FDC MONTHLY

ECONOMIC UPDATE

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ENTREPRENEURSHIP OPPORTUNITIES

IN THE AGRICULTURAL SECTOR

Agricultural entrepreneurship, sometimes known as agripreneurship, is the marketing and production of various agricultural goods and inputs. Agripreneurship aims to help farmers and agricultural companies by enhancing production methods and increasing market engagements. It can also help with social and economic development, poverty reduction, and ensuring excellent nutrition and food security. Furthermore, it can contribute to the diversification of the economy and income sources, as well as the creation of jobs and entrepreneurial prospects.

The agripreneurship value chain is one of Nigeria's most important economic activities. According to the National Bureau of Statistics, agro-allied activities account for about 25% of the Nigerian economy's gross domestic product, while the agriculture sector employs roughly 70% of the Nigerian labor force. Listed below are some examples of underexploited agripreneurship opportunities in Nigeria. They include:

- Snail Slime
- Egg powder
- Tomato Paste

Snail Slime

In recent years, the use of snail slime has grown in the beauty and nutraceutical industries. Snail slime is a fluid produced from the locomotor system of a snail. It has the unique property of keeping the skin constantly hydrated and protected from harm. Given the demand for snail slime, significant profits can be earned by exporting it to manufacturing firms in other countries. According to Global Newswire, the global snail beauty products industry was worth $3.7 billion in 2019 and is expected to reach $12 billion by 2029.[1] This surge in demand is related to middle-aged women's rising interest in grooming, the expansion of snail farming, and a shift in preference toward natural skin-improving ingredients. Agripreneurs can export snail slime to foreign cosmetic manufacturing companies in countries like Switzerland and Korea. The capacity to cultivate large-sized snails and the availability of cheap labor in Nigeria could give Nigeria's slime export business a competitive advantage, as the extraction of slime from snails is a labor-intensive process.

[1]Globe Newswire. 2020. "Global Snail Beauty Products Market is estimated to be US$ 12.0 Billion by 2029 with a CAGR of 12.7% during the Forecast Period". https://www.globenewswire.com/fr/news-release/2020/06/15/2048203/0/en/Global-Snail-Beauty-Products-Market-is-estimated-to-be-US-12-0-Billion-by-2029-with-a-CAGR-of-12-7-during-the-Forecast-Period-PMI.html

Egg Powder

Nigeria's poultry industry has made great strides in the past decade, developing into a highly organized and productive industry. Nigerian poultry farmers typically have a glut between February and May each year, as fewer eggs are consumed during the rainy season. This results in egg waste, as eggs have a short shelf life. Egg powder is highly useful for extending the shelf life and making storage and use easier. It is quite stable at room temperature and can be stored for an extended period of time. Egg powder is used in fast food, ice cream, cakes, cookies, noodles, and doughnuts, among other things. However, less than 5% of the country's egg powder demand is met by domestic manufacturing and there are only two egg powder plants in Nigeria, in Ogun and Osun states. Instead, Nigeria spends about $1 billion yearly on egg powder imports.[2] Yet, the egg powder plant in Ondo state alone is expected to earn over $1 billion in foreign exchange savings for the country, as well as improved revenue for poultry producers.[3] If the country has a sufficient number of functional egg powder production enterprises, competition may drive down prices, encouraging industries to use locally produced egg powder and so minimizing the egg glut.

Tomato Paste

Tomato paste is concentrated tomatoes. The tomatoes are cooked down, then strained to remove the seeds and skins, and then further cooked down until they are incredibly dense. Nigeria produces about 1.8 million metric tons worth of tomatoes in a year and about 40% is wasted due to poor storage and processing facilities.[4] Meanwhile, Nigeria imports about 189.5 metric tons worth of tomato paste.[5] Many of the tomatoes grown in Nigeria are lost in transportation when travelling from northern farms to southern markets. These losses can be reduced or eliminated entirely if greater investments are made in producing tomato paste in the north, close to where tomatoes are farmed. This is an opportunity for agripreneurs that would not only reduce waste but increase food security and reduce Nigeria's reliance on imports.

Some Innovative Agripreneurship Businesses in Nigeria

Kerekusk Rice

Kerekusk Rice is the second largest rice farm in Nigeria. Kereksuk produces over 8,000 metric tons of excellent paddy rice for major milling firms throughout Nigeria each year. It employs over 600 peopl from Nassarawa State and is attempting to equadruple its output. Nigerians consume more than five million metric tons of rice each year, with the majority of the rice coming from other nations. Kereksuk aims to aid the nation's economy by reducing the need for imported rice through the availability of quality rice made in Nigeria.

[2]Josephine Okojie. 2017." Nigeria in egg glut but spends US$1 billion importing egg powder". Business Day. Nigeria in egg glut but spends US$1 billion importing egg powder - Businessday NG.
[3]Ogunojemite Ayodele. 2018. "Local production of egg powder, solution to egg glut - Toromade". Investor Advocate. Local Production of Egg Powder, Solution to Egg Glut - Toromade - (investadvocate.com.ng).
[4]Zaharaddeen Umar, 2019. "Modernizing Tomato Production IN Nigeria". DW. Modernizing tomato production in Nigeria | Africa | DW | 22.03.2019
[5]NAN, 2017. "Nigeria imports 189.5 metric tonnes of tomato paste in 12 months". The Guardian. Nigeria imports 189.5 metric tonnes of tomato paste in 12 months | The Guardian Nigeria News - Nigeria and World News — Business — The Guardian Nigeria News – Nigeria and World News

Thrive Agric

Thrive Agric was founded in 2017 with the objective of assisting smallholder farmers in gaining access to products and services that farmers do not generally have access to. They deliver goods and services in rural areas and collaborate with other agricultural organizations to reach a wider audience. More than 140,000 smallholder farmers in Nigeria have boosted their ability to meet supply as a result of their efforts.

Farmcrowdy

Farmcrowdy is a global agritech company focused on solving inefficiencies in the food value chain. Farmcrowdy business approach makes use of technology to provide stakeholders with simple access to aggregate farm outputs, inputs, and processed food. They provide premium value to food value chain stakeholders. Their objective is to be Nigeria's premier Agtech company, promoting sustainability in the global food chain.

Next steps for Nigeria

More than half of Nigeria's workforce is employed in the agricultural sector, either directly or indirectly.[6] This suggests that agribusiness has the potential to reduce the country's unemployment rate and improve its contribution to the GDP. To properly capitalize on the potential of agribusiness in Nigeria, the Nigerian government should launch an aggressive agribusiness development campaign. The launch of this campaign should emphasize the benefits agribusiness investment with the ultimate objective of increasing agricultural outputs.

Some of the areas that require attention for agribusiness to grow in Nigeria include:

- The development of roads, markets, storage facilities, processing facilities which will all bring about infrastructural development in Nigeria. The development of infrastructures will ease the activities of agripreneurs.
- Increased participation in agriculture and agribusiness which would result in poverty reduction and relative improvement in food security for families across the country.

[6]Chemical Report, 2020. "NIGERIAN AGRIBUSINESS SECTOR: PROSPECTS AND CHALLENGES". Chemical Business Reports. NIGERIAN AGRIBUSINESS SECTOR: PROSPECTS AND CHALLENGES | Chemical Business Reports

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THE IMPACT OF RURAL-URBAN MIGRATION ON FOOD SECURITY IN NIGERIA

The United Nations assert that "food security exists when people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life."[7] Unfortunately, Nigeria continues to struggle with food security due largely to insufficient labor to support food production in the rural areas.

In years past, migration to cities was mainly due to the absence of opportunities in the rural communities. Now, the mass migration of youth to cities is largely due to rising insecurity, including the wanton destruction of lives and property. These bandits and terrorist groups have overtaken villages and destabilized the economic and social livelihood of the inhabitants. Between 1960 to 2000, about 35% of the Nigerian population were living in cities, but by 2021, the population in the urban areas had risen to 53%.[8]

Insecurity in Nigeria has reached a frightening proportion; it has not only altered food production but has made Nigeria unappealing for foreign as well as domestic investment. Insecurity has in recent times been the major reason behind low crop output by farmers in the rural areas, leading to escalating cost of food in the country. Nigeria expends billions of naira annually to import food items to complement local output. In 2021, Nigeria expended N2 trillion (trn) in food importation. But as demand outweighs supply, an average Nigerian is still unable to afford safe, and nutritious food to meet dietary needs.

