Volume 12 Issue 13

Bi MONTHLY

August 11, 2022

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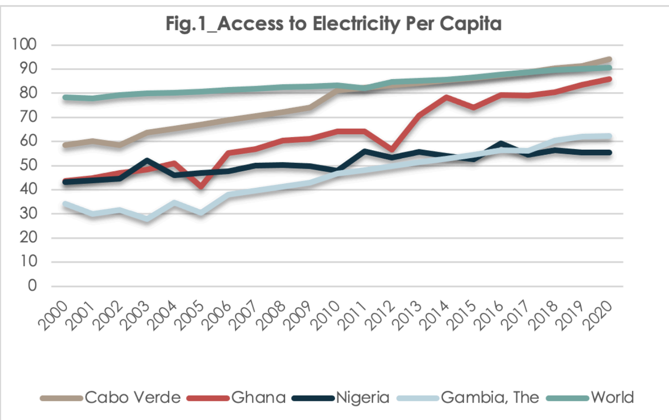
ENERGY SUPPLY CRUNCH: FAILURES AND COPING OPPORTUNITIES IN NIGERIA

The development-induced attribute of energy makes its supply an indispensable priority for economic development. This brings to the fore reasons for energy sector investment and development in Nigeria. For instance, figures obtained from the National Bureau of Statistics (NBS) showed that in 1999, government invested roughly ₦6.7 billion in the power sector. Also, between 2000 and 2001, the amount invested rose from ₦49 billion to ₦70.9 billion, up by 30% change. The expenditure, however, sharply reduced to ₦5.5 billion in 2003 from ₦70.9 billion recorded in 2001. It picked again in 2004 with about ₦54.5 billion and rose further to ₦70.3billion and ₦72.4 billion in 2005 and 2006. Currently, the estimated government expenditure on the power sector is above ₦300 billion. In addition, a series of funding interventions came into the sector from international bodies like the World Bank. Some reforms also took place in the sector to boost energy supply. Yet, with all the investment, Nigeria is not improving its access to energy. The energy supply crisis remains persistent in Nigeria, raising the question of what coping strategies Nigerians can adopt.

Energy Supply Crunch in Nigeria

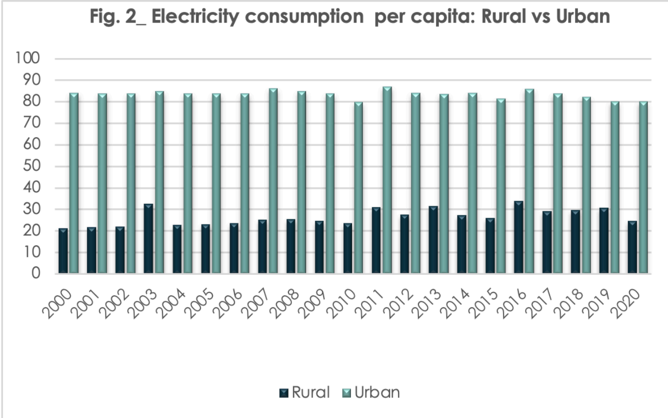
Globally, Nigeria is one of the top-ranking countries with the lowest electricity supply per capita. The country's low electricity per capita consumption is due to inadequate access to electricity to meet the basic needs of businesses and households. Figure 1 illustrates trends in the access to electricity (per capita consumption) among selected countries compared to the global level. Cabo Verde and Ghana exhibit a high degree of convergence to the global level. Importantly, access to electricity in Cabo Verde caught up with the world level in 2010, and remained above it in the early part of 2018 through 2021. Economies like Ghana and the Gambia showed a significant improvement in access to electricity, especially in the aftermath of the 2008/2009 global financial shock. In Nigeria, access to electricity remained depressed with a faint tendency to improvement as shown in Figure 1. [1]



Source: World Development Indicator (2022); FDC Think Tank (2022)

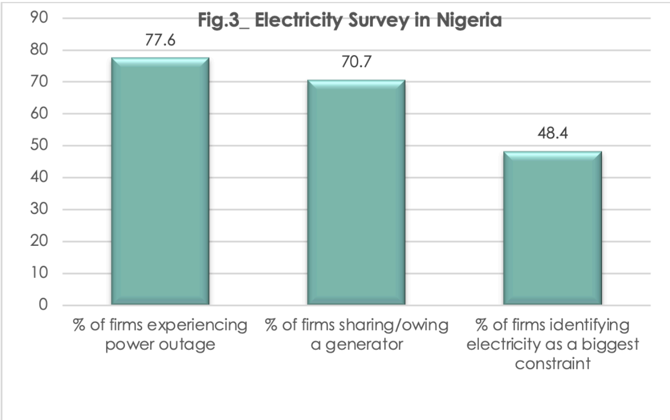
[1] World Bank Development Indicator Database, https://data.worldbank.org/; Financial Derivatives company Think Tank

Figure 2[2] shows electricity access (per capita) in Nigeria by rural and urban settings. More than half of electricity supplied is consumed in urban area. It is not surprising as a large proportion of the households and businesses, like banks and manufacturing industries, which have a high demand for electricity, are in urban area.



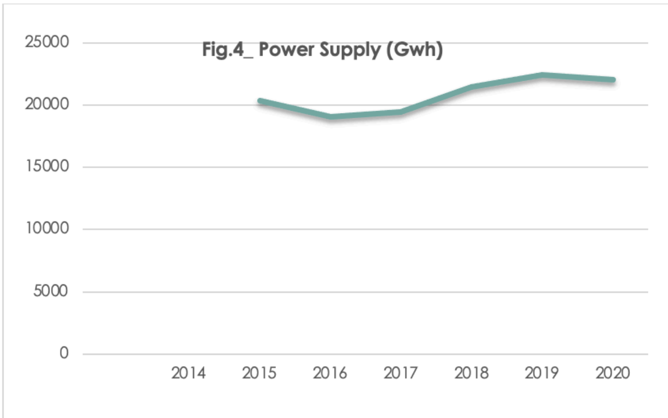
Source: World Development Indicator (2022); FDC Think Tank (2022)

Access to certain level of electricity is a necessary condition for houses to increase consumption and the businesses to meet the prevailing market demand. Based on the 2014 World Bank Enterprises Survey,[3] using a sample of 2,676 manufacturing firms in Nigeria, roughly 50% of the respondents reported lack of access to electricity as one of the topmost challenges hindering their performance. Additionally, close to 78% of the sampled firms experienced power outages as showed in Figure 3.



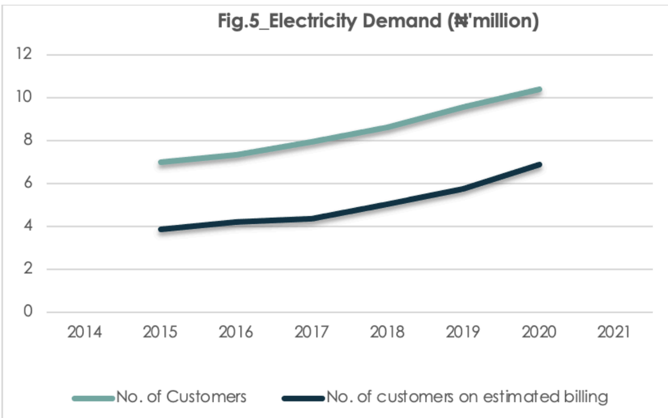
Source: World Bank Enterprises Survey (2022); FDC Think Tank (2022)

The present situation of electricity supply in Nigeria has not meaningfully changed compared to 2014 when the World Bank carried out the survey. Figure 4 illustrates trends in electricity supply between 2014 and 2020. While very little improvement is documented between 2017 and 2019, electricity supply in general has been on a declining path in Nigeria. Evident from the data from Transformation Company of Nigeria, power generation dropped from about 8.69 million Megawatts-hour in the first quarter of 2021 to 8.6 million Megawatts-hour in the third quarter. 2022 saw more days of darkness than 2021.



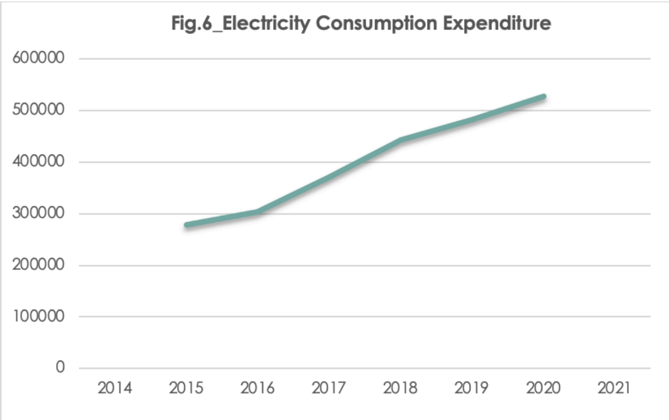
Source: NBS (2022); FDC Think Tank (2022)

Apparent from the Nigerian Electricity Regulatory Commission reports, Nigeria has a total installed capacity of 27,898,000 megawatt-hour; the total power generation as at July 18, 2022 stood at 90940 megawatt-hour compared to 90010 megawatt-hour in the previous day due to the intermittent national grid collapse. For instance, the national grid collapsed eight times between January and July, 2022. Of course, as expected, the increase in businesses and household populations and the decline in supply necessarily mount pressure on demand for electricity. Figure 5[4] shows the trend in the electricity demand between 2014 and 2021.



