Unity Bank Digest

July 26, 2022

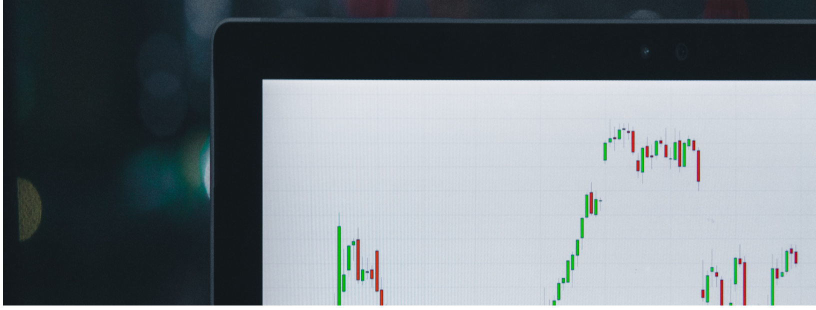
Finance | Economic News | Lifestyle

Consumers & corporates struggle as inflationary pressure persists

Unity Bank Towers
Plot 42, AHmed Onibudo Street
Victoria Island, Lagos, Nigeria

Head Office Annex
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja, FCT

TheMacro



Headline inflation climbs 18.60% in June

1

Headline inflation accelerated for the fifth consecutive month to a five-year high at 18.60%. This represents an increase of 0.89% from 17.71% recorded in May. The spike in inflation was driven by higher energy costs (particularly diesel) and food prices especially staples like rice, bread and maize. Similarly, month-on-month inflation rose by 0.04% to 1.82% in June from 1.78% the previous month. A breakdown of the inflation report statistics showed that all inflation sub-indices moved in tandem with the headline inflation. The annual food inflation sub-index rose by 1.1% to 20.60%, from 19.50% the prior month. The annual core inflation recorded an increase of 0.85% to 15.75%, from 14.90% reflecting the impact of higher energy costs.

Surging inflationary pressure will continue to strain household's purchasing power as the cost of living rises; and standard of living worsens. As a result, aggregate demand and consumption levels fall, impairing businesses' sales and profits. This is in addition to the heightened costs of operation for businesses brought on by high import and energy costs. On the other hand, as the inflation rate remains above interest rates, the negative real return on investment widens. Unfortunately, this increases the risk of divestment and sluggish growth. Meanwhile, the monetary policy committee is expected to hike the interest rate at its meeting to curtail inflation.

Pump price of PMS now selling for N250/litre

2

The retail price of premium motor spirit (PMS) has unofficially increased across several filling stations in the country by 51.52% to N250/litre from N165/ litre. The increase is likely driven by artificial scarcity (supply shortage) created by marketers who are currently struggling with higher operating, trucking and logistics costs. Marketers have complained that the sale of PMS at N162- N165/litre is unsustainable. In response, they have threatened a strike action from mid-July if the government doesn't pay the 12-month bridging claims owed to operators in the downstream petroleum sector.Bridging claims are the cost of hauling petroleum products from refineries and depots to fuel stations.

A possible strike by the oil marketers will intensify the queues at filling stations and worsen black market sales of fuel (possibly adulterated). Transport fares would also increase and traffic congestion, especially in Lagos state (the second- worse city to live worldwide) during the rainy season will be gruesome. Overall, the quality of life of people would maintain the downward trend as living costs rise. And it is unlikely that the marketers and the government will come to a consensus on the revised price of PMS in the near term.

US inflation rate accelerates to 9.1% in June

Contrary to projections of a slight increase to 8.8%, the US inflation rate skyrocketed to a new 41-year high of 9.1%, up 500 basis points from a high of 8.6% recorded in May. The uptick in June inflation rate was largely due to higher energy, food and housing costs. Energy prices rose by 41.6%, the most since April 1980 while food cost surged 10.4%, the highest increase since February 1981 due to lingering supply chain disruptions stemming from the Russia-Ukraine war. Housing cost, which consists of one-third of the CPI, rose at the fastest pace in 31 years due to rising interest rate in the US. The US Fed had previously raised its benchmark interest rates by 75bps to 1.75% from its previous rate of 1.00%, in an effort to contain the spiralling inflation rate.