The federal and state governments must, as a matter of urgency, find a permanent solution to the perennial issue of insecurity across the country. Security architecture should be redesigned to address peculiarities in different regions of the country. The federal government should institute and provide adequate funding for community policing to complement the already stretched security operatives. It is only in a peaceful society that economic growth and development is guaranteed.

To achieve food sufficiency in Nigeria, 'labor,' which is a critical factor of production, must be given priority. Currently, able-bodied youths who are meant to work in the farms continue to leave villages in search of better opportunities in cities. Food production has been left to older men and women in the rural areas who cultivate crops predominantly at subsistence level, with output way below what is required to meet the country's need.

It will be eminently important for the federal government, in conjunction with states, to design, implement and monitor agricultural policies that will increase the socio-economic status of the farmers in the rural areas. These include but are not limited to a transparent funding mechanism bereft of bureaucratic bottlenecks.There must be investment in research and development (R&D), in infrastructure, such as vocational and technical schools, standard and well-equipped primary health-care units, electricity, pipe-borne water, good road networks, improved agricultural inputs (e.g. good seedlings & fertilizer), functional storage facilities (silos), improved irrigation systems, mechanized farming equipment and technological support systems.

Some countries have made great strides in terms of implementing policies of developing the rural and urban areas simultaneously. A case in point is the Chinese. China implemented economic reforms that focused on balanced development of both urban and rural areas under the following four pillars: electricity in the rural areas; industrial automation; a new economic outlook; and enhanced defense strength.

[7] USAID, Agriculture and Food Security https://www.usaid.gov/what-we-do/agriculture-and-food-security
[8] Trading Economics; https://tradingeconomics.com/nigeria/urban-population-percent-of-total-wb-data.html

China also implemented an agricultural policy that [9] helped Chinese farmers raise the prices at which the agricultural products were purchased and encouraged crop diversification and specialization. With these agriculture reforms, between 1978 and 1983, Chinese real GDP grew on average by 7.8% a year, and agricultural output grew at 11.1%.

Nigeria can take a cue from China's agriculture reforms by investing massively in the rural communities, to make the standard of living at par with cities. Of critical importance is rural electrification, but sadly, the Rural Electrification Agency has not made much impact in terms of provision of adequate and reliable power supply for the rural dwellers across Nigeria. There is an urgent need to strengthen and reposition the agency for effective service delivery.

Nigeria will continue to gain from food intervention programs offered by international organizations like the International Fund for Agricultural Development (IFAD) given a tranquil rural community. For example, IFAD recently donated fertilizers and other agricultural inputs to 447 impoverished rural farmers in Taraba state to boost the production of rice and cassava. All the states in the nation are expected to receive IFAD assistance programs, which will aid in the growth of rural areas. But if there is insecurity in some regions of the country, the initiative will be truncated.

The cost of importing food is alarmingly high due to Nigeria's inability to increase crop production to meet the demand of its teeming population. To achieve food security, consolidated efforts, in terms of a sustainable roadmap, must be designed and followed through with passion.

[10] Wong, J (1998). "Xiao-kang: Deng Xiaoping's socio-economic development target for China". Journal of Contemporary China. 7 (17): 141–152. doi:10.1080/10670569808724309. ISSN 1067-0564


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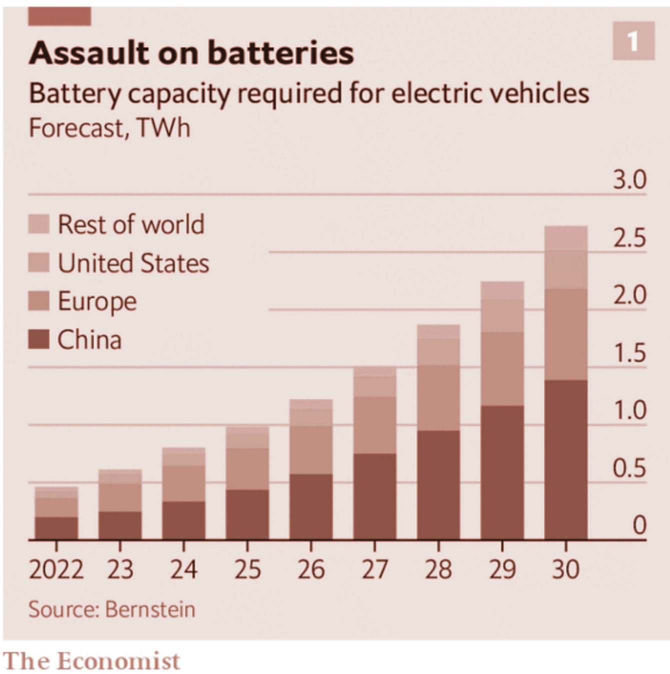
GLOBAL PERSPECTIVE: COULD THE EV BOOM RUN OUT OF JUICE BEFORE IT REALLY GETS GOING?

-CULLED FROM THE ECONOMIST

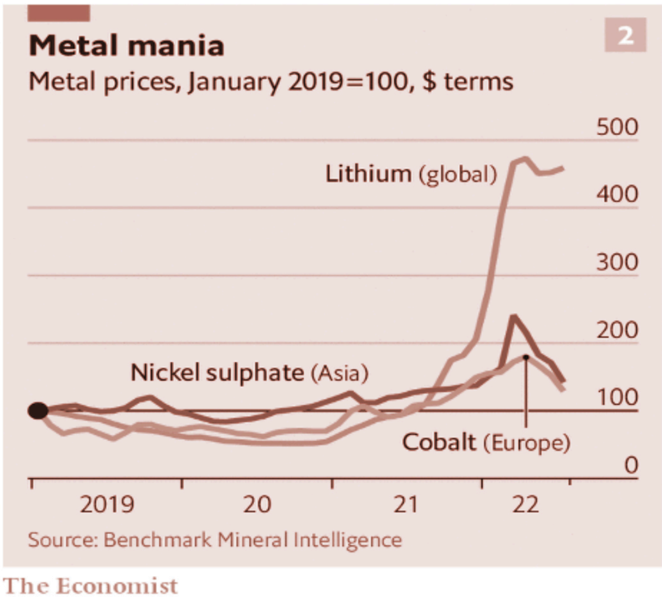


Quite possibly, for want of batteries

Electric vehicles (EVs) seem unstoppable. Carmakers are out-pledging themselves in terms of production goals. Industry analysts are struggling to keep up. Battery-powered cars could zoom from less than 10% of global vehicle sales in 2021 to 40% by 2030, according to Bloombergnef. Depending on whom you ask, that could translate to anywhere between 25m and 40m evs. They, and the tens of millions manufactured between now and then, will need plenty of batteries. Bernstein reckons that demand from evs will grow nine-fold by 2030 (see chart 1), to 3,200 gigawatt-hours (gwh). Rystad puts it at 4,000gwh.

Such projections explain the frenzied activity up and down the battery value chain. The ferment stretches from the salt flats of Chile's Atacama desert, where lithium is mined, to the plains of

Hungary, where on August 12th catl of China, the world's biggest battery-maker, announced a €7.3bn ($7.5bn) investment to build its second European "gigafactory". It is, though, looking increasingly as though the activity is not quite frenzied enough, especially for the Western car companies that are desperate to reduce their dependence on China's world-leading battery industry amid geopolitical tensions. Prices of battery metals have spiked (see chart 2) and are expected to push battery costs up in 2022 for the first time in more than a decade.



In June Bloombergnef cast doubt on its earlier prediction that the cost of buying and running an ev would become as cheap as a fossil-fuelled car by 2024. Even more distant targets, such as the eu's coming ban on new sales of carbon-burning cars by 2035, may not be met. Could the ev boom run out of juice before it gets started?

Gigantic promises

On paper, there ought to be plenty of batteries to go around. Benchmark Minerals, a consultancy, has analysed manufacturers' declared plans and found that, if they materialise, 282 new gigafactories should come online worldwide by 2031. That would take total global capacity to 5,800gwh. It is also a big "if". Bernstein calculates that current and promised future supply from the six established battery-makers—byd and catl of China; lg, Samsung and sk Innovation of South Korea; and Panasonic of Japan—adds up to 1,360gwh by the end of the decade The balance would have to come from newcomers—and being a newcomer in a capital-intensive industry is never easy.

The optimistic overall capacity projections conceal other problems. Matteo Fini of S&P Global Mobility, a consultancy, notes that gigafactories take three years to build but require longer—possibly a few extra years—to manufacture at full capacity. As such, actual output by 2030 may fall short. Moreover, manufacturers' unique technologies and specifications mean that cells from one factory are usually not interchangeable with those from another, which could create further bottlenecks.

