costs for confectioners.

Cocoa($/mt)

2,395.00

2,512.00

Outlook and Implications

Cocoa prices could rise in the near term due to strong global demand for cocoa amid tight supply from major producer, Ivory Coast. Cocoa accounts for 13.84% of Nigeria's agricultural commodity export, higher cocoa prices would buoy revenue and aid the accretion of external reserves in the near term.

SOURCE: FDC Think Tank, Bloomberg

Social Story

A NEW RECORD: NIGERIA'S FIRST LONDON TO LAGOS BIKER

A member of the Rotary Club International, Kunle Adeyanju embarked on a journey from Lagos to London via a motorbike on the 19th of April, 2022.
After riding through 13 countries, 41 cities and covering a total of 12,000km, he finally arrived in Lagos on the 29th of May, 2022.
Kunle was acknowledged by the President of the Rotary Clubs for this extraordinary achievement and was commended for doing Nigeria proud.
Having successfully completed this 41-day tortuous and risky journey, Kunle has put Nigeria on the map and given it another feature in the renowned Guinness World Book of Records.
The Biker, also known as 'the Lionheart" has also been praised by other notable figures around the world such as Bill Gates for this brave feat.

SMALL BUSINESS GROWTH STRATEGY THAT WORKS IN 2022

Culled from Forbes[1]

In 2022, the majority of small business owners (over 54%) feel that the pandemic's impact on their businesses is not over, according to data from Guidant Financial. But at the same time, they overwhelmingly (83.4%) feel that their businesses will survive the pandemic. There is change in the air, as 41% want to expand or remodel their businesses and 39.7% want to invest in digital marketing. While managing a small business, I continually look for ways to grow and provide more value to our customers. Based on my experience, here are some tips I recommend to boost the growth of your small business.

1. Revamp your digital marketing strategy.

Social media, Google and search engine optimization (SEO) are musts for any business's growth strategy in the post-pandemic era. While SEO is more important today than ever before, it is also the absolute minimum or basic requirement for success in the online market. It is time to be creative with your digital marketing strategy and explore other online sales channels or opportunities.If you're an online retailer, consider investing more resources on Amazon and other e-commerce channels to increase your complete product catalog sales. You can also identify specific products for greater exposure and promotion on your national retail sales channel.At GMR Transcription, we noticed a surge in projects from legal businesses and have updated our SEO strategy to ensure more legal professionals are finding us on Google, Bing, etc. Reflect on your trends from 2021 and see where you can expand your reach.

2. Expand your online presence.

Online and mobile shopping is increasingly becoming the preferred way to buy products for consumers. Consider expanding your business's digital footprint to expose your brand and products to the growing number of online shoppers.Create a seller account on platforms such as Shopify or Etsy to maximize your online reach if you don't have profiles there. If you're a contractor or offering professional services, you can increase lead opportunities by listing your service or company on freelancing or contractor listing websites.

3. Leverage video SEO.

Video marketing has become particularly important because it's the content format with the highest consumer engagement rates. You may have already witnessed the growing popularity of videos on TikTok, Instagram and other social media platforms.It's estimated that video will generate 82% of all consumer traffic in 2022 and, therefore, video SEO should be a top priority for your business. Our team is working on creating more videos to educate people on the benefits of transcription. I suggest publishing short-form videos and blog posts to help increase your website's organic traffic and adding transcripts to your videos to enhance their reach, readability and searchability.

4. Form strategic marketing partnerships.

Brands can establish strategic partnerships in marketing to reach a wider audience. Offer a discount coupon to promote your partner's complementary items or services for every product purchase. This mutually beneficial marketing approach can be profitable if you target the same client base. You can also grow your market reach and brand power by co-branding projects or products with a strategic partner.

5. Optimize workforce costs.

Freelancers and contractors are a legitimate source of affordable talent with the skills necessary for the sustainable growth of small businesses. In our organization, freelancers

[1] https://www.forbes.com/sites/forbesbusinesscouncil/2022/05/26/seven-small-business-growth-strategies-that-work-in-2022/?sh=39b07a3e8958

Contact

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