Rising inflationary pressures will continue to put a strain on US households' disposable income and raise their cost of living. Rising inflation and a slowing growth rate also increase the possibility of stagflation and fuel concerns about a possible recession in the nation. As a result, capital inflows into Nigeria and other emerging markets are expected to decline while diaspora remittances could be negatively affected. For import-dependent countries like Nigeria, rising US inflation heightens the risks of imported inflation, stroking further inflationary pressures in the country. Meanwhile, the US Fed will be compelled to hike interest rate in its next meeting later this month in an effort to cool the inflation upswing.

Nigeria's foreign direct investment rises to $223.3 million in the first five months of 2022

In the first five months of 2022, Nigeria was able to attract a sum of $223.3 million (mn) foreign direct investment into the country. This was in spite of the economic challenges faced by economies in the global space due to the lingering Russia-Ukraine war. The value represents an increase of 3.7% compared to the sum of $215.3mn attracted in the same period of the previous year. An increase in foreign direct investment has a positive impact on the country's economic growth through infrastructural improvement, technological innovations, job creation, and human capital development, which boost household income, savings, and consumption.

However, foreign investment in Nigeria remains constrained by the policies put in place by the CBN to prevent the repatriation of proceeds from foreign investors. This has discouraged foreign players from bringing their monies into the economy, further increasing the current shocks in forex supply. Previously, the government withheld a sum of $450mn in revenue belonging to the foreign airlines due to forex shortages, forcing local airlines to source alternative funding to finance operations amid the soaring price of jet A1 fuel (N750/$), which is driving their cost of operation up.

Dollar shortages delays travel allowance, Nigeria 10-year Eurobond yield spikes

Persistent forex shortages have increased the difficulty of Nigerians to access dollars at Central Bank of Nigeria's official rate (currently at N426.13/$) for eligible transactions such as remittances for school fees, student maintenance allowances, Business Travel Allowance (BTA), Personal Travel Allowance (PTA), medical and others. In order to maintain its official rate, the CBN continues to intervene in the forex market putting pressure on the country's external reserves. This, coupled with the country's limited gains from high oil prices, has caused external reserves to fall by 2.91% to $39.34bn in July 2022 from $40.52bn in December 2021. Meanwhile, forex shortages continue to put pressure on the parallel market causing the Naira to depreciate to N620/$.

On the other hand, Nigeria's ten-year Eurobond yield rose to 13.45% or $69.8 in unit price in the first half of the year, one of the worst yields so far. This is due to fall in bond prices following the global wave of monetary policy tightening in response to mounting inflationary pressures stemming from the war in Ukraine. In March, Nigeria had borrowed a sum of $1.25bn in a 7-year bond at a cost of 8.375% from the Eurobond market. A further increase in the bond yield will increase the cost of borrowing for the country, exacerbating its fiscal woes. Meanwhile, the federal government has decided to focus on domestic borrowing and other concessional sources. A waning desire for new foreign debt borrowing could crystallise into a major dollar scarcity if Nigeria is unable to generate sizeable revenue from crude sales in the coming month.

Air travellers to face flight delays as FAAN shuts down Lagos airport runway

The Federal Airports Authority of Nigeria(FAAN) has confirmed the closure of the Lagos Murtala Muhammed Airport's domestic runway (18R/36L) for three months to allow for the repair and installation of the airfield lighting system. This means that flight operations by both local and international carriers will be done on the international runway (18L/36R). While this could improve flight landing for domestic carriers at the end of the rehabilitation period, in the meantime, it could cause congestion in the aerodrome and disrupt airline operations. Additionally, according to airline operators, there may be an increase in flight delays for passengers.

An increase in flight delays resulting in longer travel time, schedule interruption, and possibly higher food and lodging costs could lead to a decline in passenger demand, which will further taper revenue for domestic airlines. Generally, airlines primarily make money from passenger demand and cargo services. Furthermore, airline operators might have to pay more for aviation fuel due to taxiing, repositioning of planes, and accommodating passengers with delays, amongst other recurrent expenses, thereby raising their cost of operations.To cover the additional costs, airlines may raise ticket prices, which would have a negative impact on both leisure travel and industries that depend on air transportation for their businesses.

Eurozone inflation rises to 8.6% amid surging energy prices

Inflation in the euro area[1] has spiked by 500 basis points (bps) to a fresh record high of 8.6% (year- on-year) in June from 8.1% the previous month. Of the 19 nations in the Eurozone, 17 saw an increase in inflation in June.The rise in inflation rate was driven by the substantial increase in energy costs by 41.9% from 39% in May after Russia reduced natural gas supplies to Europe. Meanwhile, food prices are up 8.9%, resulting from the disruption to supplies of agricultural commodities from Ukraine.