Most troubling for Western carmakers is China's dominance of battery-making. The country houses close to 80% of the world's current cell-manufacturing capacity. Benchmark Minerals forecasts that China's share will decline in the next decade or so, but only a bit—to just under 70%. By then America would be home to just 12% of global capacity, with Europe accounting for most of the rest.

Americans' slower uptake of evs may ease the crunch for carmakers there. Deloitte, a consultancy, expects America to account for just under 5m vehicles of the 31m evs sold in 2030, compared with 15m in China and 8m in Europe. Big American carmakers already have joint ventures with the big South Korean battery producers to build domestic gigafactories. In July Ford and sk Innovation finalised a deal to build one in Tennessee and two in Kentucky, with the carmaker chipping in $6.6bn and the South Korean firm $5.5bn. The same month the Detroit giant struck a deal to import catl batteries. General Motors and lg Energy are together putting over $7bn towards three battery factories in Michigan, Ohio and Tennessee.

It is Europe's carmakers that seem most exposed. Volkswagen, a German giant, plans to construct six gigafactories of its own by 2030. Some, such as bmw, are teaming up with the South Korean firms. Others, including Mercedes-Benz, are investing in European battery-making through a joint-venture called acc. A number of European startups, such as Northvolt of Sweden, which is backed by Volkswagen and Volvo, are also busily building capacity. Yet the continent's car industry looks likely to remain quite reliant on Chinese manufacturers. Some of those batteries will be manufactured locally: catl's first investment in Europe, a battery factory in Germany, is set to begin operations at the end of the year. Some packs or their components may, however, still need to be imported from China.

That is not a comfortable position to be in for European carmakers. It may become even less so if the eu introduces levies based on total lifecycle carbon emissions from vehicles, including electric ones. Northvolt's chief executive, Peter Carlsson, reckons that proposed eu tariffs on carbon-intensive imports could add 5-8% to the cost of a Chinese battery made using dirty coal power. That could be roughly equivalent to an extra $500, give or take, per pack. Such rules would boost his firm's prospects, since it runs on clean Nordic hydroelectricity. It would also severely limit European carmakers' ability to source batteries from abroad.

What's mined isn't yours

These manufacturing bottlenecks, serious though they are, look more manageable than those at the mining end of the battery value chain. Take nickel. Thanks to a big production increase in Indonesia, which accounts for 37% of global output of the metal, the market seems well supplied. However, Indonesian nickel is not the high-grade sort usable in batteries. It can be made into battery-compatible stuff, but that means smelting them twice, which emits three times more carbon than does refining higher-grade ores from places like Canada, New Caledonia or Russia. Those additional emissions defeat the purpose of making evs, notes Socrates Economou of Trafigura, a commodities trader. Carmakers, particularly European ones, may shun the stuff.

Cobalt has become less of a pinch point. A price spike in 2018 prompted battery-makers to develop battery chemistries that use much less of it. Planned mine expansions in the Democratic Republic of Congo (DRC), home to the world's richest cobalt deposits, and Indonesia should also tide battery-makers over until 2027. After that things get trickier. Getting more of the stuff may require manufacturers to embrace the DRC's artisanal mining, the formalisation of which has yet to bear fruit. Until it does, many Western carmakers say they would not touch the sector, where adults and many children toil in harsh conditions, with a barge pole.

Most uncertainty concerns lithium. A shortage is forcing manufacturers unable to get their hands on enough of the metal to cut production. For now, consumer-electronics firms are bearing the brunt. But the smaller batteries in electronic gadgets only represent a fraction of demand. ev-makers, whose battery packs use a lot more, could be next.

By 2026 the lithium market is projected to tip back into surplus, thanks to planned new projects. However, most of these are in China and rely on lower-grade deposits which are much costlier to process than those of Australia's hard-rock mines or Latin America's brine ponds. Mr Economou estimates that a price of $35,000 per tonne of the battery-usable form of lithium carbonate is required to make such projects worthwhile—lower than today's lofty levels, but three times those a year ago.

The high-grade stuff due to come from elsewhere should not be taken for granted, either. Chile's new draft constitution, which will be put to referendum in September, proposes nationalising all natural resources. Changes to the tax regime in Australia, which already has some of the highest mining levies in the world, could deter fresh investments in "green"-metal production. In late July the boss of Albemarle, the largest publicly traded lithium producer, warned that, despite efforts to unlock more supply, carmarkers faced a fierce battle for the metal until 2030.

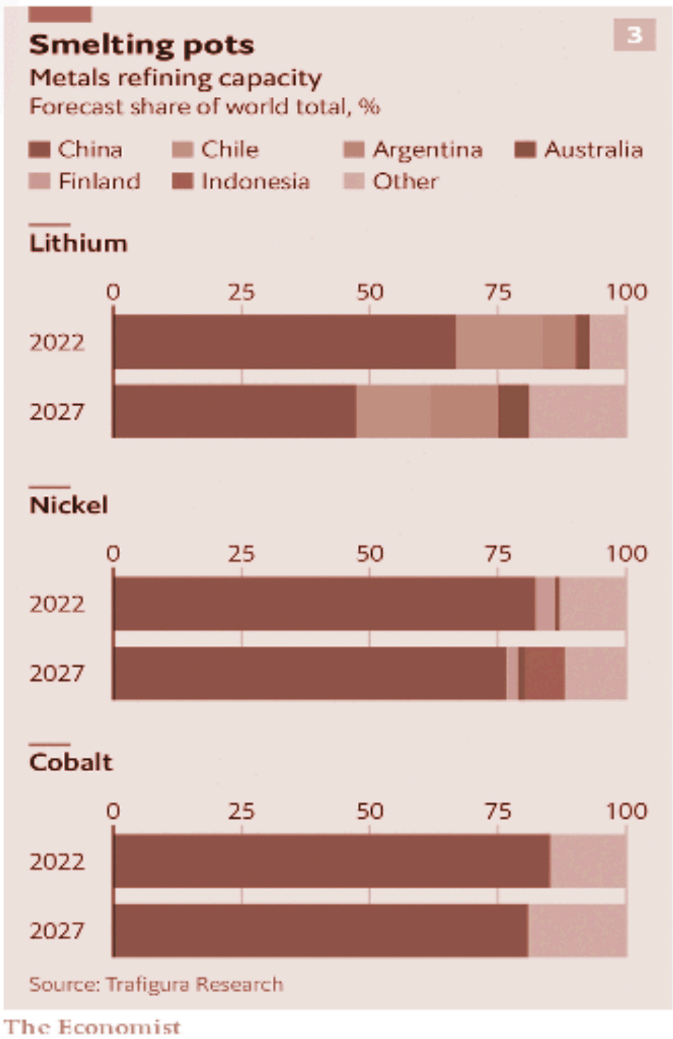
Because building mines takes anywhere from five to 25 years, there is little time left to get new ones up and running this decade. Big mining firms are reluctant to get into the business. Markets for green metals remain too small for mining "majors" to be worth the hassle, says the development boss at one such firm. Despite their reputation for doing business in shady places, most lack the stomach to take a gamble on countries as tricky as the DRC, where it is hard to enforce contracts. Smaller miners that usually get risky projects off the ground cannot raise capital on listed markets, where investors are queasy about the mining industry, which is considered risky and, ironically, environmentally unfriendly.

The resulting dearth of capital is attracting private-equity firms—often founded by former mining executives—and manufacturers with a newfound taste for vertical integration. lg and catl are among the battery producers which have backed mining projects. Since the start of 2021 carmakers have made around 20 investments in battery-grade nickel, and five others in lithium and cobalt. Most of these projects involved Western firms. In March, for example, Volkswagen announced a joint venture with two Chinese miners to secure nickel and cobalt for its ev factories in China. Last month General Motors said it would pay Livent, a lithium producer, $200m upfront to secure lumps of the white metal. The American ev champion, Tesla, is signing deals left and right.

Mick Davis, a coal-mining veteran now at Vision Blue Resources, an investment firm that invests in minor miners, doubts that all this dealmaking will be enough to plug the funding gap. Recycling, which usually makes up a quarter of supply in mature metals markets, is not expected to help much before 2030. Tweaks to battery designs may moderate demand for the scarcest metals somewhat, but at the risk of lower battery performance. Lithium in particular will remain hard to substitute. Technologies that do away with it entirely, such as sodium-based cathodes, are a long way off.