Source: NBS (2022); FDC Think Tank (2022)

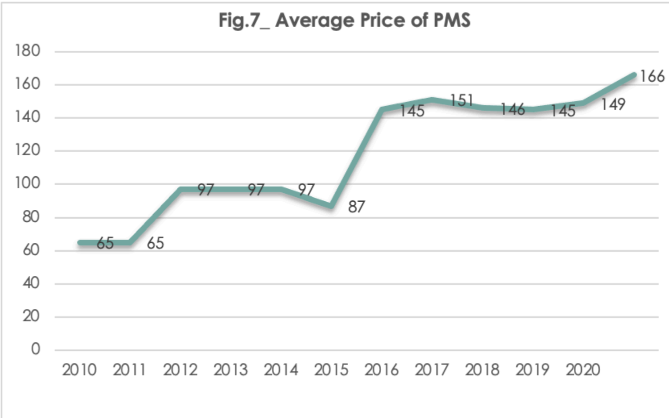
[2] World Bank Development Indicator Database, https://data.worldbank.org/
[3] World Bank Enterprises Survey – World Bank database. Available at https://www.enterprisesurveys.org/en/enterprisesurveys, accessed July 26, 2022
[4] National Bureau of Statistics (2022). Electricity Reports. https://www.nigerianstat.gov.ng/



NBS (2022); FDC Think Tank(2022)

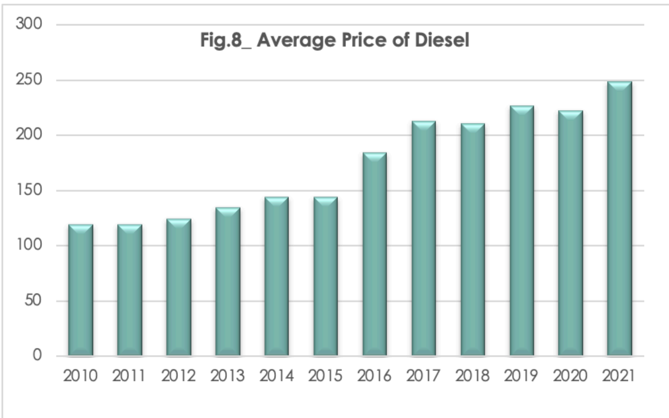
The imbalances between supply and demand result in a surge in the consumer expenditure on electricity as illustrated in Figure 6.

An analogy of Figures 5 and 6 suggests that while electricity bills are on a rise, the supply of electricity is declining. The impact is severe for businesses as they will incur more costs. Today, some businesses in Nigeria have folded-up while other are seriously cutting back operations owing to high operating costs. Many of the firms that seemed able to survive are leveraging on generators to operate. Indicated in Figure 3, more than 70 per cent of the sampled firms by the World Bank depend on generators for electricity supply. Unfortunately, the recent hike in energy prices, especially the prices of premium motor spirit and automotive gas oil, is killing. Figure 7 and 8 illustrate trends in the prices of energy used by businesses in Nigeria.



NBS (2022); FDC Think Tank(2022)

Figures 7 and 8 clearly show that energy prices are rising astronomically in Nigeria. The surge in energy prices exacerbates the plights of businesses that use the premium motor spirit and diesel.



NBS (2022); FDC Think Tank (2022)

Coping Opportunities

Considering the global energy crisis, Nigeria should embrace solar power as a way forward. For example, China is a prototype of an economy that has pushed for a solar power project to boost electricity. As at the end of 2021, China had installed 328GW wind capacity and 306GW of solar power with additional 31GW installed between January and June 2022; the capacity is expected to increase to 450GW by the end of 2022. China's success in electricity breakthrough came through the renewable energy law implemented. India's economy is another case in point. As of 2014, close to one-fifth of the Indian population had no access to electricity. Today, the story is not the same; India owns the largest solar farm (Bhadla Solar Park) in the world. The India's breakthrough was accomplished through a synergy between the central and state government under schemes like accelerated depreciation benefit and reverse bidding/auctions, long-term power purchase agreement, Feed-in-Tariff and renewable purchase obligation. Through a synergy with the private sector, the Nigerian government should replicate the models.

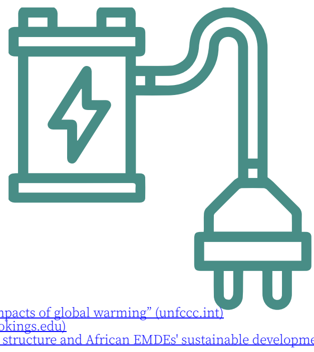
REDUCING GREENHOUSE GAS EMISSION – THE IMPLICATIONS FOR AFRICA

Greenhouse gas emissions from human activities are strengthening the greenhouse gas (GHG) effect, causing climate change and resulting in global warming. The data released by the Environmental Protection Agency in February 2022 indicate that 78%-80% of GHG emissions are carbon dioxide, from burning fossil fuels.[5] The 2022 report of the Intergovernmental Panel on Climate Change indicates that 10% of the world contributes over 40% of global warming. Three of the largest economies – China, the UK, and the US – collectively contributed more than 45% of the GHGs in 2021.[6]

In climate change discussions, Africa can be regarded as a victim as it contributed less than 3% of the total global GHG emissions in 2021. Conversely, seven out of 10 African countries are vulnerable to climate change and global warming effects.[7] By impact, Africa should be leading the discussion of achieving zero GHG emissions. However, the lack of industrialization and economic development in Africa calls for a review of Africa's role in the global effort to reduce GHG emissions.

Developmental Gaps in Africa

Africa remains the least industrialized continent. This has resulted in high unemployment (specifically amongst African youth), underdevelopment and poverty. In the United Nations' 2021 Human Development Index, 22 out of 34 countries with low human development indices were in Africa.[8] Also, the average per capita income of African countries in 2020 was three times less than the average of European countries in the 1920s!.[9] Natural resources and agricultural products, with little to no refinement, remain the main sources of revenue for African countries and account for more than 80% of total exports on the continent.[10]



The imperative role of energy in the industrialization process, economic development, and poverty alleviation has been well enunciated in the literature. Goal 7 of the Sustainable Development Goals identifies energy accessibility as a right of every human and as also the bedrock of economic development.[11] However, Africa remains energy-poor. A report by the International Energy Agency on Africa's 2022 energy outlook identifies 650 million Africans without energy, with a 60 million increase projected due to COVID-19 and Russia-Ukraine war.[12] This is over 45% of Africa's population and will continue to result in spiraling unemployment, unstrapping poverty, and low human capital development.

[5]IESE Business School. 2021 "Africa Energy Sector – Challenges, Opportunities and Future Path". https://execedprograms.iese.edu/strategic-management/energy-africa/
[6]Aloysious Uche, Arunma Oteh and Jeanine Mabunda. 2021 "Enlightened Climate Policy for Africa". Brookings. Enlightened climate policy for Africa (brookings.edu)
[7]United Nations. 2022 "United Nation Fact Sheet on Climate Change". United Nations Fact Sheet on Climate Change - Africa is particularly vulnerable to the expected impacts of global warming" (unfccc.int)
[8]Belay Begasham. 2019. "Africa and Sustainable Development Goals: A long way to go". Brookings. Africa and the Sustainable Development Goals: A long way to go (brookings.edu)
[9]Hoang Phong Le & Dang Van. 2020. "The energy consumption structure and African EMDEs' sustainable development". Research Gate. (PDF) The energy consumption structure and African EMDEs' sustainable development (researchgate.net)
[10]Saidi Zaidi, Samia Gmiden & Kais Saidi "How energy consumption affects economic development in select African countries". Research Gate. How energy consumption affects economic development in select African countries (researchgate.net)
[11]Adewuyi, A.O., Awodumi, O.B., 2017. "Biomass energy consumption, economic growth and carbon emissions: fresh evidence from west Africa using a simultaneous equation model". Journal of Geoscience and Environmental Protection. Adewuyi, A., & Awodumi, O. (2017). Biomass Energy Consumption, Economic Growth and Carbon Emissions Fresh Evidence from West Africa Using a Simultaneous Equation Model. Energy, 119, 453-471. - References - Scientific Research Publishing (scirp.org)
[12]Ahmad, N., Aghdam, R.F., Butt, I., Naveed, A. 2020. "Citation-based systematic literature review of energy-growth nexus: an overview of the field and content analysis of the top 50 influential papers. Energy Econ". Journal of Economics and Finance. Citation-based systematic literature review of energy-growth nexus: An overview of the field and content analysis of the top 50 influential papers — Sultan Qaboos University House of Expertise (elsevier.com)