To curtail inflationary pressures, the European Central Bank (ECB)plans to hike interest rates by 25bps for the first time in eleven years at its upcoming meeting on July 21 and then again in September. A tighter monetary policy stance could lead to a potential slowdown in the inflation rate in the near term. As a result, enhance consumer disposable income and encourage foreign remittances to African nations like Nigeria. However, there are also chances that the tightening stance could stifle business activities and reduce output levels in Europe as borrowing costs climb. Furthermore, because the Eurozone is a significant source of debt financing for the Sub-Saharan African region, rising interest rates (in Europe)will increase borrowing costs and the debt burden payment for African nations, many of which are already at high risk of debt distress.

[1]The euro area is comprised of 19 countries that use the euro currency.

EU offers Nigeria $1.3billion (bn) to diversify the economy

Nigeria is set to receive a $1.3bn (N546bn) fund from the European Union (EU) to assist in the diversification of the economy from oil this year. The emphasis is placed on expanding access to renewable energy and fostering the growth of the nation's agricultural sector. The financing is anticipated to continue until 2027 under the EU's "Green Deal" initiative and would cover 57projects on reducing climate change, building roads, and waste management.The federal government has been brazenly attempting to increase non-oil exports from the nation. The CBN's RT-200 strategy, which was implemented most recently, aims to increase forex revenues from non-oil exports. Despite this, crude oil continues to be the main source of government income, making up 79.16% of total exports in Q1’22while non-oil exports made up 10.07%.

The fund by the EU is expected to support the agricultural sector and assist with local agricultural production. At a time when global commodity prices are rising, Nigeria can take advantage of the opportunity to increase production of basic food items like rice, beans, etc to meet domestic demand and possibly export in the coming term. This will boost the government’s non-export revenue and aid reserves accretion. Furthermore, the assistance will deepen relations between the EU and Nigeria, particularly now that the EU is courting Nigeria as a potential substitute for Russian gas supplies. The EU may make additional investments in Nigeria in the coming years, and this will boost economic growth.

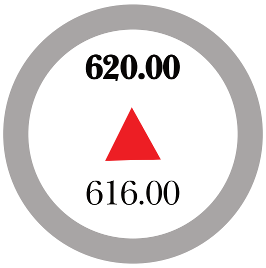
unity kids ACCOUNT

SAVE Their **MONEY.** SAVE Their **FUTURE.**

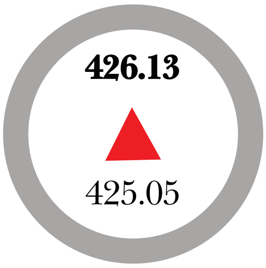
The Business Environment

(July 1st - 13th, 2022)

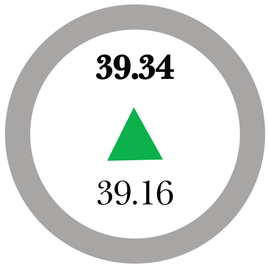
Forex Market



Forex:Parallel (N/$)



Forex:IEFX (N/$)



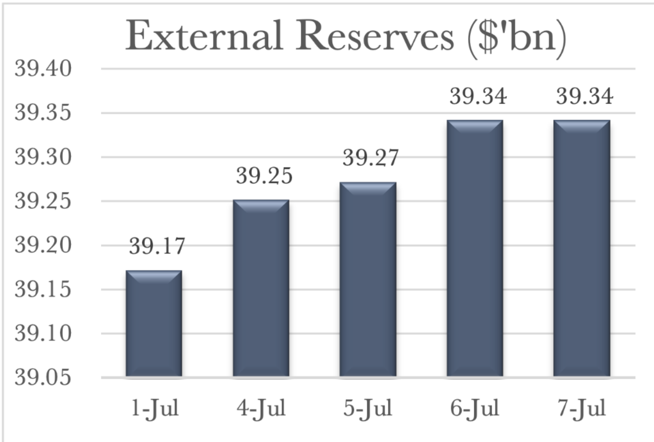
External Reserves ($/bn)

At the parallel market, the Naira weakened further to N620.00/$ on the back of heightened forex demand compared to limited forex supply. Compared to the rate at the end of June, It depreciated by 0.65% from N616.00/$. In like manner, the IEFX rate depreciated marginally by 0.26% to close the review period at N426.13/$ from N425.05/$ at the end of the previous period.

