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CONTENTS

JACKSON HOLE ECONOMIC POLICY SYMPOSIUM AND POLICY IMPERATIVES FOR DEVELOPING ECONOMIES

The recently concluded 45th annual Jackson Hole Economic symposium was held at a time of unprecedented waves of monetary tightening the world over. The central bankers' conference, titled, "Reassessing Constraints on the Economy and Policy" discussed the role of monetary and macroeconomic policies in addressing emerging global challenges.

Central banks, among other things, are saddled with the mandate of achieving price stability. But performing this role involves the use of monetary instruments that could have nontrivial consequences on the macroeconomy. One of the most popular policy tools for achieving price stability is the interest rate. Most countries of the world began raising interest rates in a bid to curb inflation. More than 94 countries raised interest rate in 2022 with several countries recording the highest rate hikes in decades. However, this policy thrust is birthing new challenges – economic slowdown and recession fears.

The symposium which placed taming inflation at the forefront identified the present global inflationary surge as a constraint on the economy. High inflation is growth- retarding. It erodes purchasing power and compresses the profit margins of businesses. Inflation deflates the quality of living and could plunge as much as one-fourth of a population into poverty. But the restrictive monetary policy adopted by central banks to rein in inflation could complicate the cyclical conditions of the economy. Already, the US, the UK, and several other advanced economies are experiencing an economic slowdown. Nigeria's Q2'22 output growth rate defied the global trend, expanding by 3.54%. But if economic history is anything to go by, then the downside risks of monetary tightening may be inevitable.

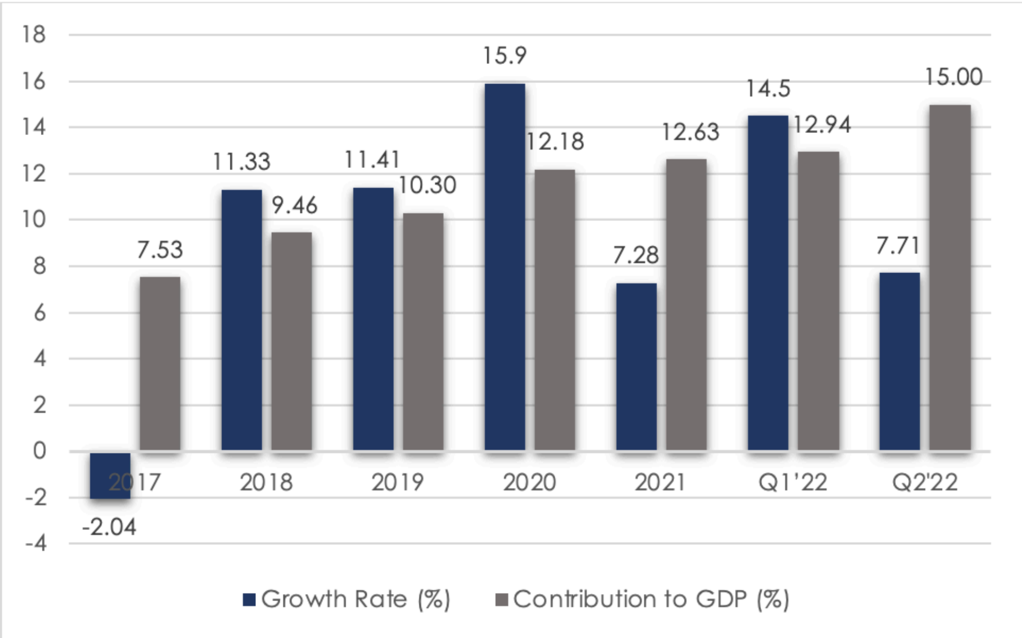
With a high interest rate depressing consumption and investment spending, aggregate demand will shrink and long-term growth could be slashed to an all-time low. This could be compounded by several legacy constraints that have kept economic progress subdued in Nigeria for several decades. These include mounting insecurity (such as kidnapping, banditry, insurgency), currency crisis, fiscal imbalances, rising public debt, and endemic energy crisis.

It bears mentioning that the structure and characterization of an inflation problem will determine the effectiveness of the monetary policy. Empirical research shows that Nigeria's inflationary surge is mostly bookended by structural and supply shock constraints. One of the structural defects that is fueling inflation in Nigeria is the currency crisis. To rein in inflation, the CBN must pursue exchange rate adjustment programs that will stabilize the currency rate and narrow (if not eliminate) the gap between the official and parallel market rates. The fiscal managers must prioritize inflation control in the initiation and implementation of fiscal policies. There must be an overt and consistent commitment to pursuing market reforms and policies that will boost the nation's aggregate supply.

TELECOMS TAX, SAVIOUR OR VILLAIN?

Nigeria's telecom sector has shown resilience and fortitude since the deregulation of the sector in the early 2000s. In terms of subscriber base, it is the third largest telecom market in Africa, after South Africa and Egypt. The sector has posted impressive growth since Nigeria exited recession in 2017. In fact, during the pandemic year (2020), the sector grew by 15.90% with GDP contribution of 8.73%.