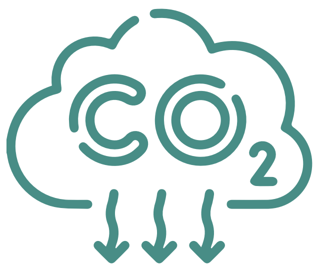
In 2021 Africa's energy demand was 950 Terawatt-hour, 4000 times what the world added in terms of energy generated from wind and solar in 2020.[13] This suggests a huge gap between Africa's energy demand and the world's energy generation capacity from renewable sources. Moreover, industrialization and economic development remain Africa's goals, and energy plays a central role in this. Therefore, Africa needs more investment in renewable energy sources. There is a need for huge investments in coal and gas sources of energy, which goes against the resolution of the international financial institutions to channel over 70% of energy investments to renewable and green energy sources.[14]

The Role of Africa in Carbon Emission Mitigation

Africa can play a huge role in GHG emissions reduction without distorting its development path. For the world to transit to renewable energy and achieve zero carbon emissions by 2050, there will be a need for mass production of batteries, electric vehicles, and other renewable energy systems. The mineral resources deposited in Africa will play vital roles in mitigating global GHG emissions. For instance, the Democratic Republic of Congo's cobalt deposits accounts for 70% of the World's Cobalt deposits, which is vital for battery production. Another resource in Africa is the Congo Basin, the world's second-largest rainforest, which helps absorb 1.2 billion metrics of C02 each year. Meanwhile, Nigeria has 3% of the world's lithium supply and 9% of the world's titanium. These and other mineral resources that are located on Africa's soil will play vital roles in the global energy transition. Therefore, the issue of GHG emissions needs to be carefully done without distorting Africa's development path.

Proportional Responsibility

Importantly, Africa faces some of the most severe consequences of the world's climate crises despite contributing the least to it. While the UK, the US, and China are responsible for more than 45% percent of the cumulative CO2 emissions, African countries contribute just 3% to the global Co2 emissions.[15] Thus, making the US, UK and China significantly reduce their levels of carbon emissions will ease the burden on those nations that still need a variety of power generation methods to increase their energy access. Undoubtedly, the world is facing a climate crisis and this problem must be solved in solidarity without compromising Africa's development. Therefore, leaving 600 million Africans in the dark is not an option. We must work assiduously to expand energy access in Africa while we avert a climate disaster.



Ahmed, S., Alam, K., Sohag, K., Gow, J., Rashid, A, Akter, M., 2019. "Renewable and nonrenewable energy use and its relationship with economic growth in Myanmar". Renewable and non-renewable energy use and its relationship with economic growth in Myanmar | SpringerLink

Ukertor Gabriel Moti 2019. "African natural Resource Wealth – A Paradox of Plenty and Poverty". Advances in Social Sciences Research Journal. (PDF) Africa's Natural Resource Wealth: A Paradox of Plenty and Poverty (researchgate.net)

Phong, L.H., Van, D.T.B., Bao, HHG. 2018. "The role of globalization on CO2 emission in Vietnam incorporating industrialization, urbanization, GDP per capita and energy use". International Journal of Energy Economics and Policy. The Role of Globalization on CO2 Emission in Vietnam Incorporating Industrialization, Urbanization, GDP per Capita and Energy Use – DOAJ

Implications for Nigeria.

Nigeria is the most populous country in Africa, accounting for more than 18% of Africa's population. Yet, 95 million Nigerians are without access to modern and clean energy, and this has significantly contributed to the country's soaring unemployment. Currently, 33.3% of Nigeria's workforce is without jobs, making it the country with the second highest unemployment rate in Africa after South Africa. For Nigeria to tame its unemployment and poverty rate, Nigeria needs 100Twh which is far from what can be generated from renewable energy sources. Hence, there is a need for continued investment in gas and oil for the country to attain its energy needs.

Discussions and efforts to reduce greenhouse gas emissions are welcome, but there is a need to tackle the problem cautiously if we are to achieve inclusive economic development. While Africa will continue to play an important role in GHG emission reduction through its provision of natural resources, the continent needs more than investments in renewable energy. Coal and gas still account for more than 60% of global energy and more than 90% of Africa's. Africa, therefore, needs investment and development of its coal and gas sector for it to close its developmental gap.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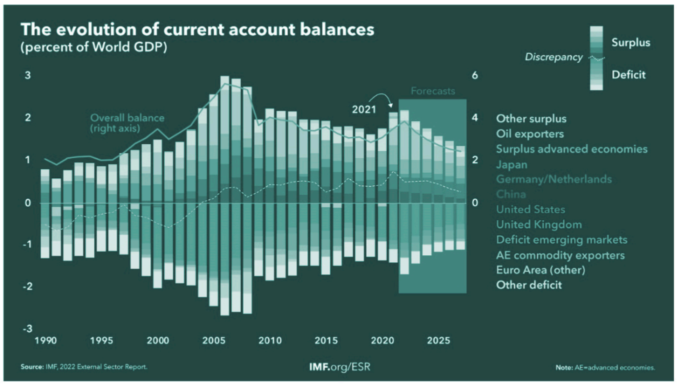
GLOBAL PERSPECTIVE: GLOBAL CURRENT ACCOUNT BALANCES WIDEN AMID WAR AND PANDEMIC

– CULLED THE IMF

The war in Ukraine and resulting increase in commodity prices are expected to contribute to a further widening this year.

The lingering pandemic and Russia's invasion of Ukraine are dealing a setback to the global economy. This is affecting trade, commodity prices, and financial flows, all of which are changing current account deficits and surpluses.

Global current account balances—the overall size of deficits and surpluses across countries—are widening for a second straight year, according to our latest External Sector Report. After years of narrowing, balances widened to 3 percent of global gross domestic product in 2020, grew further to 3.5 percent last year, and are expected to expand again this year.



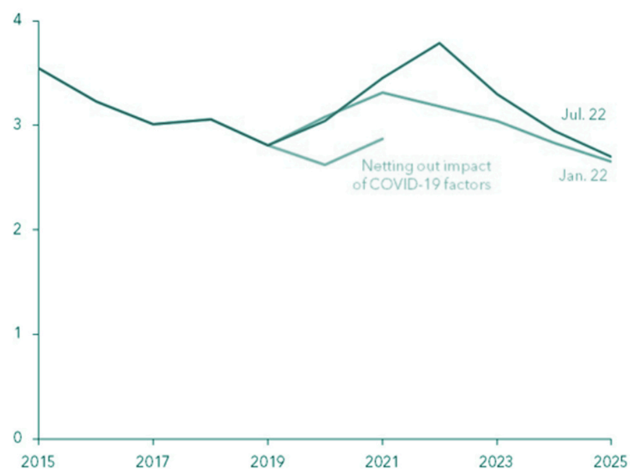
Larger current account balances aren't necessarily negative on their own. But global excess balances—the portion not justified by differences in countries' economic fundamentals, such as demographics, income level and growth potential, and desirable policy settings, using the Fund's revised methodology—could fuel trade tensions and protectionist measures. That would be a setback for the push for greater international economic cooperation and could also increase the risk of disruptive currency and capital flow movements.

Pandemic effects in 2021

The pandemic widened global current account balances, and it's still having an asymmetric impact on countries depending, for example, on whether they are exporters or importers of tourism and medical goods.

The pandemic and associated lockdowns also shifted consumption to goods from services as people reduced travel and entertainment. This also widened global balances as advanced economies with deficits increased goods imports from emerging market economies with surpluses. In 2021, we estimate that this shift increased the United States deficit by 0.4 percent of gross domestic product and contributed to an increase of 0.3 percent of GDP in China's surplus.

COVID IMPACT



Source: IMF

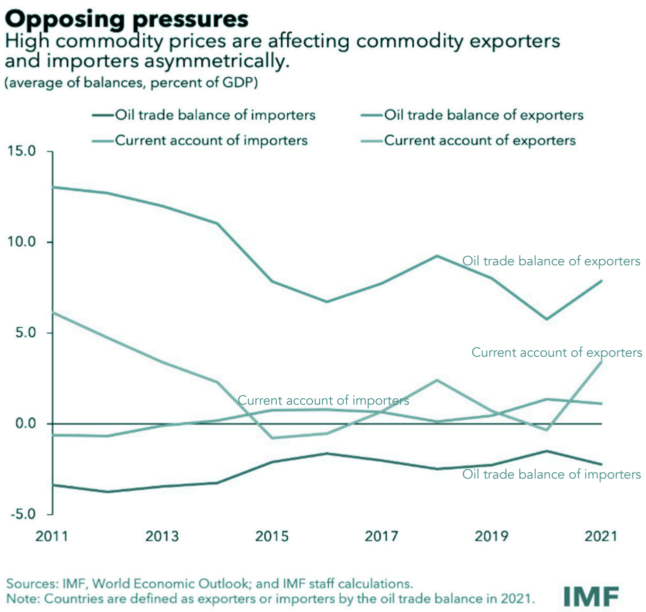
Surplus economies like China saw also increases due to greater shipments of medical goods that often flowed to the United States and other deficit economies. Surging transportation costs also contributed to widening global balances in 2021.