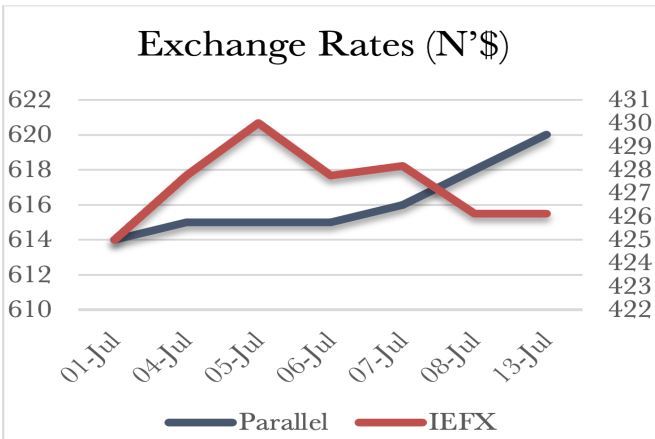
Meanwhile, the gross external reserves continued its steady increase throughout the review period, gaining 0.45% to close at $39.34bn compared to $39.16bn at the end of the previous period. This can be largely attributed to the current oil price rally. However, earnings from high oil prices remained constrained by the country's subpar oil production level. The current level of external reserves can only cover 8.93months of imports, 0.45% greater than 8.89months on June 30.

Outlook and Implications

We expect the Naira to remain under pressure in the near term as forex shortages linger. However, the steady accretion of the external reserves due to the currently elevated oil prices as well as the interest rate hike later this month could support the Naira. The Naira could therefore moderate between N613-N615/$.

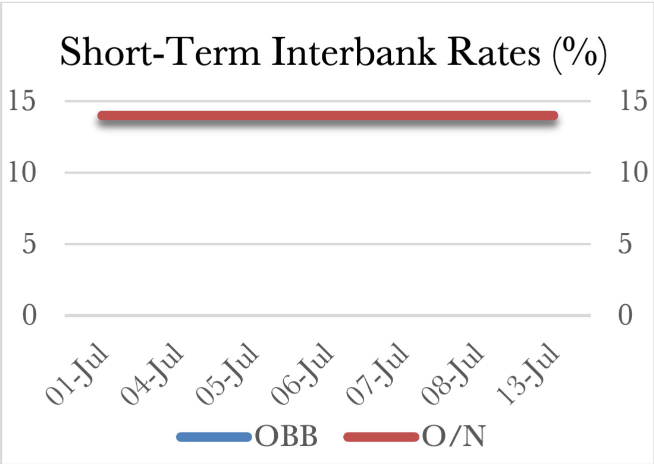


SOURCE:FDCThinkTank,FMDQ



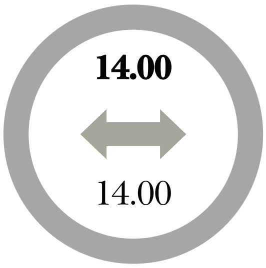
SOURCE:FDCThinkTank,CBN

Money Markets



SOURCE:FDCThinkTank,FMDQ

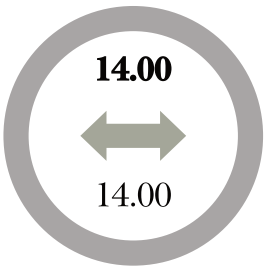
The average opening position for banks rose by 165.61% to N36.39bn from N14.83bn in the last half of June. The increase in market liquidity led to a sharp decline in the averages h o r t - t e r m interbank (NIBOR) rates by 128bps to 14.00% from 15.28% in the preceding period. Meanwhile, the OBB and O/N rates remained flat at14.00% and 14.00% respectively.



NIBOR: OBB(%p.a)

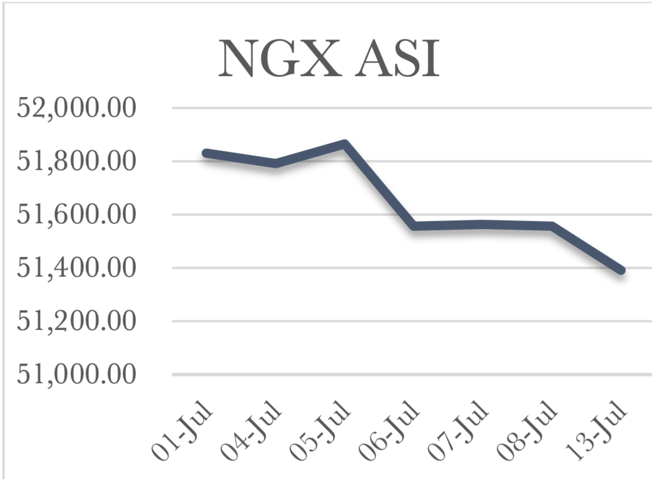
Outlook and Implications

We expect interbank interest rates to remain at the current level pending any significant injection or withdrawal from the system.