TELECOM GROWTH AND CONTRIBUTION TO GDP



Source: NBS, FDC Think Tank

In May 2022, the FGN proposed a 5% telecoms tax - a new tax on the telecommunications sector, a minimum of one kobo per second for every phone call generated. The tax was introduced in the new National Health Insurance Authority (NHIA) Bill 2022 where it was listed as a source to finance the Vulnerable Group Fund. This sparked public outcry. Telecom players condemned the multiple tax the sector has been battling with. Resultantly, voice call tax was expunged from the NHIA bill that was finally signed by the president.

Nigeria's healthcare sector and new NHIA bill

Nigeria's healthcare sector has at best remained stagnant, if not deteriorated. As of February 2018, Nigeria was ranked 187 out of 191 countries in the world in terms of compliance with its Universal Health Coverage, as only a minority of the population was covered by health insurance. In general, the government's provision for health has been insignificant, with its healthcare expenditure at only 25.15% of all health expenditures. Private care, by comparison, accounts for 74.85%. Out of the 74.85% private expenditure, 70% is out of pocket payments which puts a major strain on Nigerians. More than 50% of Nigeria's citizens live on less than $1.90 a day, making it one of the world's poorest countries. Many Nigerians are also unable to afford or access basic treatment and have to look to alternatives, which pose danger to their lives and can result in death. [1]

[1] Okboh, Anthonia. 2019. "Examining Nigeria's healthcare challenges". Business Day. https://businessday.ng/why-nigeria-is-broke/article/examining-nigerias-healthcare-challenges/

The Nigerian government established the National Health Insurance Scheme in May 1999, which covered government employees, the organized private sector, and the informal sector. Through legislation, the scheme also included children under the age of five, people with permanent disabilities, and inmates in prison (otherwise known as vulnerable groups). However, in 2015, under 5% of Nigerians had access to health insurance coverage.[2]

The National Health Insurance Act 2021 sets out to improve Nigeria's healthcare sector and repeals the National Health Insurance Scheme Act 2004. The act empowers the NHIA to carry out a broad range of regulatory and promotion functions, ensuring that every Nigerian has access to quality and affordable health care.[3] Section 26, sub-section 1c of the Act states that the Vulnerable Group Fund's financing sources include a "telecommunications tax, not less than one kobo per second of GSM calls". [4]

Telecom Excise tax suspended to bolster growth and expansion

In July, the FGN announced the introduction of exercise tax on all telecom services, including calls, SMS, data and other services. The telecom players, and indeed the entire ICT sector rejected the proposed tax. Telecom companies complained that large and multiple taxes imposed on the sector stymie investment, particularly in the countries' extensive rural areas, where expanding the network is extremely costly for telecom providers.[5] This is detrimental to the economic growth as a 10% increase in mobile broadband penetration in Africa would result in an increase of 2.5% of GDP per capita.[6]

Furthermore, when taxes are passed on to consumers, the availability of a substitute may induce them to change their spending habits. In this case, the substitute is voice over internet protocol (VoIP) communication (e.g. WhatsApp, Telegram, and others), which is already cheaper to use than a standard call. Any increase in per call rates is likely to encourage consumers to choose these platforms over traditional calls. This could result in a decrease in the government's projected revenue.

However, proponents of telecom tax cited other climes where these taxes prevail. In Guinea-Bissau, a nation of 1.8 million people, where tax revenues do not exceed 9% of GDP, a special tax on the telecommunications sector was introduced in 2021. It was imposed on a variety of services, including phone calls and mobile data, and was set at five central African francs per minute for voice calls, or 5% of the cost of mobile data services.[7] In Equatorial Guinea, a nation with 1.4 million inhabitants and tax revenues of 7% of GDP, a tax that levied 10% of all telecommunication services was introduced in 2020. Other African countries that levy this type of indirect tax include Senegal, Ivory Coast, Uganda, and Zimbabwe. [8] This pattern of growth restrictive taxation is also present in Nigeria where about 40 different taxes and levies are imposed on the telecommunications industry by various state and local governments.[9]

To an already stretched Nigerian consumer who is gasping for survival, any suggestion of a new tax is a kiss of death. This is why any move for an excise tax on calls and data was an unwelcome initiative. The minister of communication took it upon himself to intervene and he kept his words: the telecom tax has been suspended. The suspension bodes well for both telecom players and telephone users. Although Nigeria needs to diversify its revenue base, the fiscal policy managers must be circumspective in the way they impose new taxes.