War and tightening in 2022

Commodity prices are one of the biggest drivers of external positions, and last year's rally in oil prices from pandemic lows affected exporters and importers asymmetrically. Russia's February invasion of Ukraine exacerbated the surge in energy, food, and other commodity prices, widening global current account balances by raising surpluses for commodity exporters.

Monetary policy tightening is driving currency movements as rising inflation is leading many central banks to accelerate the withdrawal of monetary stimulus. Revised expectations about the pace of the US monetary tightening brought about sizeable currency realignment this year, contributing to the projected widening of balances.

Capital flows to emerging markets were disrupted so far in 2022 by increased risk aversion triggered by the war, with further outflows amid changing expectations about the increased pace of monetary tightening in advanced economies. Cumulative outflows from emerging markets have been very large, about $50 billion, with a magnitude that's similar to outflows during March 2020 but a pace that's slower.



Our outlook for next year and beyond is for a steady decline of global current account balances as pandemic and war impacts moderate, though this expectation is subject to considerable uncertainty. Global current account balances could continue to widen should fiscal consolidation in current account deficit countries take longer than expected. Moreover, the stronger dollar could widen the US current account deficit and increase global current account balances.

Other factors that could widen these balances include a prolonged war that keeps commodity prices elevated for longer, the varying degrees of central bank interest-rate increases, and greater geopolitical tension causing economic fragmentation, disrupting supply chains, and potentially triggering a reorganisation of the international monetary system.

A more fragmented trade system could either increase or decrease global balances, depending on how trade blocs are reconfigured. Either way, though, it would reduce technology transfers, and decrease the potential for export-led growth in low-income countries and thus unambiguously erode welfare gains from globalisation.

Policy priorities

The war in Ukraine has exacerbated existing trade-offs for policymakers, including between fighting inflation and safeguarding economic recovery and between providing support to those affected and rebuilding fiscal buffers. Multilateral cooperation is key in dealing with the policy challenges generated by the pandemic and the war, including to tackle the humanitarian crisis.

Policies to promote external rebalancing differ based on individual economies' positions and needs. For economies with larger-than-warranted current account deficits that reflect large fiscal shortfalls, such as the United States, it's critical to reduce government deficits with a combination of higher revenue and lower spending.

Rebalancing is a different proposition for countries with excessive surpluses, such as Germany and the Netherlands, which can be reduced by intensifying reforms that encourage public and private investment and discourage excessive private saving, including by expanding social safety nets in some emerging markets.

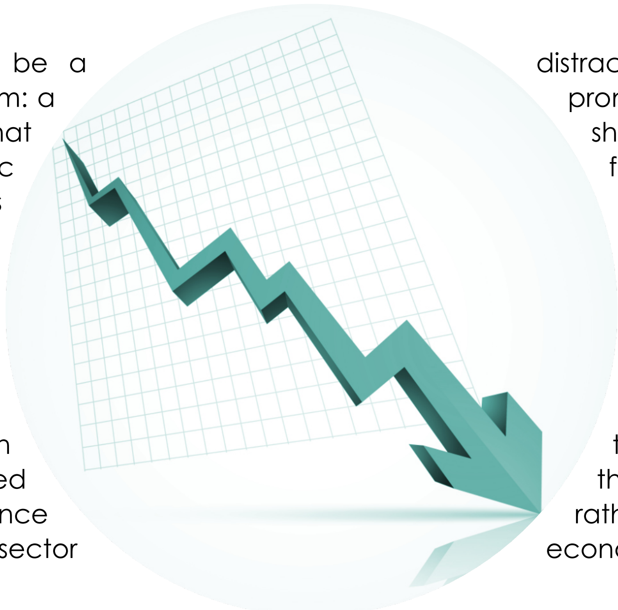
LET'S NOT MINCE WORDS WHILE THE GLOBAL ECONOMY HEADS SOUTH

-CULLED FROM BLOOMBERG

There's a distressing geographic breadth to the slowdown. We shouldn't obsess about what to call it.

Ben Bernanke wasn't the biggest fan of labels. In 2008, the Federal Reserve chair urged Congress not to get hung up on the definition of recession. What mattered most was the financial pain and economic trouble — and working out how it came about and what to do about it.

His advice was stirring, given Bernanke's former membership of the academic panel that declares the rise and fall of US expansions. It's also relevant in understanding today's travails. Much time has been spent on whether the American economy meets the practical definition of the R-word, or whether technicalities matter most. Do two consecutive quarters of decline in gross domestic product warrant the description, as is the case in many countries? We can always wait for the official call from the National Bureau of Economic Research, on whose business cycle dating committee Bernanke once sat. But the secretive group typically takes about a year to declare the onset of a slump and is dismissive of the two-quarter GDP metric.



Deliberating on tags can be a distraction. It's better to focus on the substance of the problem: a pronounced and synchronised global downdraft that shows little sign of abating. China's economic fragility was underscored on the weekend when reports showed manufacturing again contracting. That dashed hopes the economy was on the mend after struggling to grow in the second quarter. Sales at top property developers tumbled more than a third from a year earlier, and homebuyers are refusing to pay mortgages on some stalled projects. Beijing is crab-walking away from its target of around 5.5% growth this year. On Tuesday, Bloomberg News reported that top leaders told officials to regard the number as guidance rather than an ambition that must be achieved. Private-sector economists had for some months considered it fanciful.

The motor of the euro region, Germany, may already be in recession. With gas deliveries from Russia now a huge question mark, it would be unwise to anticipate a recovery before next year. GDP fell for two quarters in the US and Fed officials say they must restrain the economy further as the cost of reining in rapid price increases. There's a lot riding on Friday's employment report from the Department of Labor: Optimists point to robust jobs growth in June and an unemployment rate that's near a five-decade low. Skeptics point to rising weekly jobless claims and say that the labor market is often a lagging indicator.

Outside US hiring, the outlook is more dour. The global economy will probably grow about half last year's 6.1%, the International Monetary Fund projects. Not a disaster and still some distance from the 2.5% clip the lender uses to judge whether world commerce is underwater or muddling through. But the direction is worrying. The fund's forecasts have been heading south for a while and officials sound gloomier almost by the month. The latest markdown, released last week, says things are likely to get worse before getting better. The march toward higher interest rates that typifies pretty much every economy — aside from

miscreants like Turkey — will take a big toll. The IMF considers quashing inflation to be a vital prerequisite for economic stability, but isn't pretending it's cost free.

Economists at Bank of America Corp. fret that many forecasts are too rosy. Supply chain woes get plenty of oxygen, but a more profound shock is the rapid tightening of policy. Estimates of economic performance are flattering, the firm says, and bear great resemblance to those of monetary policy officials. "Not only are the growth outlooks optimistic, in virtually every economy the central bank wins the inflation battle without a recession," wrote Ethan Harris, global economist at BofA, in a July 29 report. "Apparently fighting inflation is a fairly painless exercise."

There are multiplying reasons to worry about the world economy as a whole, rather than as a series of independent fiefdoms. Too often the first questions directed at officials about the existence or otherwise of a recession has a Gotcha! flavour. Better to focus on the underlying conditions.

A touch of empathy is always useful, too. On July 15, 2008, with the bailout of Bear Stearns Cos. a few months old and the collapse of Lehman Brothers Holdings Inc. soon to crater world finance, Bernanke was confronted by Robert Casey, a Democrat senator from Pennsylvania, with the case of a constituent who put food fourth on her list of priorities behind house payments, daycare and gasoline. "I agree with you entirely that whether it is a technical recession or not, the combination of declining wealth, weak job market, rising food and energy prices, foreclosures, tight credit — all those things are putting tremendous pressure on families and explain why consumer sentiment is very low," Bernanke told the Senate banking committee that day. "People are very worried. So, I certainly would never make the claim that even if we were not in a technical recession that it was not a serious situation."

The economy was subsequently declared to be in recession.

A lot of attention is focused on GDP, too, but the news isn't great there, either. There appears little respite in Europe and important parts of Asia. Rather than labouring over textbook definitions or alphabetic monikers — remember the games in 2020 over whether the recovery was a U, L, V or W? — let's accept this downdraft has a distressing geographic consistency.

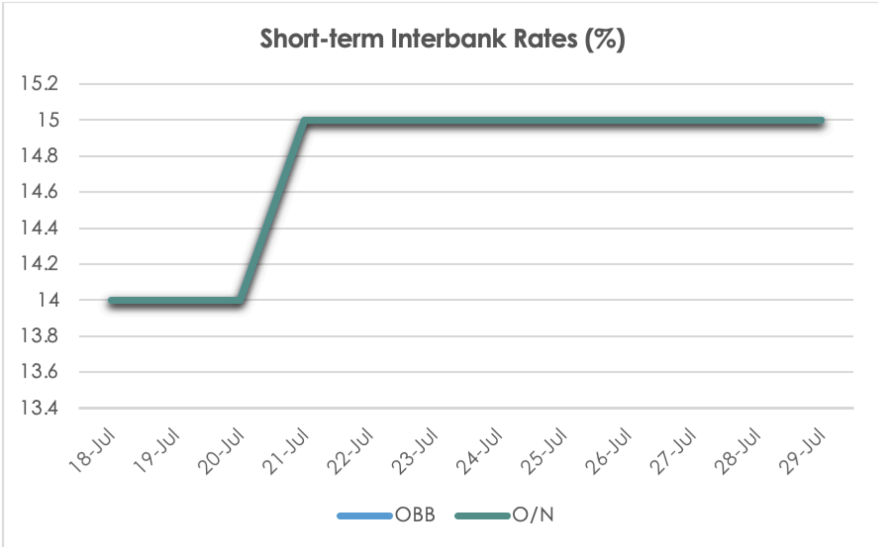
It's cause for concern in any language.