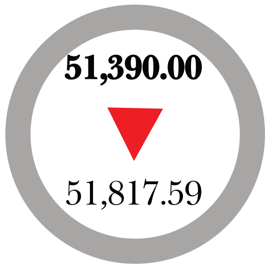
NIBOR: O/N(%p.a)

Stock Market



SOURCE:FDCThinkTank,NGX

The NGX ASI lost 0.82% to close the review period at 51,390.25points comparedto 51,817.59points at the end of the last half of June. The decline can be attributed to the high interest rate environment.Similarly, the market cap declined by 0.82% to N27.71bn from N27.94bn. Of the 7 trading days, the bourse gained in 3 days and lost in 4 days. The 52 weeks and YTD returns stood at 32.71%a n d 20.61% respectively, as at July 13.



NGX ASI

Outlook and Implications

The possibility of an interest rate hike due to the spike in June inflation (18.60%) will drive the stock market performance in the near term.

Meanwhile, weak market fundamentalsandcautious trading by investors will cause the negative sentiments to persist.

MarketCap. (N'trn)

Commodities

Brent prices($/b)

99.38

▼

109.03

Outlook and Implications

Brent crude dipped below $100pb during the review period. It declined by 13.44% to close the review period at $99.38pb from $114.81pb at the end of the previous period as global economic recession fears outpace supply concerns. This was in addition to the renewed Covid-19 restrictions in China, which has caused oil demand to weaken. Similarly, the average price of Brent declined by 8.26% to $105.14pb from the previous average of $114.61pb due to lingering supply tightness stemming from the war in Ukraine.

In the coming weeks, oil prices are likely to decline further as the recession fears mount, causing demand to taper. This will be compounded by renewed Covid-19 restrictions in China (the largest oil importer), which will dampen oil demand. A decline in oil prices will negatively affect the FG revenue and external reserves accretion. This will be worsened by the country's limited oil production level caused by lingering oil theft and other operational challenges. Declining revenue will cause FAAC allocation to reduce in the near term.

Natural gas($/mmbtw)

6.28

▲

5.42

Outlook and Implications

Supply tightness and high demand due to the quest by Europe to reduce its dependence on Russian gas supplies, to drive LNG prices higher in the coming weeks. An increase in LNG prices will buoy the FG revenue and aid the accretion of the country's external reserves.

Corn($/bushel)

591.50

▼

619.75

Outlook and Implications

Corn prices could weaken as harvest increases due to favourable weather condition in some corn-growing regions in the US. Lower corn prices will reduce Nigeria's corn import bill, resulting in a decline in the domestic price of corn-related products such as cereals and animal feed in the domestic market.

Wheat($/bushel)

829.25

▼

884.00

Outlook and Implications

Wheat prices could stay strong on concerns over supply tightness due to the lingering Russia-Ukraine war. Higher wheat prices are negative for Nigeria's revenue. As wheat import cost rises, the cost of production for wheat-dependent firms rises in tandem. In turn, the price of flour and other wheat-related commodities will most likely increase.

Sugar($/pound)

18.81

▲

18.50

Outlook and Implications

Sugar prices could decline in the coming weeks on prospects of increased production from Brazil, India and Thailand. Lower sugar prices will reduce Nigeria's sugar import bill and reduce the cost of production for confectioners.

Cocoa($/mt)

2,368.00

▲

2,340.00

Outlook and Implications

Cocoa prices could fall in the near term due to expectations of improved supply in major producer, Ivory Coast as weather condition improves. Cocoa remains a major agricultural export commodity in Nigeria therefore; lower cocoa prices would feed into the FGN's already weak revenue and support the depletion of the country's external reserves unity bank