[2] Ibid.
[3] Ayetoto-Oladehinde; Onyedinefu (2022). "Telecom tax not in health insurance Act Buhari signed". Business Day, https://businessday.ng/health/article/telecom-tax-not-in-health-insurance-act-buhari-signed/
[4] National Assembly of the Federal Republic of Nigeria (2022). "National Health Insurance Act 2021". https://x7d4c5z5.stackpathcdn.com/wp-content/uploads/tc/2022/05/NHIA-Act..pdf
[5] Ibid.
[6] The World Bank. (2022). "Digital Development", https://www.worldbank.org/en/topic/digitaldevelopment/overview
[7] Ibid.
[8] Ibid.
[9] Emma, Okonji (2019). "Report: Multiple Taxation Stifling Growth of Telecom Sector", This Day. https://www.thisdaylive.com/index.php/2019/10/31/report-multiple-taxation-stifling-growth-of-telecom-sector/

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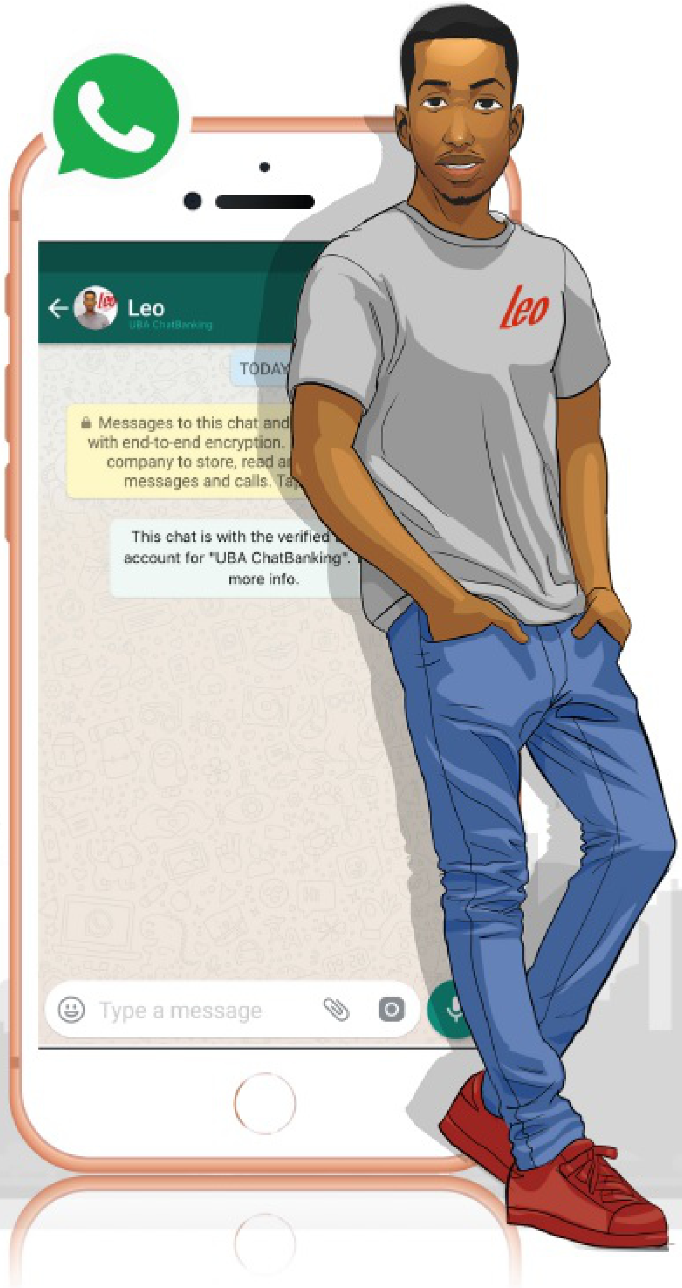

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GLOBAL PERSPECTIVE: INFLATION FEVER' IS FINALLY BREAKING — BUT CENTRAL BANKS WON'T STOP HIKING RATES

Culled from The Bloomberg

Global inflation is finally coming off the boil, even if it's set to remain far too hot for the liking of the world's central bankers. As economic growth slows, prices for key raw materials — from oil to copper and wheat — have cooled in recent weeks, taking pressure off the cost of manufactured goods and food. And it's getting cheaper to move those things around, as supply chains slowly recover from the pandemic. After the worst price shock in decades, the speed at which relief arrives will vary, with Europe in particular still struggling. But for the world as a whole, analysts at JPMorgan Chase & Co. estimate that consumer-price inflation will fall to 5.1% in the second half of this year — roughly half of what it was in the six months through June.

Fed's Still Hiking

Rents and labor-intensive services are likely to keep getting more expensive, with job markets tight and wages on the rise. And there are broader forces at work, from slowing globalization to lackluster growth in the labor force, that may keep price pressures bubbling. The major global central banks, which failed to see the pandemic price shock coming, are set to press ahead with interest-rate increases even as headline inflation tops out. The Federal Reserve, European Central Bank and Bank of England are all expected to hike rates again in September. Fed Chair Jerome Powell left the door open to another jumbo 75 basis-point increase next month, telling fellow central bankers in Jackson Hole on Friday that a recent ebbing of US inflation "falls far short" of what policy makers want to see. The following day, ECB Executive Board member Isabel Schnabel said "central banks need to act forcefully."