Helter-smelter

Even if the West's ev industry somehow managed to secure enough metals and battery-making capacity, it would still face a giant problem in the middle of the supply chain, refining, where China enjoys near-monopolies (see chart 3). Chinese companies refine nearly 70% of the world's lithium, 84% of its nickel and 85% of its cobalt. Trafigura forecasts that the shares for the last two of these will remain above 80% for at least the next five years. And as with battery manufacturers, Chinese refiners gobble up dirty coal-generated electricity. On top of that, according to Trafigura, both European and North American firms are also expected to rely on foreign suppliers, often Chinese ones, for at least half the capacity to convert refined ores into the materials that go into batteries.



Western governments say they understand the urgent need to diversify their suppliers. Last year Joe Biden, America's president, unveiled a blueprint to create a domestic supply chain for batteries. His mammoth infrastructure law, passed in 2021, set aside $3bn for making batteries in America. The Inflation Reduction Act, which Congress passed on August 12th, also includes sweeteners for the battery industry, contingent in part on mining, refining and manufacturing components at home or in allied countries. The eu, which created a bloc-wide battery alliance in 2017 to co-ordinate public and private efforts, says €127bn was invested last year across the supply chain, with an additional €382bn expected by 2030. Most of this is likely to land downstream, helping Europe and America to become self-sufficient in the production of finished cells by 2027.

That is something. And it remains possible that enough discoveries of new deposits, more efficient mining technology, improved battery chemistry and sacrifices on performance all combine to bring the market into balance. More likely, as Jean-François Lambert, a commodities consultant, puts it, the EV industry is "going to be living a big lie for quite some time".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MACROECONOMIC INDICATORS (JULY 1ST TO JULY 29TH)

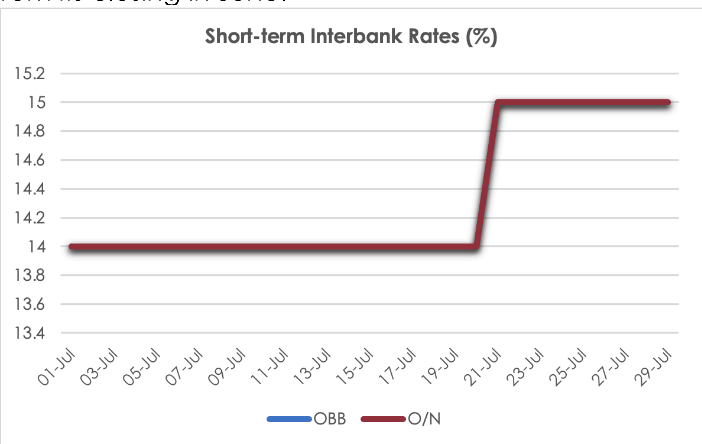
MONEY MARKET

The average opening position of the banks was N45.68bn in the month of July. This is 56.80% lower than an average of N105.75bn in June. A total of N10bn worth of OMO bills was repaid in July, while no OMO bills were sold. Short-term interest rates (OBB, O/N) remained in double digits throughout the month of July, averaging 14.37%p.a. This was 274bps higher than the average of 11.63%p.a in June.

During the review period, there were three primary market t/bill auctions of which a total sum of N531.40bn was allotted. This was 12.36% lower than the total of N606.37bn sold in June. On the other hand, a total sum of N143.27bn was repaid, leading to a net outflow of N388.18bn in the month of July. Yields increased by an average of 51bps across all maturities at the primary market auction. In the secondary market, the yield on the 91-day bill remained flat while the 181-day bill yield rose by 230bps. The 364-day bill yield however, fell by 42bps from its closing in June.

Outlook

The liquidity squeeze is expected to remain in the near term due to CBN's tightening stance. Short-term interest rates will remain elevated, leading to an increase in interest rates charged on loans and advancement. This will raise borrowing costs for both firms and the government.



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 ▼

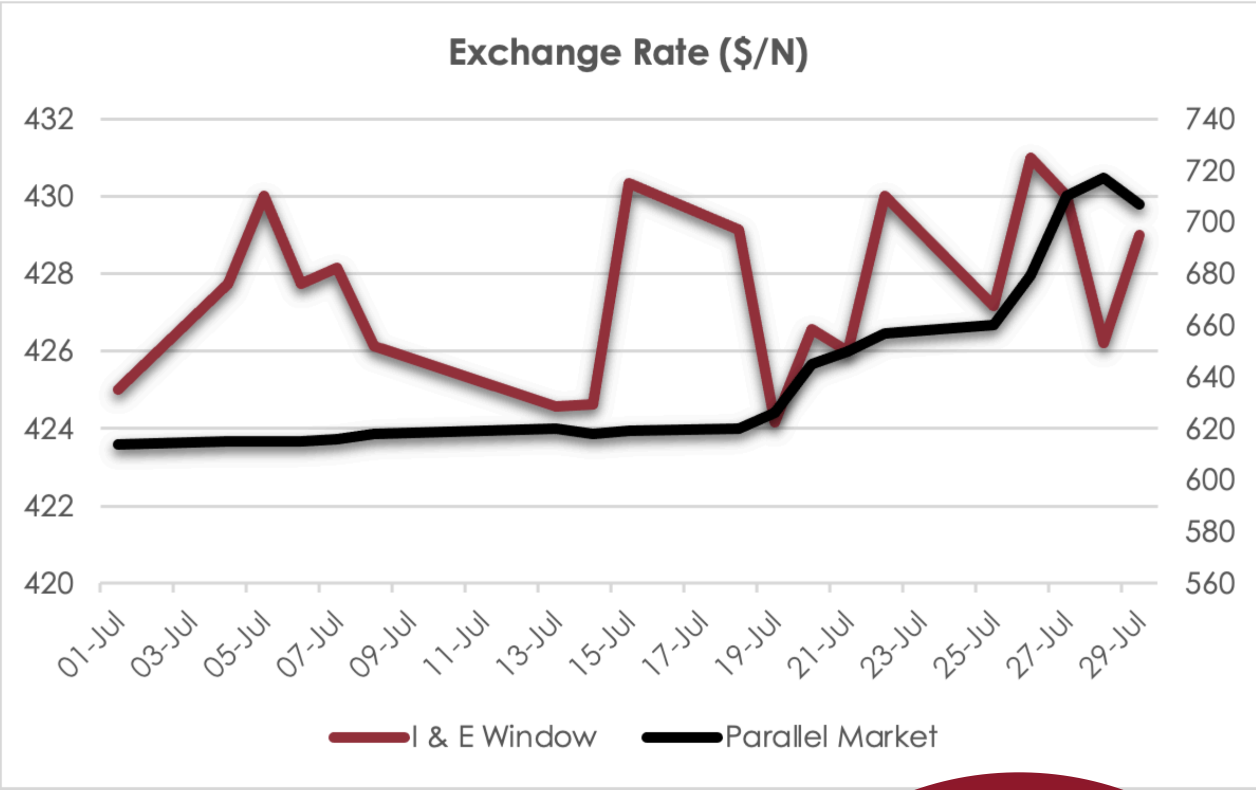
Source: FMDQ, FDC Think Tank

FOREX MARKET

The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

EXCHANGE RATE

The naira plunged to a low of N717/$ on July 28th from N616/$ at the end of June, losing 16.40% (N101) before appreciating by 1.39% to close under the review period at N707/$. The sharp depreciation was fueled by speculative activities and forex scarcity. The IEFX rate was also relatively unstable. It reached a low of N431.00/$ on July 26th on low forex liquidity, before appreciating slightly to close June 29th at N429.00/$. It traded within the band of N424.17/$-N431.00/$.