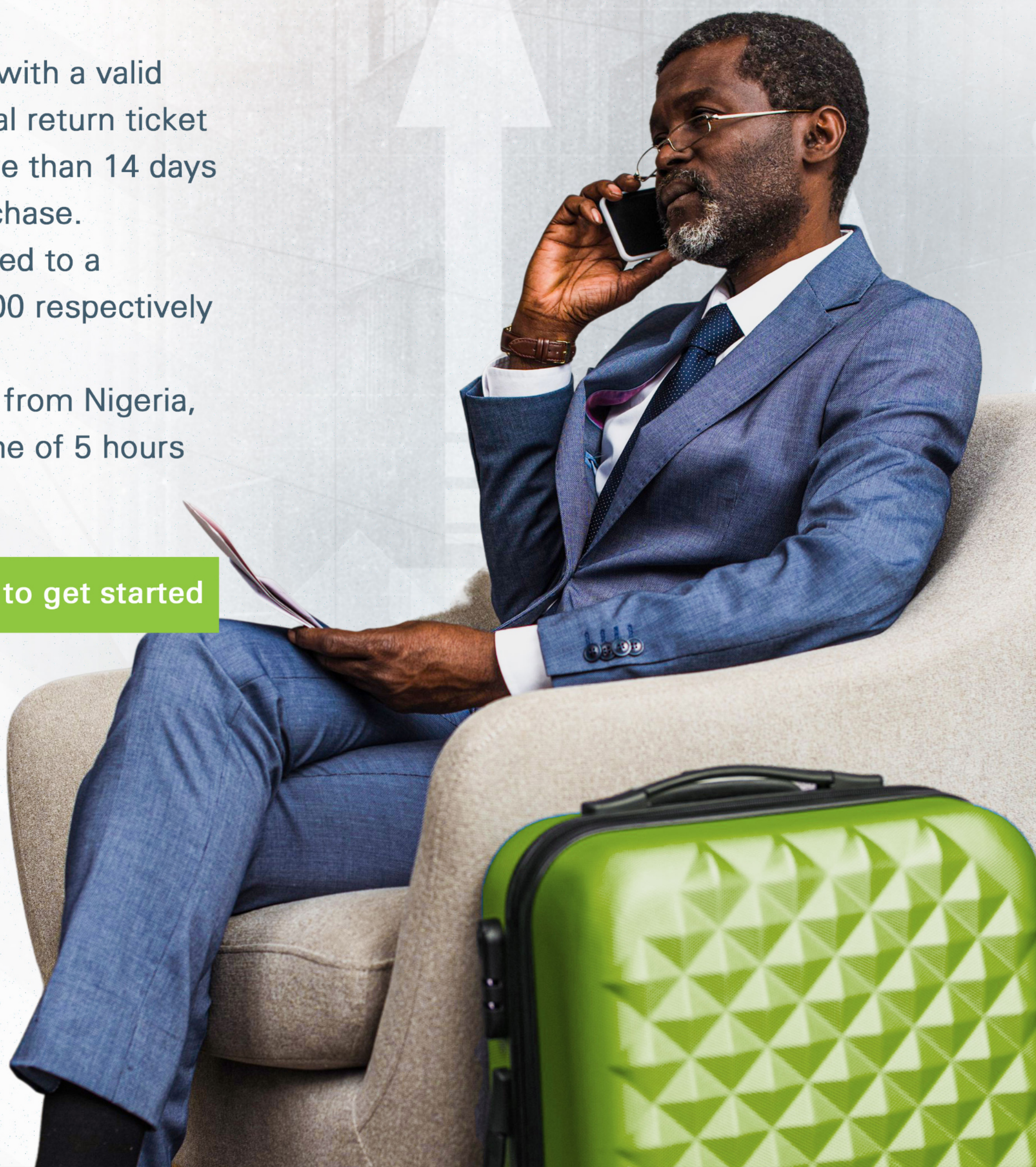
Need Business Travel Allowance in

Foreign Exchange ?

Requirements

- You should be 18 years and above, and have a valid Bank Verification Number (BVN)
- A valid Nigerian passport with a valid visa, and valid international return ticket with a travel date not more than 14 days from the date of BTA purchase.
- PTA/BTA request are limited to a maximum of $4,000/$5,000 respectively per quarter.
- A return ticket originating from Nigeria, with a minimum travel time of 5 hours to your destination.

Visit any Unity Bank branch to get started



Social Story

Steak lunch with Warren Buffet sells for a whopping $19mn

The GLIDE Foundation, a San Francisco-based charity that supports the homeless,recently hosted its 21st annual auction event to help the homeless and those living in poverty.

At the event, an anonymous bidder shelled out a record $19mn for a private lunch with the 91-year-old, billionaire businessman,W a r r e n Buffet,making this the most expensive item sold at the event.

The bidder will enjoy a private steak lunch with Buffet at a steakhouse in New York City. The winner will also be allowed to bring up to seven guests.