Some central banks that were quicker off the mark than the Fed to raise rates may take advantage of cooling price pressures to pause their tightening moves. The Czech National Bank this month left policy unchanged while the Brazilian central bank is expected to do the same in September. And New Zealand's Reserve Bank may be nearing the end of its aggressive moves, Governor Adrian Orr told Bloomberg Television from Jackson Hole. The soaring cost of living has left politicians as well as central bankers feeling the heat — especially in Europe, where natural gas prices more than seven times higher than a year ago have triggered an energy emergency.

Price Watch: Energy inflation is soaring across G-7 economies

Inflation in the euro area is forecast to accelerate beyond July's record 8.9% and Citigroup Inc. predicts that it could exceed 18% in the UK, in part because a cap on energy bills just got lifted. All kinds of once-unlikely proposals from nationalization to power rationing, have been floated to address the crisis. The US, by contrast, will experience the fastest slide in inflation among developed economies, thanks in part to the strength of the dollar, the JPMorgan economists say. That won't stop the Fed from tightening into restrictive territory. Anna Wong, chief US economist at Bloomberg Economics, expects the Fed will eventually have to raise rates as high as 5% to rid the US of its inflation problem.

'Truly the Issue'

Still, the recent decline in several important commodity markets should help dampen prices across the global economy:

- Benchmark crude oil futures have fallen about 20% since early June
- Prices for metals, lumber and memory chips have declined from their highs
- A United Nations index of food costs plunged almost 9% in July, the most since 2008

The Cost of Key Commodities Is Falling

Much of this appears to stem from a slackening in demand. That's partly because consumers are shifting away from the unusual shopping habits that emerged during pandemic lockdowns, when people spent less on services like hotel rooms or gym memberships, and more on goods such as exercise bikes and home computers. Goods inflation "is going to come off a lot," says Jan Hatzius, chief economist at Goldman Sachs Group Inc. The turnaround in commodity prices also reflects the fact that household budgets are increasingly stretched — and economies are slowing worldwide.

Most of Europe is expected to fall into recession in the coming months as the energy crisis takes a toll over the winter. China remains hobbled by its Covid Zero policy and a depressed property market, with spillovers for commodity prices. In the US, Fed rate hikes have undercut the once-ebullient housing market and turned high-tech companies cautious. Even with recession risks rising, bond investors don't see central banks letting up in the near future. Investors are currently betting that by next March the Fed will have raised rates to around 3.75%, while the ECB's benchmark will be up to 1.75% and the UK's to 4%. "Inflation is truly the issue and it remains well above the targets of central banks," said John Flahive, head of fixed-income investments at BNY Mellon Wealth Management. "They do not want to make the mistake of lowering rates and watching inflation go back up.''

'Seen the Worst'

One sure sign of slowing demand, according to economists at Morgan Stanley, is that growth in imports across major economies — after adjusting for inflation — is now subdued, while exports from Asia, the world's factory floor, are starting to weaken. The easing of logistical logjams is also contributing to lower prices. The New York Fed's index of global supply-chain pressure has dropped to the lowest level since early 2021. Short-term shipping rates are falling, transit times across oceans are shortening, and companies are even starting to moan about bloated inventories.

Supply Pressure Is Receding

New York Fed's global supply pressure index falls for three straight months

"We were getting about a 65% service level from our strategic suppliers. That's back up to a plus 90% now," Randy Breaux, the president of Motion Industries Inc., an Alabama-based provider of industrial components, told a conference this month. "We really think that we've seen the worst of the supply-chain issues." If that's the case, the Fed may not have to raise rates as much as feared to reduce demand and rein in inflation, according to Apollo Management chief economist Torsten Slok. Still, even if goods prices slow, there's a risk that the post-lockdown spending shift will instead drive up the price of services such as going to the movies or staying in hotels. Those may prove stickier. US rental costs, in particular, are being boosted by a dearth of affordable housing. That may put upward pressure on inflation into 2023 and "maybe even beyond," Goldman's Hatzius says.

'Not Very Far'

Rising wages could also keep inflation around for longer

Labor costs are by far the biggest expense for many businesses, especially in service industries. With job markets in the US and Europe still tight, companies are being forced to boost pay. To maintain profits, firms would then need to pass along their higher wage bills to consumers. "We are quite worried about a wage-price spiral," says Robert Dent, senior US economist at Nomura Securities. "One may already be happening to a certain degree." There's also the argument that inflation won't return to pre-Covid levels because the world was already poised to change. Globalization is fraying — a process accelerated by the war in Ukraine — and measures to tackle climate change could add another layer of costs, at least in the short term. In a report this month, economist Dario Perkins of TS Lombard predicted that such forces will combine to create what he calls a "new macro supercycle."

Hawkish Stance

More than 80 central banks have hiked rates this year

Central banks "will try to prevent this secular transition, even at the cost of a recession," but they "can't stand in the way of structural shifts," he wrote. "The persistent 'low-flation' era is over." For now, at least, there's a growing consensus that the worst of the current inflationary episode is passing for many economies, even if doubt lingers over how fast the decline will be and how far it will go. "The inflation peak is not very far from here and should be in place soon," said Priyanka Kishore of Oxford Economics. "There may of course be outliers. But this is more due to idiosyncratic country factors rather than the global price pressures.