Source: FDC Think Tank

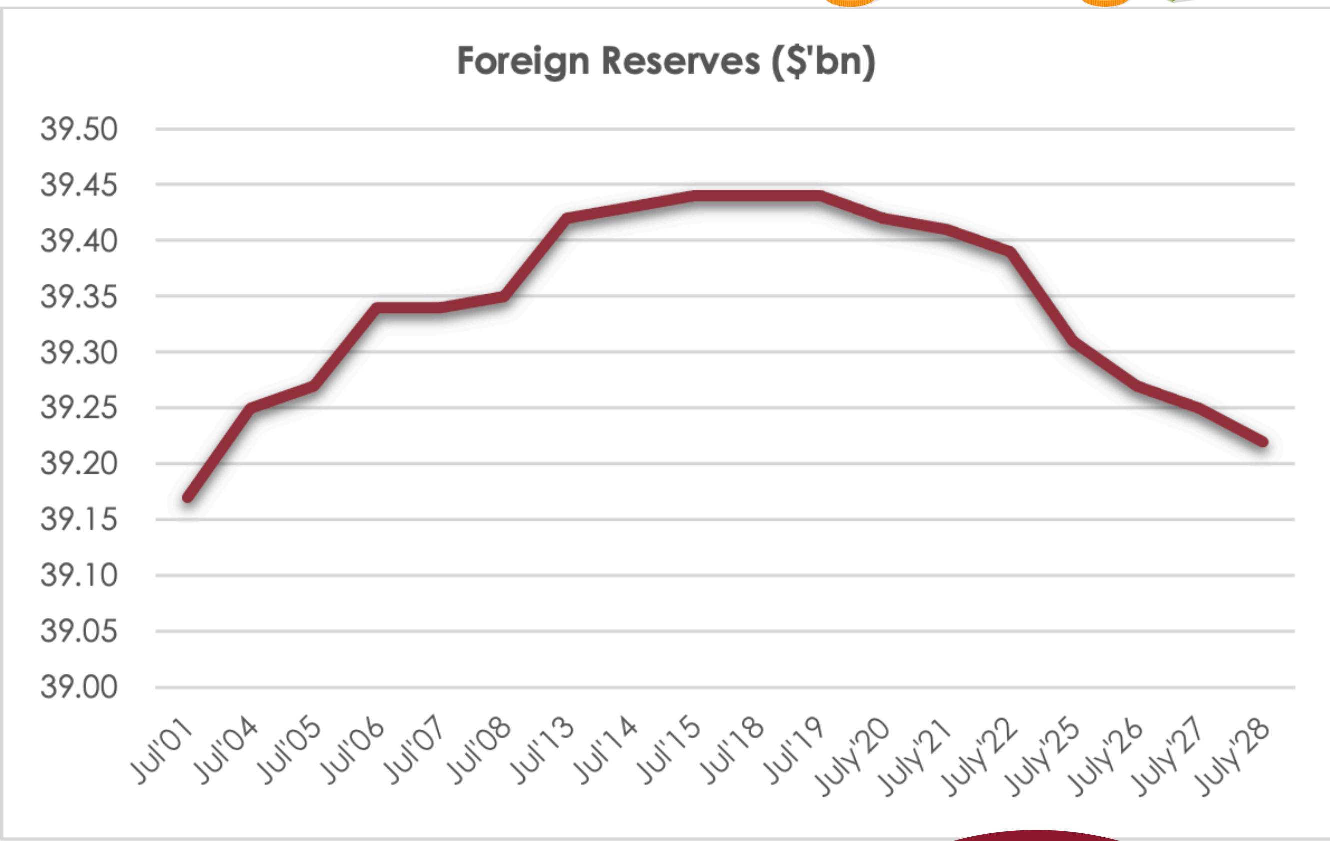
Outlook

The tight liquidity in the I & E window is expected to keep the exchange rate within the range of N426.50/$-431.00/$ in the near term, while demand pressure and speculative activities could taper in the parallel market, causing it to appreciate. At the parallel market, it is likely to trade around N615/$- N625/$ in the near term.

[17]Source: FDC Think Tank

EXTERNAL RESERVE

Nigeria's gross external reserves gained by 0.69%($60mn) to 39.44bn on July 18th, before depleting consecutively to close July 28th at $39.22bn, losing by 0.56%($220mn). Despite the rally in oil prices, Nigeria's ability to boost its oil revenues has been limited by lower oil production.



Source: CBN, FDC Think Tank

Outlook

Gross external reserves depletion is likely to continue in the near term as lower domestic oil production continues to cap the gains from higher oil prices. Also, the CBN is likely to increase supply to the I & E window in order to stabilize the currency.

Implication

Continued depletion in the reserves level will limit the ability of the CBN to stabilize the currency.

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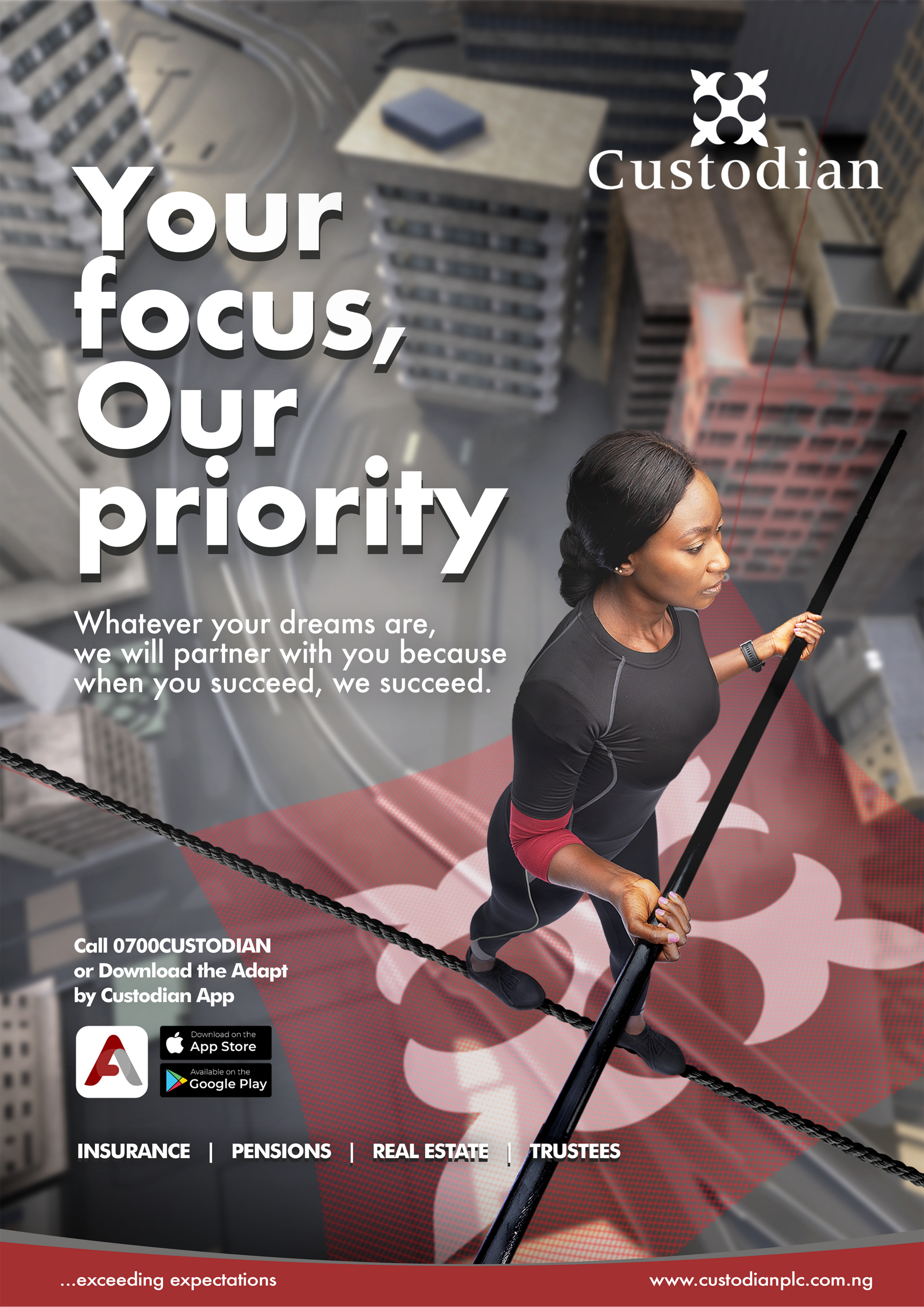
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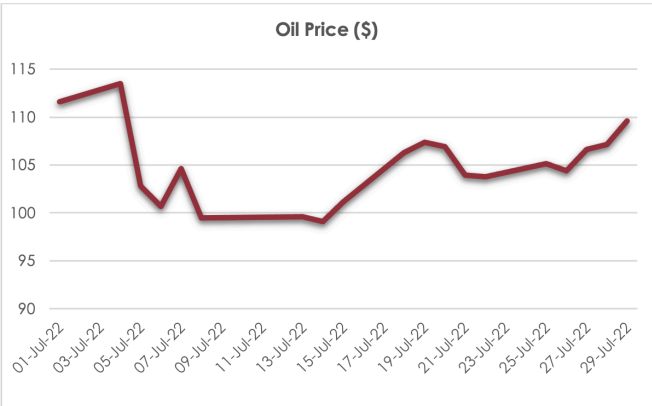
COMMODITIES