The bidding started on eBay with $25,000 on June 12 and ended with $19mn on June 17. This sum is four times more than the last auction's winning bid of $4.5mn.

Since the GLIDE auction began in 2000, Buffet has raised a whopping $53m for the charity. Hewas introduced to the charity by his wife who sadly passed away in 2004. Since then, the billionaire has continued to support GLIDE.

HOW TO BE A GOOD LEADER IN REALLY BAD TIMES

Culled from Inc. Africa[2]

Try these techniques to help your team stay sane and focused despite the parade of horrible headlines.

When a team led by a Harvard researcher studied the psychological impact of negative news recently, it came to a startling conclusion. Just three minutes spent scanning grim news in the morning increased the chances a person would be in a bad mood six hours later by 27 percent. Even tiny doses of bad news have long-lasting, negative impacts on our psychology.That is particularly troubling considering how much bad news we've had lately.

After more than two years of plague, 2022 has served up war, famine, a series of climate disasters, regular mass murder, and the very worst forms of political division. Sometimes it's easy to mistake your morning newspaper for the scarier sections of Revelations. Coping with this avalanche of bad news is a challenge to the mental health of us all (not to mention the health of the republic and the planet... but that's a different column). But it's also a particular challenge to business leaders, given just how distracting and depressing research shows negative headlines to be.

How do you process your own pain and confusion while helping your team stay sane and ideally, also get some work done? How do you balance compassion and business objectives? These aren't issues the traditional business education much prepares you for, but expert help is available. A recent HBR piece by former Harvard dean turned coach Mollie West Duffy and Liz Fosslien, head of communications at Humu, offered advice on how to be a good boss in terrible times.

The complete piece is well worth a read, but I've boiled-down three of the most important takeaways below.

[2]https://incafrica.com/article/jessica-stillman-leadership-negative-news-harvard/?source_category=lead

1. Start before the next tragedy

Your efforts at keeping morale up in challenging times can't start after the latest horrifying headline. You need to win trust before tragedy strikes. "You can't expect employees to feel safe opening up... if you've never previously made an effort to ensure they feel comfortable having identity-based discussions," West Duffy and Fosslein write. That doesn't necessarily mean debating politics and identity at work. What it does mean is making sure employees feel comfortable bringing their whole selves to work. Whether your employees spent their weekend at a church potluck dinner, or volunteering for their favourite cause, they should feel comfortable talking about it around the office (or on a video conference) on Monday.

"If I don't feel comfortable telling you about these things that I do in my off time, or things that are connected to my identity, then how am I going to feel comfortable telling you when things are bad?" Angelica Leigh, a professor who studies diversity asks in the article.

2. Acknowledge the awfulness

When the world seems like one giant dumpster fire, it can be tempting to try and seal your team off from the flames behind a protective wall of silence. But ignoring terrible news doesn't boost productivity. It just makes you look clueless or cruel.

"If you say nothing, your team will assume you either don't know or don't care about world events – which will erode trust," the experts warn. Depending on the size of your team, either gather them together or send an email to address whatever is new and horrible. What you say depends on both who you are (be authentic) and what the latest event is. West Duffy and Fosslein suggest two guiding principles – "communicate like a human and from the heart" and "provide a path forward".

"That might mean creating an opt-in space for people to process their emotions... offering employees paid time off if they need it or sharing other resources or company policies that might be helpful during a time of crisis," they explain.

3. Help each employee to process in their own way

When faced with horrible news, some people distract themselves with work. Others reach out to trusted friends to process their emotions. Still, others only feel better when they're taking positive action to effect change. Don't put people on the spot or dictate how they respond, but do offer them space to process in their own way.