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Culled from The Financial Times

GLOBAL PERSPECTIVES:

NATIONAL SELF-SUFFICIENCY ISN'T THE ANSWER TO THE ENERGY SHOCK

The world economy these days seems bent on serving up one apparent justification after another for regarding international trade with deep suspicion. On top of the US-China tensions, Covid lockdowns, snarled-up shipping and Russia's full-scale invasion of Ukraine, the latest grist to the reshorers' mill is the massive global energy shock and the threat of interruptions to cross-border supply.

The disruption has triggered instincts to race towards energy self-sufficiency. One essentially irrelevant idea from Liz Truss, UK prime minister presumptive, involves dealing with Britain's impending fuel crisis by flogging the ageing horse of the North Sea's oil and gas deposits to increase output.

It's natural for governments to be involved in the politicised business of energy supply, given its economic indispensability and the scale of infrastructure needed. What is now called "friendshoring" and applied to goods like electric vehicles has long been at work creating alliances over fossil fuels. Jimmy Carter emphasised human rights during his presidency, but the 1980 Carter Doctrine threatened military force to protect "American interests" — that is, oil — involving unsavoury friendships in the Gulf.

There's a great deal of path dependence in energy supply. Given the financial and political cost of drilling wells, laying pipelines, creating nuclear power stations, building gas terminals, covering the countryside in wind turbines and so on, governments are reluctant to incur the costs of diversifying against as yet unrealised risks. Over the decades, a solid political consensus can easily grow around a particular model which works well until it suddenly doesn't.

Germany's big bet on Russian gas supply dates back to the "Ostpolitik" era of detente with the Soviet Union in the 1970s. Back then the logic of engagement with Moscow, though still debatable, was clear. But it was a massive error to continue relying on Russian gas after the rapprochement between Moscow and western Europe had been reversed by Vladimir Putin in the 2000s, and particularly after his invasion of Crimea in 2014.

Germany's efforts since March in building liquefied natural gas terminals and looking for other sources of oil and gas have been impressive, as have its efforts to reduce demand, but it has decades of established practice to overthrow to relearn the lessons of the past. As a salient example, Berlin Brandenburg airport, newly opened after decades of delays, depends heavily for its kerosene jet fuel on the nearby Russian-owned Schwedt oil refinery. Authorities have been warning that a complete German embargo on Russian oil will threaten the airport's operations. By contrast Berlin's former airport, Tegel, was more resilient even during the cold war: a diversification rule meant aeroplane fuel arrived by a variety of means including truck and train.

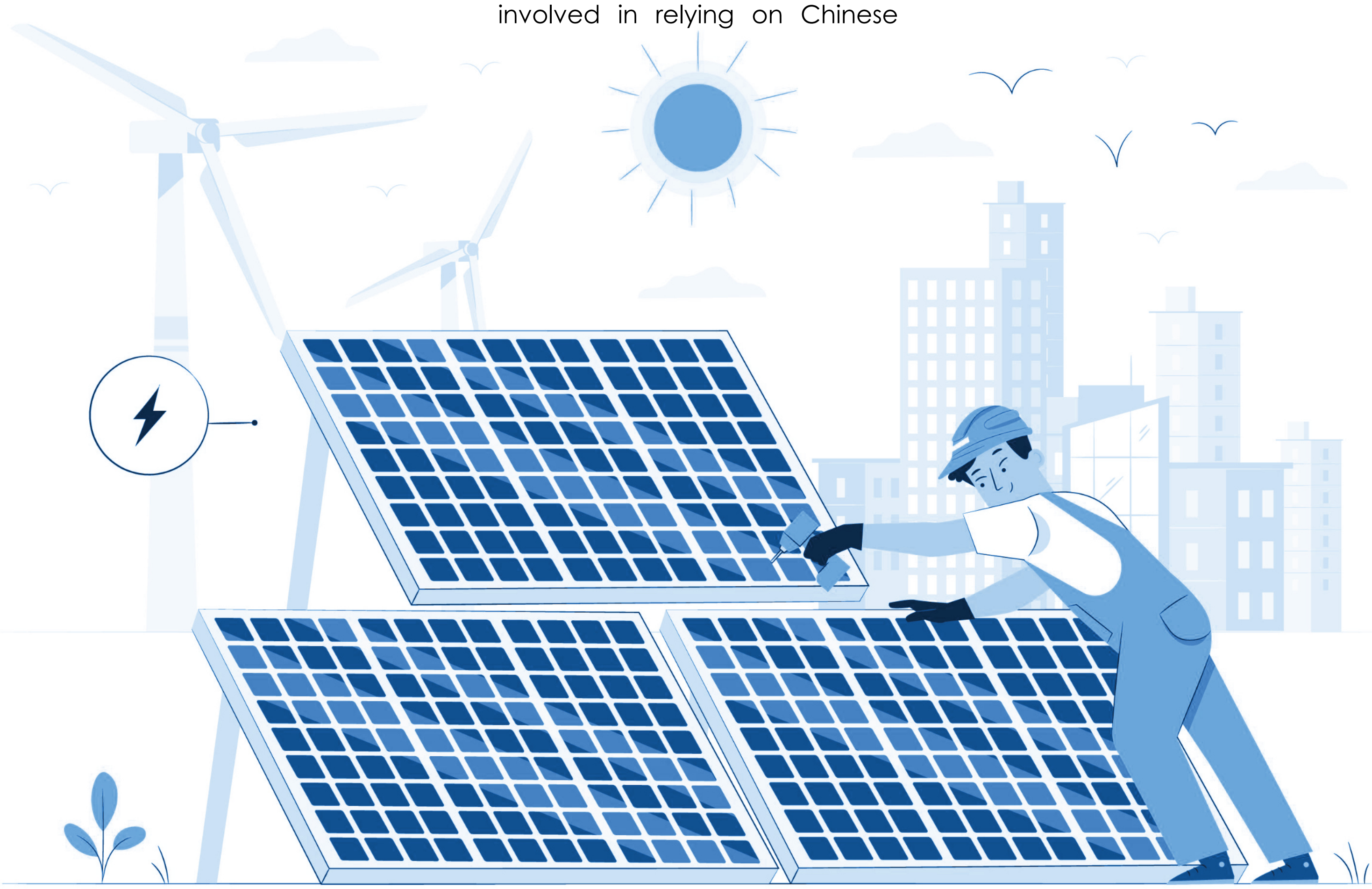
But it's also vital to note the dangers in attempting to eliminate the risk from unreliable foreign suppliers by trying to do everything at home. Churchill's often-cited assertion about energy security back in 1913, that "safety and certainty in oil lie in variety [of suppliers] and variety alone", might equally apply to types of energy and modes of supply as countries.