MACROECONOMIC INDICATORS 18TH- 29TH JULY

Money Market

Banks' opening position was N62.34bn on the average in second half of July, up by 420.09% from the negative average position of N14.83bn in the second half of June. The increase in liquidity is partly due to the OMO repayment of N10bn in the review period. Interbank rates (OBB, O/N) averaged 14.47%p.a in the review period, up by 102bps from 13.68%p.a in the second half of June.

Two auctions were held during the review period, with a total of N388.13 billion allotted at the primary market, a decrease of 8.41% from the N423.78 billion allotted in the second half of June. However, no Treasury bills were repaid in the second half of July. Treasury bill rates increased by an average of 51 basis points across all maturities at the primary market auction compared to the previous auction in June. The 182-day bill gained 230 basis points in the secondary market, while the 364-day bill lost 42 basis points. The 91-day bill remained unchanged from the end of June.



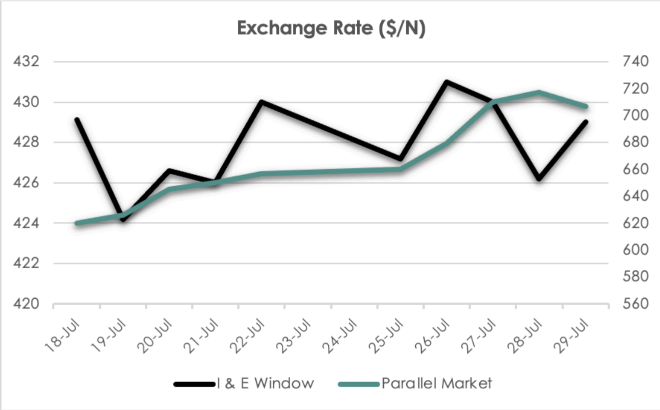
Source: FDC Think Tank

Tenor	Primary market (June 29th, 2022) (%)	Primary market (July 27th, 2022) (%)	Secondary market (June 30th, 2022) (%)	Secondary market (July 29th, 2022) (%)
91-day	2.40	▲ 2.80	3.90	↔ 3.90
182-day	3.79	▲ 4.00	5.00	▲ 7.30
364-day	6.07	▲ 7.00	5.78	▼ 5.36

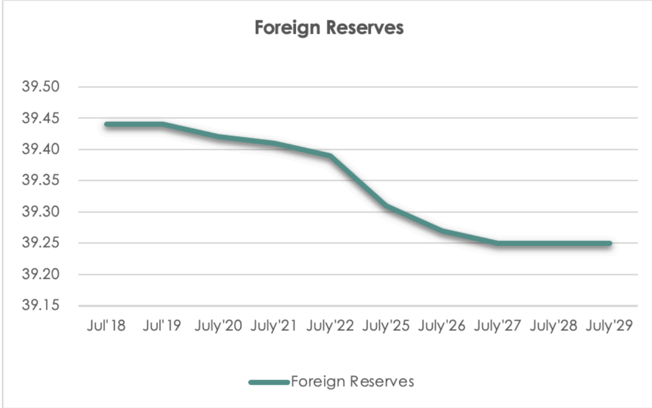
Source: FMDQ, FDC Think Tank

OUTLOOK

Rates are expected to remain high as the CBN continues to mop-up liquidity from the system. Short-term interbank rates are expected to stay in the double digits, while money market rates may increase. This may lead to increase borrowing costs for both the government and businesses.



Source: FMDQ, FDC Think Tank



Source: CBN, 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 45%-50% 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

The Naira traded at an average of N427.93/$ at the I & E window, down 1.52 % from the second half of June's average of N421.39/$. During the review period, it traded in the range of N424.17/$ to N430.00/$. At the parallel market, the Naira fell to N717/$ on July 28th, down 15.64% (N97) from N620/$. At beginning of the period (July 18th), before recovering slightly by 1.39 percent to close the month at N707/$. The sharp depreciation was fuelled by forex scarcity and speculation activities. Forex turnover fell 39.29 % to 58.03 million on July 26th, from 95.58 million at the start of the review period.

OUTLOOK

As the CBN intervenes by supplying foreign exchange, the Naira is expected to appreciate slightly at the I&E window. Furthermore, as liquidity tightens and speculative activity eases, demand pressure on the parallel market is likely to ease in the near term. This could cause the currency to appreciate slightly in the parallel market.

External Reserves

The external reserves lost by 0.56% ($220mn) to close July 28th at $39.22bn from $39.44bn at the beginning of the review period (July 18th). The depletion on the reserves was majorly due to CBN's supply of foreign exchange to stabilise the currency.

OUTLOOK

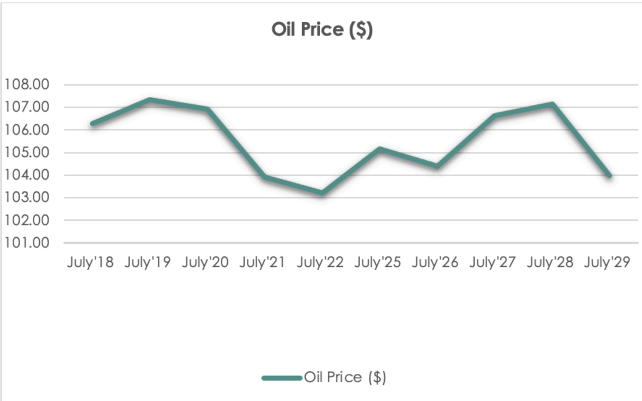
The external reserves is expected to continue its downward trend as the CBN intensifies its efforts to stabilise the currency by supplying foreign exchange to the I & E window. Because of the country's low oil production levels, high oil prices may have less of an impact on the country's external reserves.

IMPACT

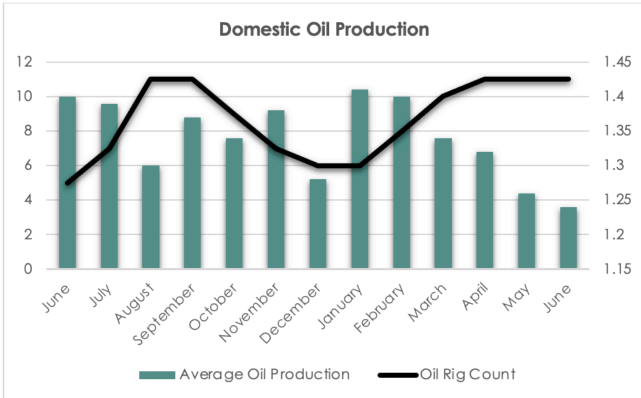
A constant depletion on the external reserves is likely to discourage the CBN from supplying foreign exchange in the foreign exchange market. This could further stoke currency depreciation as demand outpaces supply.

COMMODITIES EXPORTS

Nigeria is an export dependent economy. It derives over 80% of its revenue from exportation of oil and non-oil products. However, oil and gas remain the most significant as they contribute 80%-90% of the total exportation.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Oil Prices

Brent crude oil price remained above the $100/pb threshold in the review period as global supply continues to remain below par. It, however, fell to $103.75pb due to fears of a possible slowdown in demand as aggressive global interest rate hikes and lockdowns in China heighten recession risk, before rising by 5.62% to close July at $109.58pb on the tight supply. On average, oil price fell by 6.99% to $106.11/pb in the second half of July from $114.09pb in the same period in June.

Oil production

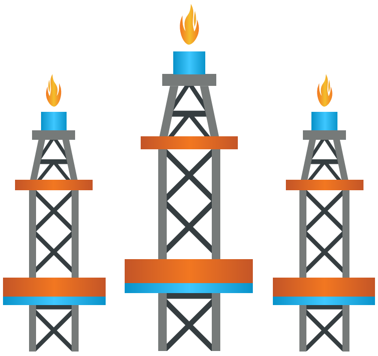
Domestic oil production rose minimally by 0.65% to 1.24 million barrels per day in June 2022, down from 1.23 million barrels per day in May 2022. The country's oil rig count, on the other hand, remained constant for the third consecutive month at 11 in June. OPEC's crude oil production increased by 234,000 barrels per day to an average of 28.72 million barrels per day in June from 28.51 million barrels per day produced in May. Oil production increased principally in Saudi Arabia, UAE, Iran, Kuwait, and Angola, while it declined majorly in Libya and Venezuela.

OUTLOOK

The global oil market supply is expected to remain tight due to the shortfall from Russia. However, fears of global recession could taper oil price in the near term due to a possible slowdown in demand. Oil theft and pipeline vandalism will continue to stymie domestic oil production.