EXPORTS

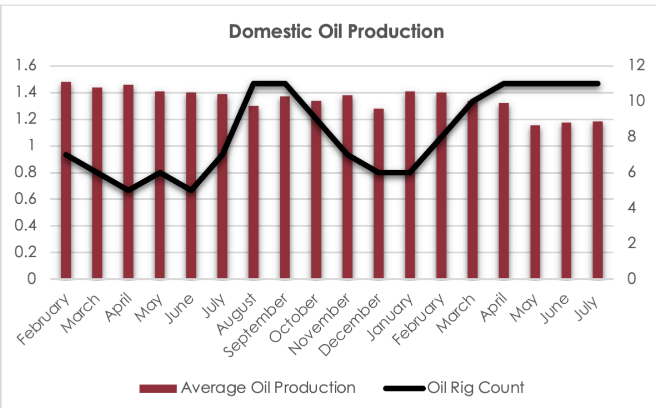
Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

The price of oil touched below $100pb in July as fears of a global recession, which could slowdown demand outweighed concerns on supply tightness. It fell to a low of $99.10pb on July 14th before rising to close the review period at $109.58pb on the concerns that the OPEC+ is unlikely to further increase supply in its meeting in August 3rd. On the average, oil price fell by 10.33% to $104.93/pb in the month of July from $117.01/pb in the month of June.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

OIL PRODUCTION

Domestic oil production slumped by 4.8% to 1.18million barrels per day in July 2022, down from 1.24 million barrels per day in June 2022. The country's oil rig count, on the other hand, remained constant for the fourth consecutive months at 11 in July. OPEC's crude oil production increased by 220,000 barrels per day to an average of 28.90 million barrels per day in July from 28.68 million barrels per day produced in June. Oil production increased principally in Saudi Arabia, UAE, Iran, Kuwait, and Gabon, while it declined majorly in Libya, Angola and Venezuela.

Outlook

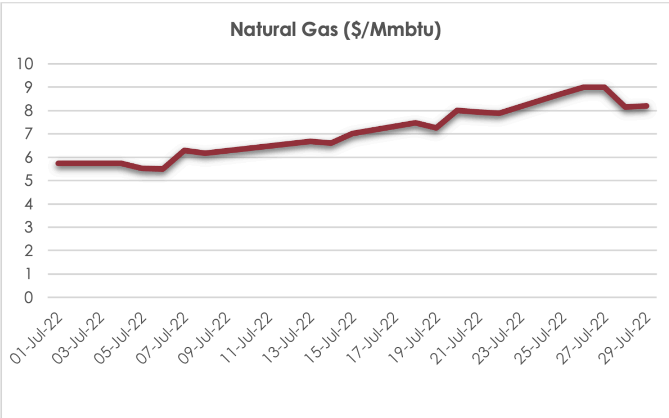
The OPEC+ has agreed to increase oil production by 100,000bpd in September, down from the agreed monthly increase of 643,000bpd for July and August. However, the fears of possible slowdown in demand as recession looms could keep oil price below $100pb in the near term. The lingering problem of oil theft and pipeline vandalism will continue to limit Nigeria from meeting its OPEC quota, which is now currently at 1.83mbpd as at the last OPEC+ meeting in August.

Impact

Crude oil, which accounts for approximately 75% of Nigeria's exports, is a major source of revenue for the country. A fall in the price of oil as well a constant decline in oil production is expected to pare government revenue. This could lead to an increase in borrowing in order to fulfil its financial obligation, while increasing the risk of a debt distress as its debt service burden heightens.

NATURAL GAS

The price of gas was relatively high in July as hot weather condition in the US and Europe exacerbates demand for cooling gas, while gas supply remained low. Russia continued to cut its gas supplies to European countries in retaliation for the EU sanctions on its economy, and to European countries who fails to pay for its supplies in the Russian currency known as the roubles. It rose to a high of $9.00/mmbtu on July 26th from $5.72/mmbtu at the beginning of the month, before easing to $8.14mmbtu in July 28th, closing the month at $8.19/ mmbtu. However, on average, the price of gas fell by 4.01% to $7.21/mmbtu in July from $7.51/mmbtu in the month of June.



Source: Bloomberg, FDC Think Tank

Outlook

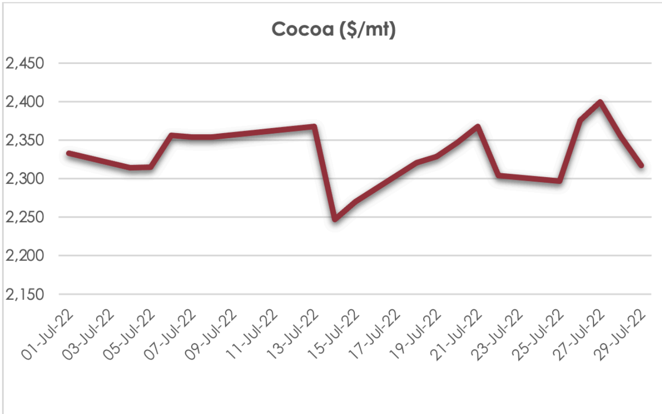
Gas price is expected to remain high in the near term due to supply tightness. Russia is likely to continue to cut its supply to Europe, while demand remains on the high side due to hot weather condition in US and Europe.

Implication

LNG is Nigeria's 2nd largest export commodity, accounting for 12.8% of total exports. Higher gas price is expected to buoy foreign earnings as well as government risk. However, downside risk exists from low production capacity and poor infrastructure in the gas industry.

COCOA

During the review period, the prices of cocoa were relatively unstable but remained low in July due to improved market supply and concerns of a possible slowdown in demand due to a likely global recession. It traded within the range of $2247/mt - $2400/mt in the month of July. On average, it fell slightly by 4.11% to $2332.89/mt in the month of July from $2,432.81/mt in the month of June.



Source: Bloomberg, FDC Think Tank

Outlook

The price of cocoa is expected to remain low due to dimming demand outlook as recession fears escalate. Market supply is likely to remain on the high side as sufficient rainfalls in top producing countries (Ivory Coast, Ghana and Nigeria) continue to support large production.

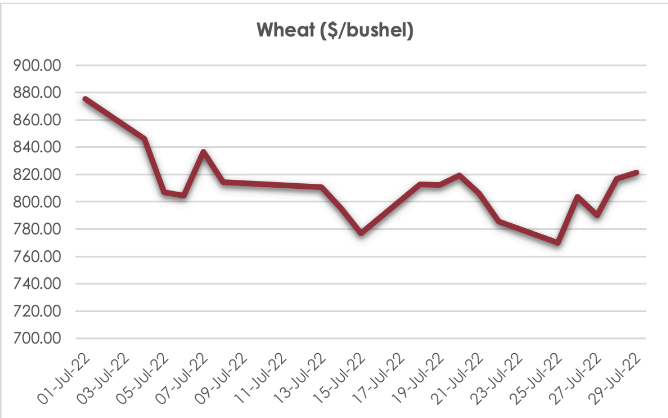
Implication

Cocoa is one of the major non-oil export commodities in Nigeria. A fall in cocoa price could lead to a negative balance of trade given that its import value remains higher than its export value. Low cocoa price is also a disincentive for local farmers as their income declines especially when the cost incurred in growing cocoa seeds remains high.

COMMODITIES
IMPORTS

WHEAT

Wheat price tapered in July as Russia signed a deal with Ukraine to unblock Ukraine's black sea ports to allow it export its grains. It reached a low of $770.00/bushel in July 25th before rising to close the review period (July 29th) at $821.50/bushel as Russia intensifies war in Ukraine. On the average, wheat price fell by 20.54% to $810.78/bushel in July from $1020.40/bushel in the month of June.



Source: Bloomberg, FDC Think Tank

Outlook

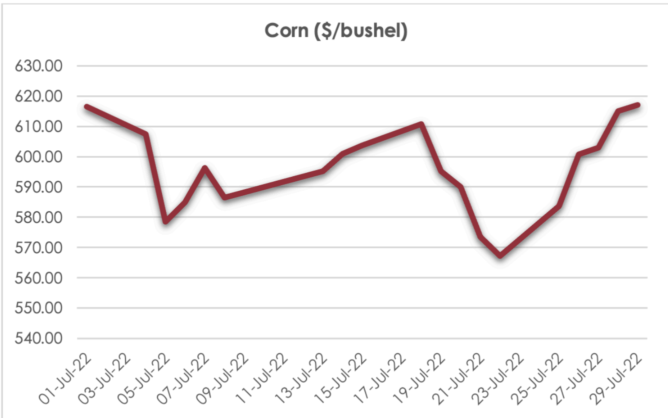
Wheat prices are expected to remain low as supply improves following the harvest in top producing countries (US, Russia and Australia) as well as the resumption of grain exports from Ukraine.