In France during the decades after the second world war, a policy elite seeded with engineering expertise through the "Corps des Mines" educational cadre developed an energy supply consensus based on large-scale domestically-generated nuclear power, which fitted well with the prevailing economic doctrine of state-directed autonomy. It looked like a good bet, and produced decades of domestic supply and power exports. But over-dependence on a single source is always risky. In recent years under-investment in and mismanagement of nuclear facilities by the utility EDF has reduced output, forcing France to import power from neighbouring countries and leaving its economy vulnerable to the global energy shock.

The reality is that governments have to manage rather than avoid international relationships in energy supply, including electricity generated from renewable domestic resources like wind and solar. It's long been the case in Europe and the US that making the widespread adoption of solar power affordable depended on imports of equipment from low-cost producers in Asia. The Biden administration has got itself into a horrendous tangle over blocks on imports of solar equipment after US producers complained about unfair competition.

The same is true of other renewables like wind power, particularly offshore wind, where Chinese companies have come in to provide equipment and run generating facilities in Europe. There are, of course, hazards involved in relying on Chinese suppliers and operators, including those with close links with the military. But given the interdependencies involved, the answer is to undertake a realistic assessment of risks and continue to widen the range of energy sources, not to embark on a widespread reshoring campaign.

It's pretty easy to see that Germany's political and industrial establishment made historical mistakes in relying on single suppliers like Russia. It's harder and more expensive to fix the problem by diversifying trading partners, sources and modes of supply rather than continuing to pick individual winners or trying to bring all energy generation home.

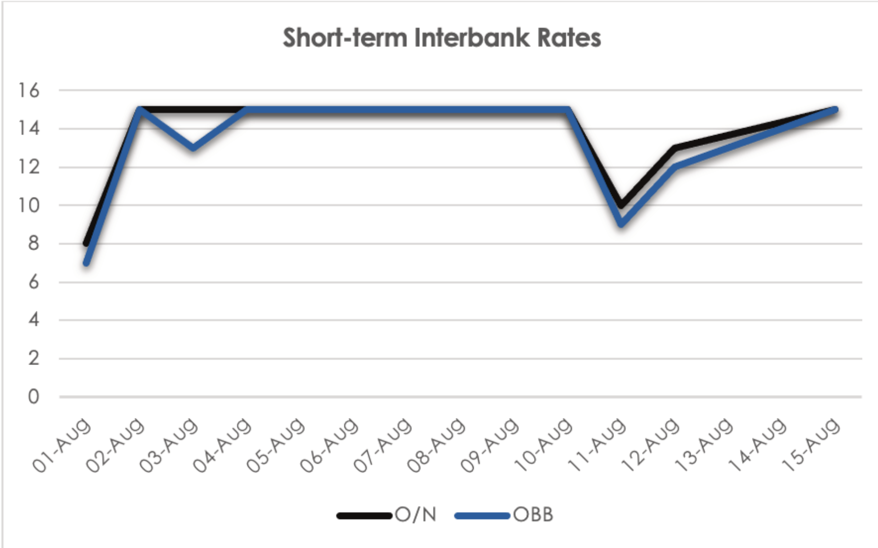


MACROECONOMIC INDICATORS 1ST- 15TH AUGUST

Money Market

The average position of banks was N85.03bn in the first half of August. This is 212.96% higher than the average of N27.17bn in the first half of July. However, owing to CBN's monetary tightening policy, there were three negative opening balances within the review period. Liquidity was partly supported by the OMO repayment of N5billion while no OMO sales were made within the review period. Short-term interbank rates remained in double digits for most of the periods due to tight liquidity as it averaged 13.5% p.a in the first half of August. However, this was 50bps lower than the average of 14%p.a in the first half of July.