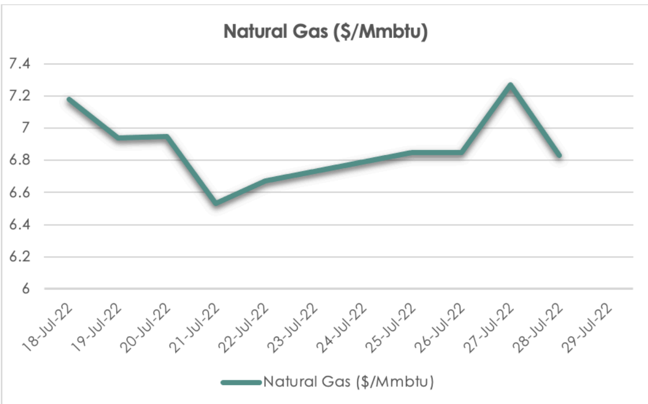
IMPACT

Nigeria's fiscal revenue is heavily reliant on oil exports; therefore, a drop in oil prices and production will reduce fiscal revenue while increasing debt market borrowings. This will result in a high debt service burden and may increase the risk of debt distress.



Natural Gas

Natural gas price bucked its downward trend as demand for gas spikes due to hot weather conditions in the US as well as Russia's gas cuts to Europe. It rose to a high of $9.00/mmbtu before easing to close July 29th at $8.19/mmbtu. Gas price averaged $8.16/mmbtu in the second half of July, up by 23.94% from $6.59/mmbtu in the second half of June.



Source: Bloomberg, FDC Think Tank

OUTLOOK

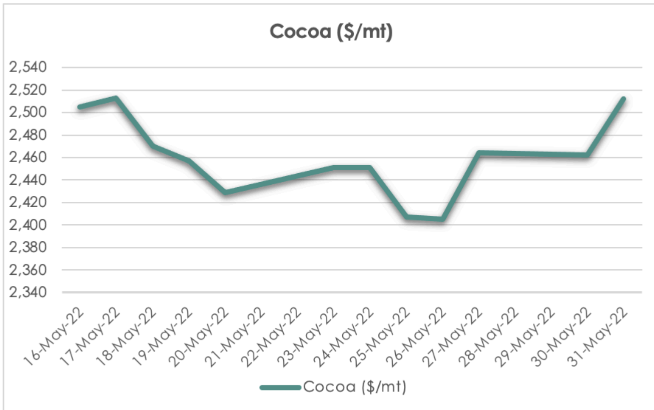
Gas price is expected to remain elevated due to supply tightness while demand continues to escalate. Russia is likely to continue its gas cuts to Europe in retaliation for the western sanctions on its economy. The hotter than usual weather in the US will continue to support demand pressure.

IMPACT

Gas accounts for about 14% of Nigeria's exports. Therefore, higher gas price is expected to buoy external revenue while improving government revenue.

Cocoa

The price of cocoa was relatively stable in the review period. It fell by 2.71% to an average of $2341.8/mt in the second half of July from $2407/mt in the corresponding period in June. This is due to fears of weak demand as theglobal recession looms. In the bid to join the living-income differential program established by the Ivory-coast and Ghana (accounts for 60% of the world's cocoa production) in 2019, the Nigerian government launched a committee named National Cocoa Management Committee (NCMC) on August 3, 2022. The low-income differential program was instituted to protect low-income cocoa growers against unfavourable prices by charging a premium of $400 per tonne to chocolate industries that buys from them.



Source: Bloomberg, FDC Think Tank

OUTLOOK

Due to improved supply and concerns about the impending recession, which could reduce demand, the price of cocoa is anticipated to stay low in the near future.

IMPACT

Seventy percent of Nigeria's non-oil exports are made up of cocoa. Low oil prices may cause a decline in foreign earnings, which would reduce government revenue. As the value of exports declines in relation to the value of imports, it could also result in a negative trade balance.

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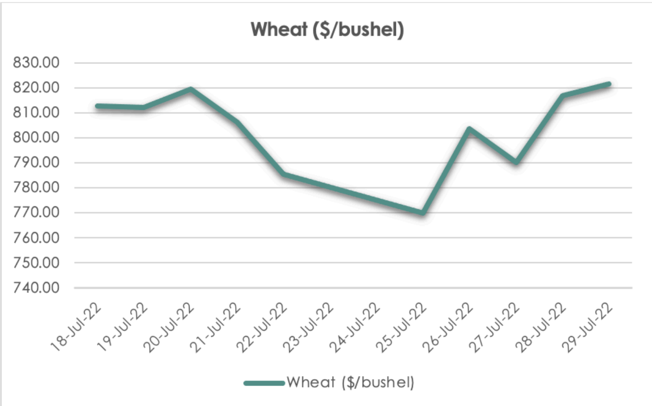
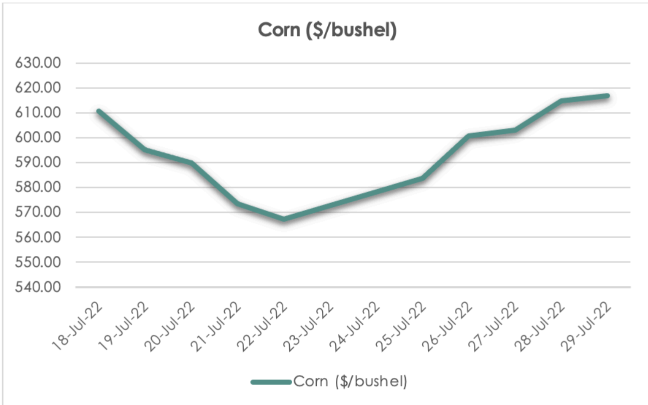
COMMODITIES IMPORTS



Source: Bloomberg, FDC Think Tank



Source: Bloomberg, FDC Think Tank

Wheat

Wheat price eased in the second half of June. This was due to the Russia-Ukraine deal, which was signed on July 22nd, 2022 to unblock grain exports from Ukraine's black sea ports. It fell to a low of $770/bushel before rising to close on July 29th at $821.50/bushel as Russia heightens the war in Ukraine. On average, wheat price fell by 17.83% to $803.88/bushel in the second half of July from $978.27/bushel in the same period in June.

Corn

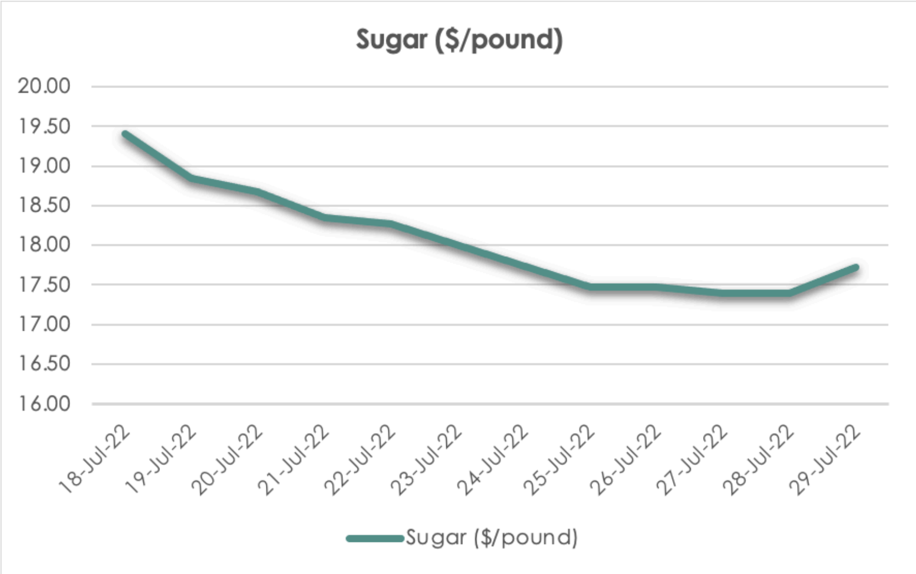
Corn price fell to a low of $567.25/bushel on improved supply as Russia signed a deal with Ukraine to unblock black sea ports for grain exports. However, it rose by 8.67% to close July 29th at $617/bushel as Russia intensifies war in Ukraine raising concerns that Russia might not fulfil its part of the deal. On average, corn price fell by 12.88% to $595.63/bushel in the review period from $683.70/bushel in the second half of June.

OUTLOOK

Grain prices are expected to taper in the near term as supply improves due to the commencement of Ukraine's grain exports and improved supply from other top producing countries (Russia, US and Australia). However, Russia could continue to heighten its war in Ukraine, which is likely to pose a downside risk.

IMPACT

Low grain prices will push down the country's import bill. It will also reduce the cost of wheat and corn processed commodities (flour, pasta, golden morn etc). This is likely to reduce manufacturing costs for food industry while lowering retail prices and improving consumers' real income. However, exchange rate depreciation is likely to pose a downside risk.



Source: Bloomberg, FDC Think Tank

Sugar

The price of sugar fell to a low of $17.40/pound, losing by 10.36% from $19.41 at the beginning of the review period. However, it rose slightly by 1.84% to close July 29th at $17.72/pound. This was due to recession fears as most central monetary authorities hiked interest rates aggressively to taper inflation. The possible slowdown in the global economy is likely to cut down on aggregate demand. On average, sugar price declined by 2.45% to $18.1/pound in the second half of July from $18.55/pound in the same period in June.