Impact

Lower wheat prices are expected to cool off prices for wheat processed commodities like flour, pasta and so on. This is likely to lower inflationary pressures. However, depreciation of the naira could keep wheat prices high in Nigeria in spite of the decline in global price of wheat.

CORN

Corn price also fell sharply due to improved supplies as well as a possible decline in demand as recession looms. It reached a low of $567.25/bushel on July 22nd before rising to close the review period (July 29th) at $617.00/bushel. On average, the price of corn fell by 15.98% to $596.13/bushel in the month of July from $709.51/bushel in the month of June.



Source: Bloomberg, FDC Think Tank

Outlook

The fears of a global recession are dampening demand outlook. As a result, corn price is expected to remain low in the near term. Also, the recent opening of Ukraine's black sea ports for grain exports is expected to improve corn supplies.

Implication

Low corn price is expected to lower the country's import bill while manufacturing costs declines for the domestic food industry. However, downside risk exists from naira depreciation which could cap gains from low corn prices.

SUGAR

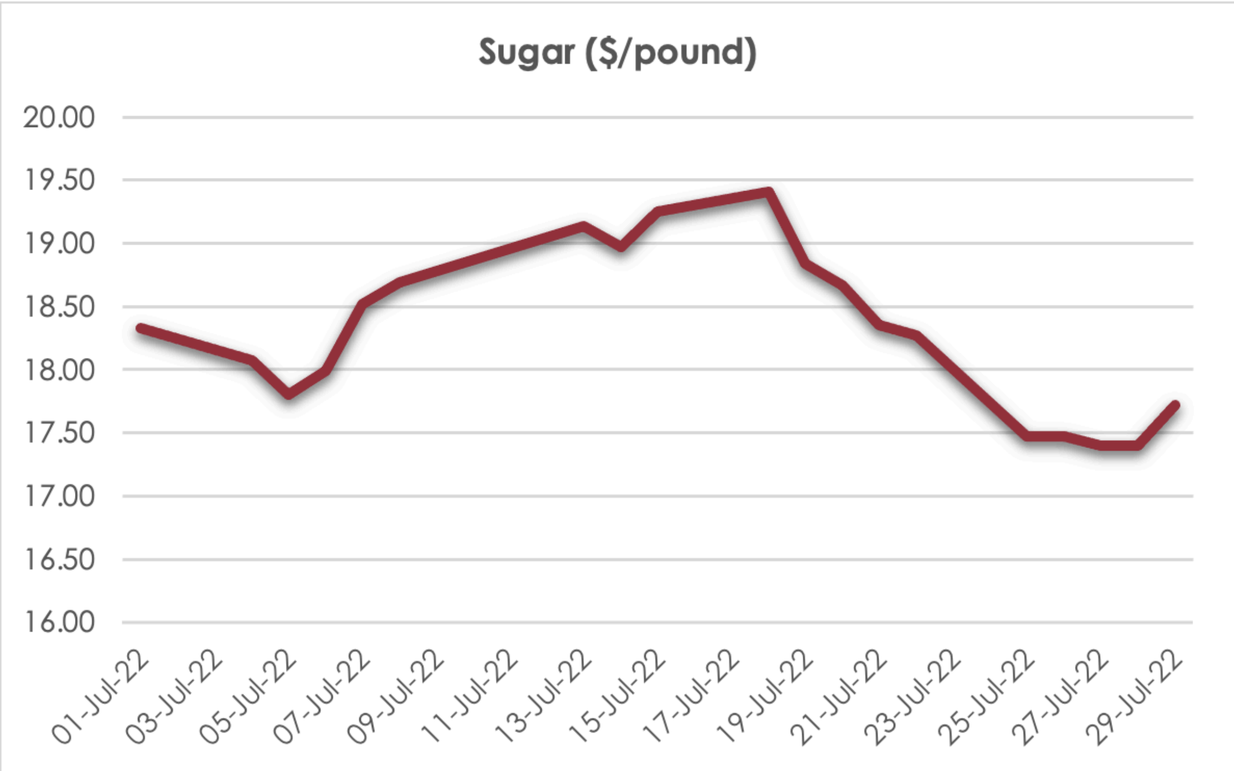
The price of sugar remained high within July 1st and 22nd due to low supplies from producer countries (India and Brazil) but started to taper towards the end of the month as recession fears dampens demand outlook. Sugar price averaged $18.30/pound in the month of July, 2.68% lower than the average of $18.81/pound in June.

Outlook

Recession fears are likely to keep sugar prices low due to a possible slowdown in the demand for sugar. Although sugar supplies are likely to remain low as major exporter country (India) rationalize sugar exports to cool off domestic price.

Implication

A possible decline in sugar price is expected to lower manufacturing cost for confectioners. However, the increase in the price of other baking ingredients like flour, eggs and so on is likely to limit the impact of the fall in the price of sugar.



Source: Bloomberg, FDC Think Tank

Terms of Trade

The country's terms of trade is at risk as the prices of imported commodities escalates. It is expected to worsen irrespective of the higher oil produced, which are the major sources of export earnings. This is as a result of the country's heavy reliance on imported commodities relative to the commodities it exports.

[25] Source: Bloomberg, FDC Think Tank

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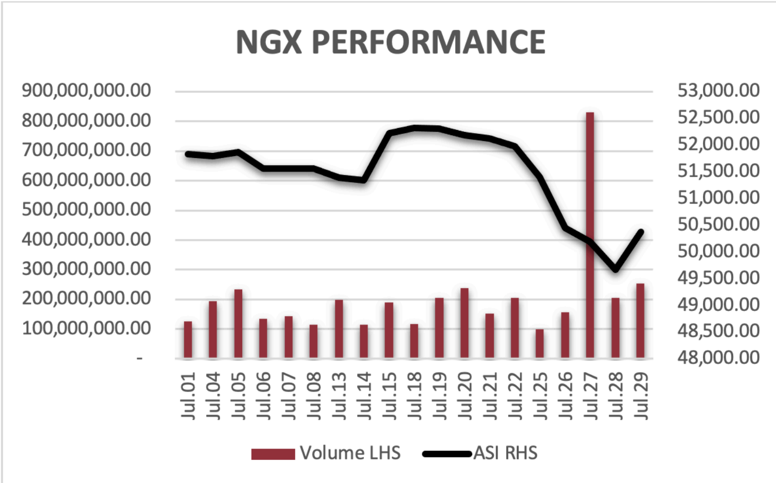
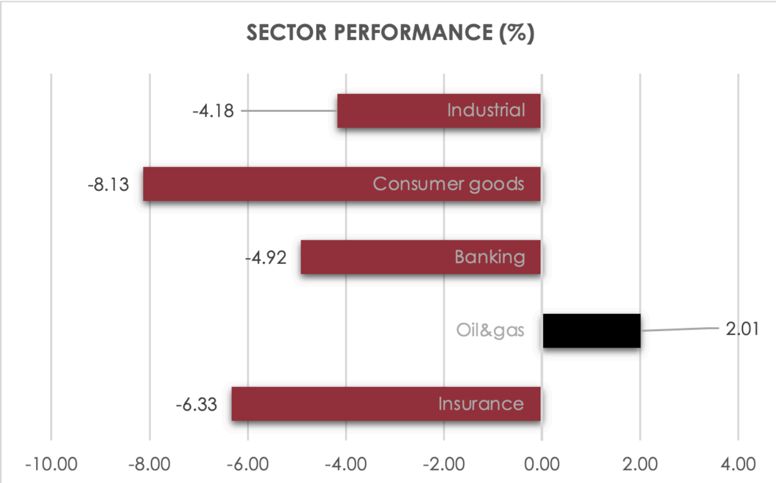
STOCK MARKET REVIEW JULY 1ST - JULY 29TH

The NGX closed on a negative note from July 1st to 29th. It lost 2.79% to close at 50,370.25 points on July 29th from 51,817.59 points on June 30th. Also, the market capitalization decreased by 1.18% to N27.61trn relative to its close of N27.94trn on June 30th. The market YTD return decreased to 17.92% from 21.31% in the review period. The market breadth was negative at 0.26 % as 18 stocks gained, 70 stocks remained unchanged while 68 lost.