In the review period (Aug 1st-15th), a total of N150.62bn was sold at the primary market auction. This is 5.13% higher than the N143.27bn sold in the first half of July. Primary market rates were up by an average of 58bps across all the three tenors from their respective levels in the first half of July. Correspondingly, yields on all the benchmark maturities rose in the secondary market except the 91-day tenor.



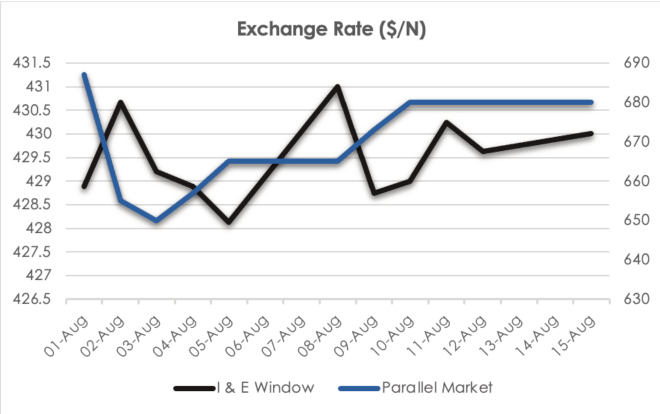
Source: FDC Think Tank

Tenor	Primary market (July 13th, 2022) (%)	Primary market (August 12th, 2022) (%)	Secondary market (July 15th, 2022) (%)	Secondary market (August 15th, 2022) (%)
91-day	2.75	▲ 3.50	3.90	↔ 3.90
182-day	4.00	▲ 4.50	6.50	▲ 7.30
364-day	7.00	▲ 7.50	6.45	▲ 10.10

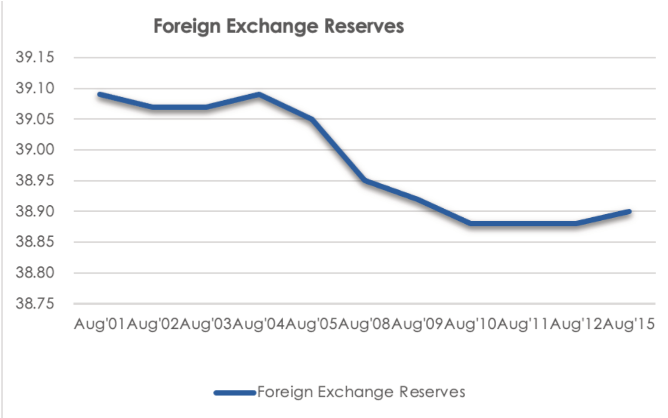
Source: FMDQ, FDC Think Tank

OUTLOOK

The CBN is expected to continue mopping up liquidity in response to its tightening monetary policy stance, while increasing the costs of interbank borrowing. As a result, short-term interbank rates will likely remain in the double digits. This will keep interest rates on loans and advances for businesses and individuals high. The rise in interest rate will increase default risk. As the risk of default rises, so will the cost of impairment for financial institutions.



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 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

Naira traded within the band of N428.88/$-N430.67/$ on the I & E window. Owing to the slowdown in demand pressure and currency speculation, the naira appreciated by 5.39% to N650/$ in Aug 3rd from N687/$ in Aug 1st before depreciating consecutively by 4.62% to close the review period (Aug 15th) at N680/$ on forex scarcity.

OUTLOOK

The CBN is expected to continue to support the Naira at the I & E window. However, forex scarcity and increased speculative activities will continue to support Naira depreciation at the parallel market.

External Reserves

The country's external reserves lost 0.49% to close the review period at $38.90bn (Aug 15th) from $39.10bn at the beginning of the period (Aug 1st). This was due to CBN's effort to defend the naira supported.

OUTLOOK

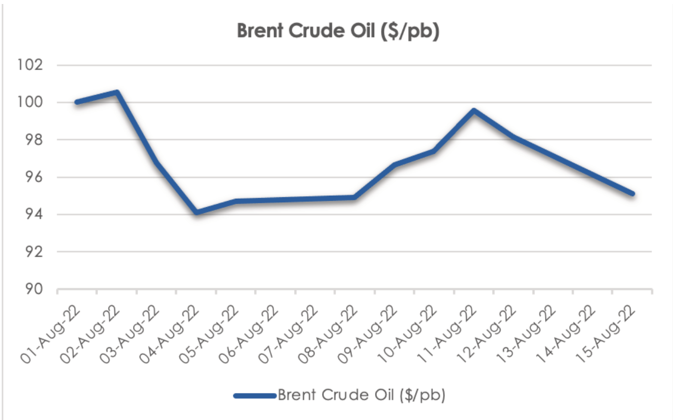
Due to the decline in oil prices, the external reserve is likely to maintain its downward trend. The CBN will also continue to defend the naira at the forex market.