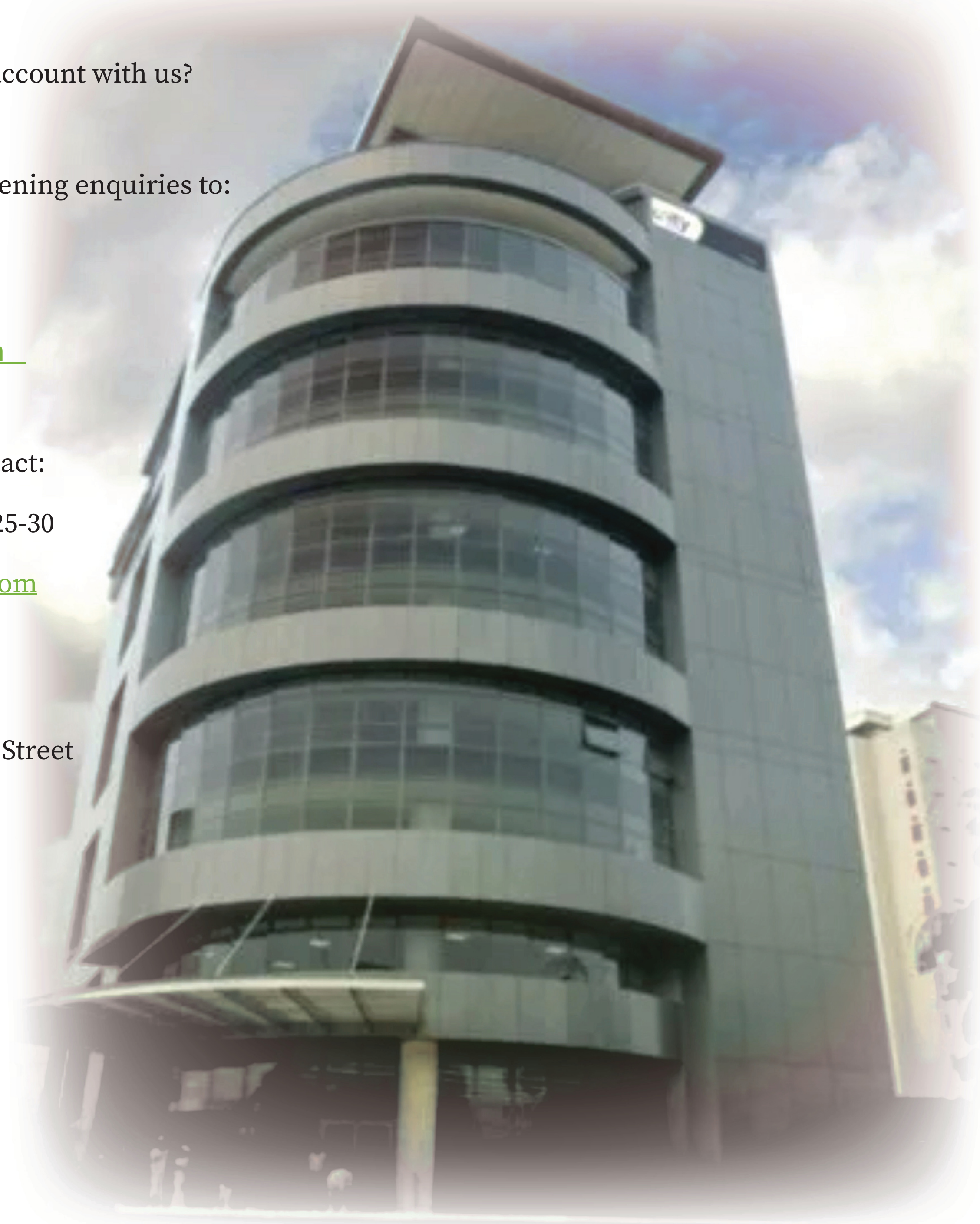
That might mean having a relevant employee resource group host a discussion, loosening expectations for a few days while people come to terms with whatever has happened, or working with an employee to re-prioritize their schedule to create some more breathing room. If appropriate, it also could mean organising a volunteer opportunity or fundraising drive to channel employees' desire to take action.

Whatever steps you end up taking, communicate that you're there for your team. "Make it clear that your door is always open," the authors advise.

"You might say something like, 'In light of ______, I want to reiterate that if there is anything I or the organisation can do to help you in the coming weeks, do not hesitate to let me know. And if you need to take time to decompress, please do so.'"

These steps are, of course, not a complete answer to the fraught but important question of how business leaders should respond to the challenges we face. When and how to take a stand is a question for a much longer article than this. But while you're pondering your responsibilities don't neglect essential psychological first aid for your team. Ignoring horrible things doesn't make them go away. Acknowledging reality and offering human support and connection will help, however.

Contact



Would you like to open an account with us?

Kindly direct all account opening enquiries to:

Nosakhare Omoigui

08078148762,08160956889

nomoigui@unitybankng.com

For all other enquiries, contact:

07080666000/ 07057323225-30

we_care@unitybankng.com

www.unitybankng.com

Unity Bank Plc
Plot 42, Ahmed Onibudo Street
Victoria Island
Lagos

Connect with us on Social Media: @UnityBankPlc