Market activity level was negative in the review period. The average volume traded decreased by 27.44% to 206.13mn units from 284.09mn. Similarly, the average value of trades fell by 28.61% to N2.67bn from N3.74bn 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 (-8.13%). This was followed by the insurance sector (-6.33%), the banking sector (-4.92%) and the industrial sector (-4.18%). Meanwhile, the oil and gas sector gained 2.01%.

TOP 5 GAINERS

Multiverse Mining and Exploration Plc topped the gainers' list with an 840.00% increase in its share price. This was followed by Academy Press Plc (45.67%), The Initiates Plc (20.00%), John Holt Plc (18.67%), and Learn Africa Plc (15.56%).

Company	Jun-30 (N)	Jul-29 (N)	Absolute Change	Change (%)
MULTIVERSE	0.20	1.88	1.68	840.00
ACADEMY	1.27	1.85	0.58	45.67
TIP	0.40	0.48	0.08	20.00
JOHNHOLT	0.75	0.89	0.14	18.67
LEARNAFRCA	2.25	2.60	0.35	15.56

TOP 5 LOSERS

The laggards were led by Mcnichols Plc (-55.17%), Nigerian Aviation Handling Company Plc (-29.41%), Honeywell Flour Mill Plc (-25.72%), Japaul Gold & Ventures Plc (-23.33%) and Courteville Business Solutions Plc (-21.57%).

Company	Jun-30 (N)	Jul-29 (N)	Absolute Change	Change (%)
MCNICHOLS	2.03	0.91	-1.12	-55.17
NAHCO	8.50	6.00	-2.50	-29.41
HONYFLOUR	2.76	2.05	-0.71	-25.72
JAPAULGOLD	0.30	0.23	-0.07	-23.33
COURTVILLE	0.51	0.40	-0.11	-21.57

Outlook

The macroeconomic environment in the country in recent months has been characterized by interest rate hikes, accelerating inflation, and a depreciating currency. This has affected the NGX market, which has shown a steady decline in the months of June (-2.21%) and July (-2.79%) after the CBN's first interest rate hike this year on May 24. This, coupled with the increase in the volatility of blue-chip stocks like MTN, which declined by 13% in July, has also weighed on market performance. Given the projected increase in inflation rate for July as well as the lack of stability in the forex market, all of which have an inverse relationship with investor sentiment, we anticipate a sustained bearish performance in the market, albeit at a lesser pace in the month of August.

CORPORATE FOCUS: MTN NIGERIA

INDUSTRY:

TELECOMMUNICATION

SHARE PRICE

N 201.00 PER SHARE

MARKET CAPITALIZATION

N4.09 TRN

ANALYST'S NOTE

MTN Nigeria's Profit Jumps 28.06% in H1'22

MTN Nigeria, the leading telecom company in Nigeria in terms of subscriber base, has recorded another stellar performance in H1'22. MTN's topline grew 20.07% to N950.09 billion in the half year ended June 30, 2022 buoyed by sustained growth in voice (44% of total revenue), data (37% of total revenue) and handset and accessories (0.2% of total revenue)

Earnings from data surged by 52.4% to N348.23bn while voice calls only rose 1.4% in H1'22. This reflects a shift in the consumption pattern of telecom services towards data and internet, including voice over internet protocols (VoIP). Active data users climbed by 13.2% to 36.8 million (added 2.5 million active users in H1'22); Active fintech subscribers increased by 87.3% to 11.5 million. MTN Momo, which was officially launched on May 19, 2022, now has over 4.2 million subscribers with about 2.4 million active wallets which have generated over 7 million transactions.

In addition, revenue from handset and accessories spiked by 128% to N2.2bn in H1'22 from N964million in H1'21. Also, interconnect and roaming and value-added services increased by 12.38% and 25.89% to N93.43bn and N39.24bn respectively. Also, the company's revenue from digital increased by 36.48% to N11.41bn in the half year ended June 2022.

EBIDTA Growth Supported by Operating Leverage and New IFRS regulation

In addition, EBITDA margin increased by 90 basis points to 53.6%, and EBITDA was up by 22.1% to N509.30bn. This impressive performance is attributable to the company's continued effort to drive operating leverage and the combined impact of N19.2bn CBN resolution (2018) and new IFRS regulation relating to accounting for leases.

Strong bottom line growth even with higher finance cost

A 419.62% rise in net foreign exchange loss and an 8.29% growth in interest expense on leases were key drivers of the company's higher finance costs, which rose to N90.74bn. An increase in interest income on bank deposits drove the finance income, resulting in a 24.47% increase to N7.07bn. MTN Nigeria reported a 28.06% growth in profit-after-tax (PAT) to N181.63bn in half year ended June 30, 2022.

Introduction of MoMo – A Payment Service Bank

MoMo was officially launched in the Nigerian market on 19 May, 2022. It is a fully registered limited liability company with the Corporate Affairs Commission (CAC) and a financial services provider licensed by the Central Bank of Nigeria (CBN) under the PSB framework. The entry of MTN into the PSB market has changed the market's landscape. The PSBs could service as vehicle to onboard the non-banked informal sector players and as well began a veritable revenue line for the MTN. Using MTN MoMo as a fund aggregator, MTN can leverage on its bargaining power to extract interest earnings from the banks who hitherto exploited the retail market by paying them almost zero interest on their funds.

MTN Nigeria -Notable Milestones at Twenty

MTN Nigeria, a subsidiary of MTN Group is Africa's leading cellular telecommunications company and largest mobile operator in Nigeria with over 68 million subscribers and 36.8 million active data users. MTN Nigeria accounts for 39.28% of the telecoms market share in Nigeria.

The company provides a wide range of products and telecommunication services and offers roaming, Internet, bills payment, device financing, data management, SIM registration, and other related services. Following the increased demand for digital services and evolution from voice to data, the company has spread its wings to take advantage of opportunities across the streaming, digital and fintech space.

Since its listing on the Nigerian Stock Exchange in 2019, the bellwether has maintained its position as the second largest capitalized stock on the exchange (N4.15trn market cap), with strong fundamentals and growth potentials. The share price has returned over 35% to investors since it listed.

From inception in 2001, the telecom giant has remained at the forefront of telecommunication innovations in Africa with the most extensive network coverage and robust network infrastructure. About 65%, 83% and 90% of MTN's population is covered by 4GLT, 3G, and 2G services respectively with a fibre network of over 29,500km across Nigeria.

In 2019, MTN Nigeria became the first network to conduct trials for 5G technologies in West Africa. However, to meet up with the surge in demand for telecom services during the pandemic, the telecom giant suspended it plans on the adoption of 5G technology.

To further boost its network capacity, MTN Nigeria recently completed the acquisition and activation of an additional 800MHz spectrum. The company is also planning to invest over 600 billion naira (about $1.46 billion) over the next three years to expand broadband access and penetration. Rural connectivity remains key priority for MTN Nigeria, as the industry giant recently committed approximately 1,000 rural sites launching service in locations with zero telecommunications service.

Though faced with stiff regulations, the company has remained resilient and determined to deepen its relationship with the Nigerian government. The top player has paid over N2 trillion in taxes and levies to the Nigerian government since inception and has announced its participation in the Road Infrastructure Tax Credit (RITC) Scheme, particularly in the restoration and refurbishment of the Enugu-Onitsha Expressway. This commitment will foster the rehabilitation of critical road infrastructure in Nigeria.

What the bull says

- Strong brand name
- Largest market share -39.28%
- Strong parental support
- Extensive spread across Africa
- Diversified revenue source
- Favourable demographics
- Strong management team

What the bear says

- Hostile operating environment
- Stiff regulations
- Foreign exchange challenges
- Stiff competition from other players

OUTLOOK FOR THE MONTH

Headline inflation is expected to remain elevated due to the persistent currency pressures in the system. Inflation will further soar in August before moderating in September. Nigeria's oil production will remain subdued in August as the lingering issues of pipeline vandalism, oil theft and operational challenges continue. Therefore, oil revenue is expected to remain below the budget.

Forex demand pressures will persist as forex liquidity remains squeezed. Thus, we expect that the official exchange rate of the naira will be devalued by about 5% while the parallel market rate will hover between N675/$ and N690/$. We expect a further decline in external reserve due to central bank's intervention in the forex market, and continuous shortfalls in government revenue relative to expenditure. Therefore, the ability of the central bank to stabilize the currency is likely to be weakened.

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