OUTLOOK

The price of sugar is likely to taper in the near term as fears of recession dampens demand outlook. Sugar supply could remain low as sugar exports decline in top producing countries (Brazil and India).

IMPACT

High sugar price is expected to lower the country's import bill, while manufacturing costs decline for confectioners. However, downside risk exists from the increase in the prices of other baking ingredients.

OUTLOOK FOR TERMS OF TRADE

The country's terms of trade is likely to be negative as its import prices rises over its exports prices.

STOCK MARKET REVIEW

18TH -29TH JULY

The NGX closed on a negative note from July 18th – 29th. It lost 3.53% to close at 50,370.25 points on July 29th from 52,215.12 points on July 15th. Also, the market capitalization decreased by 1.95% to N27.61trn relative to its close of N28.16trn on July 15th. The market YTD return decreased to 16.27% from 22.24% in the review period. The market breadth was negative at 0.33x as 18 stocks gained, 83 stocks remained unchanged while 55 lost.

Market activity level was negative in the review period. The average volume traded decreased by 3.05% to 246.27mn units from 254.02mn. Similarly, the average value of trades fell by 19.64% to N3.11bn from N3.87bn in the review period.

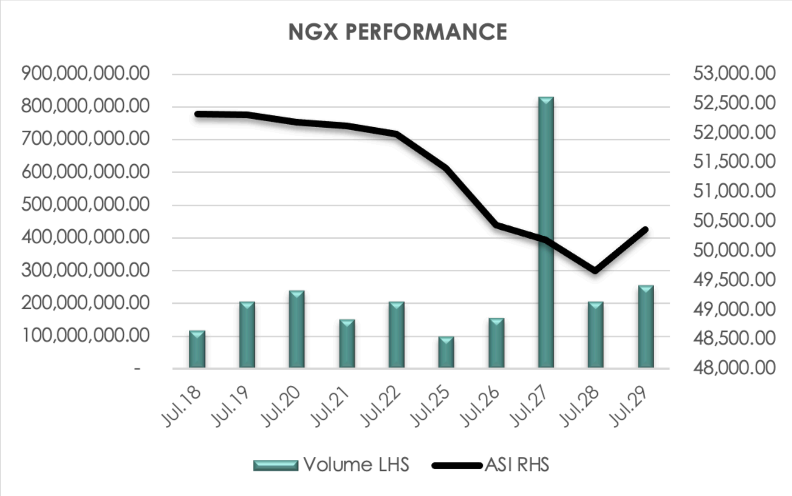
The performance of the sectors was negative in the review period, as four sectors lost while only one gained. The consumer goods sector recorded the highest loss (-6.52%). This was followed by the banking sector (-4.47%), the insurance sector (-3.24%) and the industrial sector (-0.71%). Meanwhile, the oil and gas sector gained 2.81%.

Cornerstone Insurance Plc topped the gainers' list with a 31.58% increase in its share price. This was followed by Seplat Energy Plc (10.00%), The Initiates Plc (9.09%), R T Briscoe Plc (5.41%) and Fidson Healthcare Plc (5.10%).

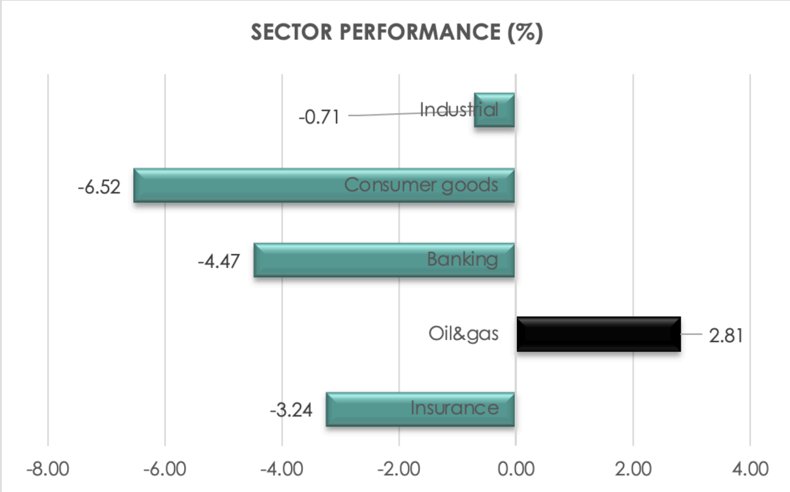
The laggards were led by Nigerian Aviation Handling Company Plc (-27.71%), Caverton Offshore Support Grp Plc (-27.01%), Honeywell Flour Mill Plc (-25.45%), UPDC Plc (-21.43%) and P Z Cussons Nigeria Plc (-18.27%).

Outlook

The sentiment in the market was negative in the second half of July. This was due to a combination of factors, including the hike in interest rates, currency weakness, and uncertainty around the release of H1 corporate results. We expect the bearish sentiment to prevail in the short term as investors are wary of the vulnerability of the Naira and the general atmosphere of business uncertainty, thus going short on equities.



Source: NGX, FDC Think Tank



Source: NGX, FDC Think Tank

TOP 5 GAINERS

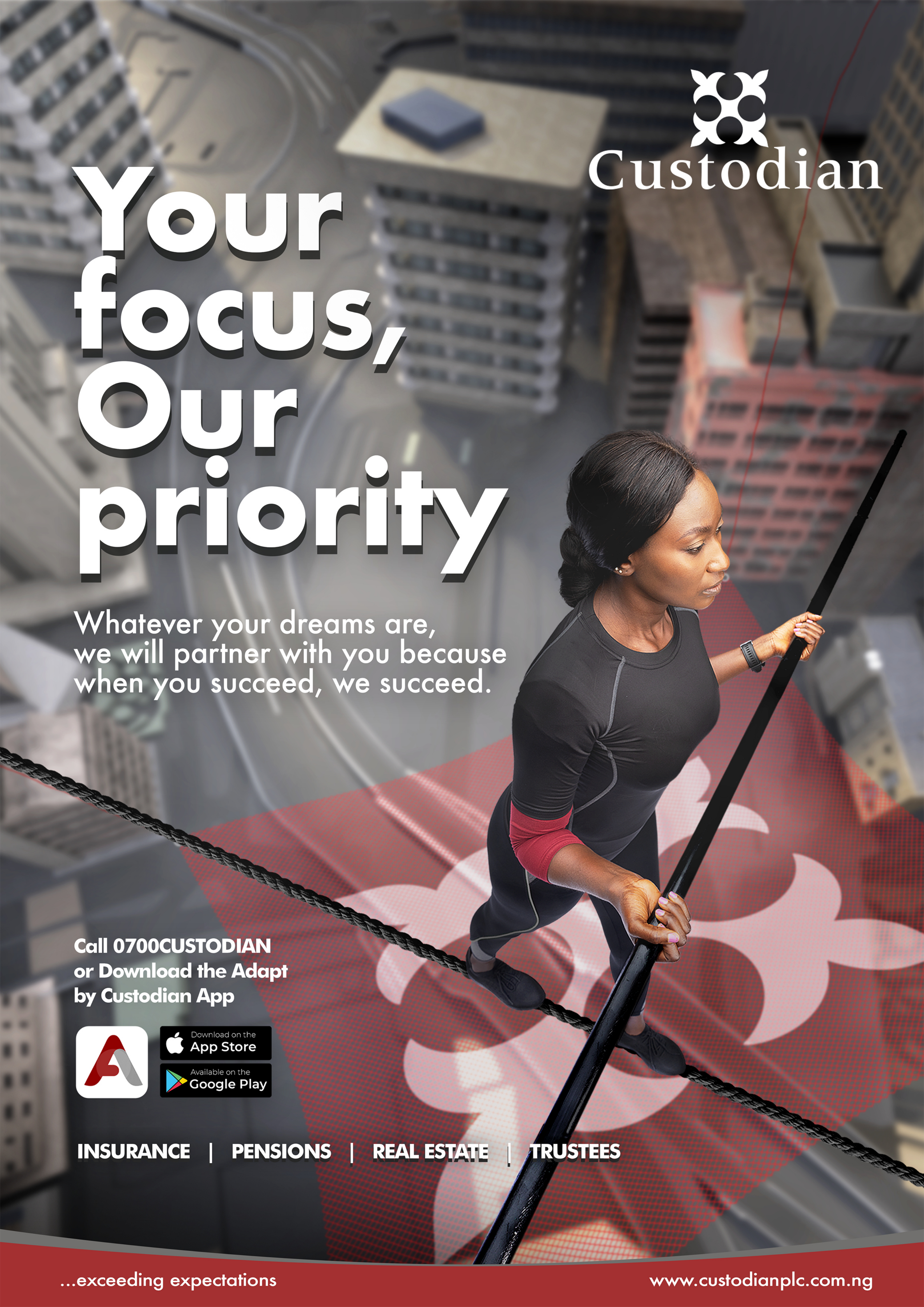
Company	Jul-15 (N)	Jul-29 (N)	Absolute Change	Change (%)
CORNERST	0.57	0.75	0.18	31.58
SEPLAT	1300.50	1430.50	130.00	10.00
TIP	0.44	0.48	0.04	9.09
RTBRISCOE	0.37	0.39	0.02	5.41
FIDSON	9.41	9.89	0.48	5.10

Source: NGX, FDC Think Tank

TOP 5 LOSERS

Company	Jul-15 (N)	Jul-29 (N)	Absolute Change	Change (%)
NAHCO	8.30	6.00	-2.30	-27.71
CAVERTON	1.37	1.00	-0.37	-27.01
HONYFLOUR	2.75	2.05	-0.70	-25.45
UPDC [BLS]	1.26	0.99	-0.27	-21.43
PZ	10.40	8.50	-1.90	-18.27

Source: NGX, FDC Think Tank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Cadbury

CORPORATE FOCUS- CADBURY NIGERIA PLC
MARKET CAP: N28.92BILLION
SHARE PRICE: N15.40
INDUSTRY: CONSUMER GOODS

Analyst's note

On February 24th 2022, Russia launched an unexpected military assault on Ukraine. The invasion of Ukraine by Russia has since exacerbated existing supply-chain disruptions and inflationary pressures. This combined with protracted currency volatility in the domestic market resulted in an accelerated increase in the cost of production as well as an erosion of households' income. Yet, Cadbury Nigeria Plc's revenue growth and profit margins remained robust in the half year ended June 30, 2022.

Strong revenue growth driven by refreshment beverages and confectionary

Cadbury Nigeria Plc's top-line rose to N27.88 billion in H1'22, a 50.54% increase compared to the corresponding period in 2021. The growth was supported mainly by domestic sales, which recorded an upsurge to N26.98 billion, as well as a rise in export sales to N898.88 million. A disaggregation of revenue by business segment showed a jump in income from refreshment beverages and confectionary, which were up 64.37% and 27.26% respectively. Conversely, income from intermediate cocoa products declined by 7.81% but was offset by the strong growth in revenue from beverages and confectionary. Meanwhile, the company's gross profit rose sharply by 168.35% to reach N5.85 billion as the pace of revenue growth surpassed the increase in the cost of sales. In H1'22, Cadbury Nigeria Plc's cost of sales was up 34.76% to N22.02 billion while cost margin declined to 78.98% from 88.23% in the first half ended June 30, 2021. The substantial decline in the company's cost margin as well as the strong revenue growth points to a higher than expected price increase.

Accelerated operating profit underpinned by robust gross revenue growth

In the half year ended June 30, Cadbury Nigeria Plc's operating profit spiked by 567% to N2.85 billion. This was despite an 8.21% increase in operating cost, which rose to N3.03 billion on the back of higher selling & distributing and administrative expenses. Other income sped up to N25.63 million, from N12.55 million in H1'21, primarily due to insurance claims received worth N19.91 million. The company's accelerated operating profit thus underscores its operating efficiency and the impact of operating leverage.

Similarly, Cadbury Nigeria Plc's net finance income jumped to N497.05 million. The jump, which represented a 429.96% from N94 million in the half year of 2021, was mainly due to an upsurge in the interest income from bank deposits which increased to N702.40 million from N150.15 million in the corresponding period in 2021.

Stable effective tax rate supports net profit

The company's recorded a profit before tax of N3.35 billion in H1'22, a massive 748.13% jump from a loss of N516.17 million in the same period in 2021. In the same vein, Cadbury Nigeria Plc's profit after tax accelerated by 553.69% to stand at N2.34 billion. The company's strong performance during the review period, including its outperformance of some of its peers defied the country's current macroeconomic state.

Industry overview

The performance of FMCG firms was severely impacted by a tough operating environment in the first quarter of 2022. Spiraling inflation, declining consumer demand, surging cost of raw material and currency pressures owing to foreign exchange shortage exerted upward pressure on companies' operating costs, weighing on the sector's overall performance. Protracted challenges including epileptic power supply and surging diesel prices, which pushed up power generation costs, as well as poor transportation infrastructure also contributed to the pressure on performance.

Looking forward, the purchasing power of Nigerian consumers will continue to weigh on the sector. With consumer struggles anticipated to persevere, as SMEs – an essential cog in maintaining employment stability – continue to struggle amidst business challenges, a recovery in consumer income is unexpected in the near term. Furthermore, the prevalence of insecurity in the north and north-central basin will continue to impair food production. This combined with the cumulative impact of rising input costs due to supply chain disruptions and geopolitical conflict in Eastern Europe on import dependent economies will see prices rise further. Moreover, heightened domestic inflationary pressures do not bode well for most manufacturing companies in Nigeria.

Therefore, FMCG firms may face increased pressure in the coming quarters. The erosion of consumers' income and rising poverty levels may prompt consumers to react to higher prices, which will weigh on the industry's profitability.

Company overview

Cadbury was incorporated in Nigeria in January 1965 and subsequently listed on the Nigeria Stock Exchange (NSE) in 1976. Before listing on the NSE, Cadbury predominantly re-packed imported bulk products, but with its listing, it grew rapidly into a full-fledged manufacturer. The parent company, Mondelńz International (formerly Kraft Foods Inc.) has a majority equity interest of 74.97% in Cadbury through its holding in Cadbury Schweppes Overseas Limited. Mondelńz International is one of the largest confectionary food and beverage companies in the world. It remains a dominant player for chocolate, biscuits and gum and candy offerings.

Cadbury Nigeria currently produces and markets branded fast-moving consumer goods such as refreshment beverages and confectionaries. It also exports intermediate cocoa products to Europe and the rest of Africa.

The beverage segment accounts for 58% of revenue. Confectionary accounts for 26% and intermediate cocoa products for 16%.

Cadbury Plc's rivals remain Nestlé and Unilever. Nestlé Nigeria Plc is currently the largest in the food and nutrition segment. Nestlé continues to benefit from a favourable volume-product mix, as it remains the dominant player in most of its segments.

Local players in the industry include UACN, SweetCo Foods and Promasidor, who are also diversified food companies. Like Cadbury, they have lagged compared to Nestlé due to a combination of production constraints and the intense rivalry in a highly price-sensitive market.

Bulls and Bears say

Bulls Say:

- A dominant player in the food and beverage industry in Nigeria
- Superior and recognisable brand value
- Strategic alliance and support from parent company
- Innovative initiatives to improve appeal and customer satisfaction

Bears Say:

- Intense competition from other leading players such as Unilever and Nestlé
- Weak consumers' purchasing power
- Persistent macroeconomic headwinds could dampen consumer demand
- Shift of market preference to low-priced products
- Narrow product range

Risks and Outlook

The major risks that may prevent Cadbury from achieving its goals of improved earnings, boosted sales and managed costs include persistent macroeconomic challenges, credit risk, liquidity risk, market risk (currency, interest rate and equity prices), and capital management risk.

The company's exposure to credit risk is mainly influenced by the individual characteristics of each customer. The company mitigates this risk by establishing a credit policy where each customer is analysed for creditworthiness.

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The company mitigates this risk by ensuring that it always has enough liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the company's reputation.

Market risk is the risk that is generated by market prices, foreign exchange rates, interest rates and equity prices and how they will affect the company's income or the value of its holdings of financial instruments. The company mitigates this risk by ensuring that its net exposure in respect of monetary assets and liabilities denominated in foreign currencies are kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

In order to maintain investor, creditor, and market confidence, and to sustain future development of the business, the company continues to maintain a strong capital base as well as monitors the return on capital.

ECONOMIC OUTLOOK FOR AUGUST

In August, political parties will intensify preparations for launching campaign for 2023 general election in the coming months. Mudslinging will begin to gather momentum and the third and fourth political forces will gain more grounds.

Headline inflation will surge to 19.7% in July (to be released in August). Although global inflation will begin to taper, Nigeria's inflation will soar, revealing the underlying vulnerabilities. The most potent causative factors for price inflation in Nigeria today are exchange rate pass through (N667/$), the knock-on effect of the sharp increase in the price of diesel (N780/litre) and to a limited extent the impact of money supply growth and saturation (N48.8trn). The Naira will likely depreciate again towards the N695/$-N700/$ range at the parallel market. We expect that CBN will allow for a partial crawling peg in the forex market, and bring the I & E rate down to N440/$ in September.

We also expect that the monetary tightening environment will prevail for the rest this year as the CBN prioritizes price stability over development financing. As part of its monetary tightening stance, the CBN will further raise the policy rate by 50bps to 14.5%p.a at its next meeting in September. We expect the interbank money market rates to surge to 18%p.a. – 20%p.a. range. Primary treasury bills for 365 days will rise to 9% p.a, while 91 days treasury bills will climb to 3.5% p.a.

We expect the international oil price to hover around the $95pb – $100pb range. Oil production will continue to slack and FAAC is expected to drop to N650-N700 range in August. The narrow rally at the stock exchange market buoyed by the H1 corporate results is fragile. The NGX ASI will slide to 50,300 in August but recovery will be quick and deep.

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