IMPACT

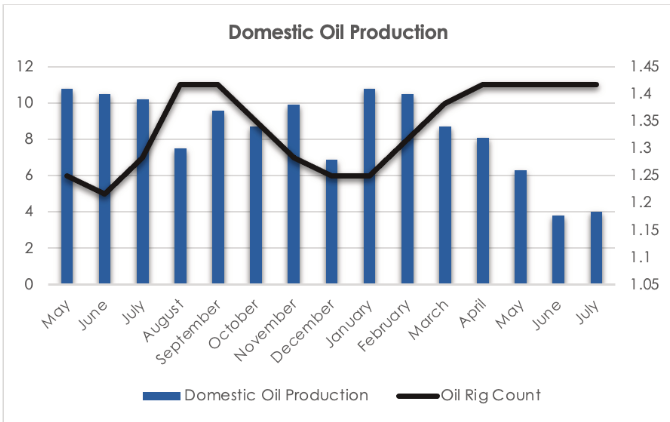
A sustained depletion on the external reserves is likely to discourage the CBN's supply of foreign exchange in the external market.

COMMODITIES EXPORTS

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



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Oil Prices

The price of oil was largely bearish in the review period and traded below $100pb threshold for most of the period. It fell to a low of $94.12pb on Aug 4th from $100.57pb on Aug 2nd on recession concerns and possible closure on Iran nuclear deal which could boost oil supply, before rising again to $99.60pb on Aug 11th amid supply concerns. It fell to close the review period at $95.1pb. On average, oil price fell by 6.89% to $96.47pb in the first half of August from $103.62pb in the first half of July.

OUTLOOK

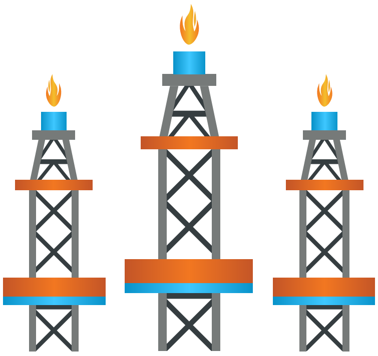
Oil price is expected to trade below $100pb in the near term as the economic slowdown in China due to covid lockdowns and possible closure of the Iran deal outweighs concerns on supply shortage. OPEC's inability to further increase oil production will continue to limit it from further raising its monthly oil production quota, while Nigeria will continue to produce below its OPEC quota due to oil theft and operational issues.

Oil production

Domestic oil production increased slightly by 0.59% to 1.183 million barrels per day in July 2022 from a revised figure of 1.176 million barrels per day in June 2022. Oil rig count, on the other hand, remained constant at 11points as it was in June. OPEC's crude oil production rose by 216,000 barrels per day in July, to an average of 28.90 million barrels per day. Oil production increased mainly in Saudi Arabia, the UAE and in Kuwait, while it declined in Venezuela and Angola. OPEC+ slashed its monthly oil production increase by 84.57% to 100,000bpd in September from 648,000bpd for July and August amid shortfall from Russian oil exports.

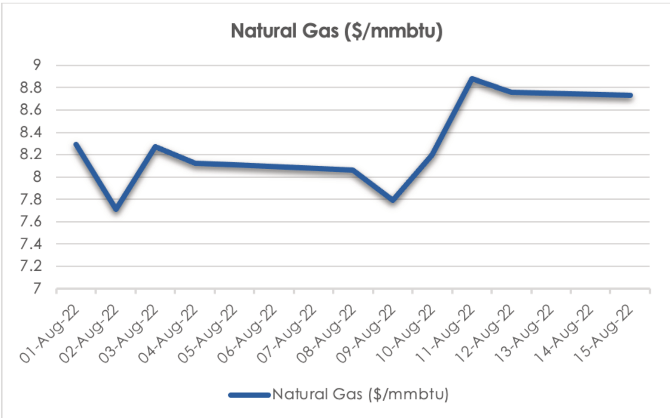
IMPACT

The fall in oil price will lower the country's oil revenue and its foreign exchange earnings. As a result, FAAC allocation to the three tiers of government will shrink while raising government borrowings in the capital market and pushing up its debt burden.



Natural Gas

The price of gas spiked in the first half of August. It rose to a high of $8.88mmbtu on August 11th after reaching a low of $7.71/mmbtu on August 2nd. However, it eased marginally to close on August 15th at $8.73/mmbtu. The uptick in oil price was fueled by the tight supplies as Russia lowers its gas exports to Europe and demand for gas for cooling in US increases on hot weather conditions. The price of gas averaged $8.26/mmbtu in the first half of August, up by 34.57% from the average of $6.14/mmbtu in the same period in July.



Source: Bloomberg, FDC Think Tank

OUTLOOK

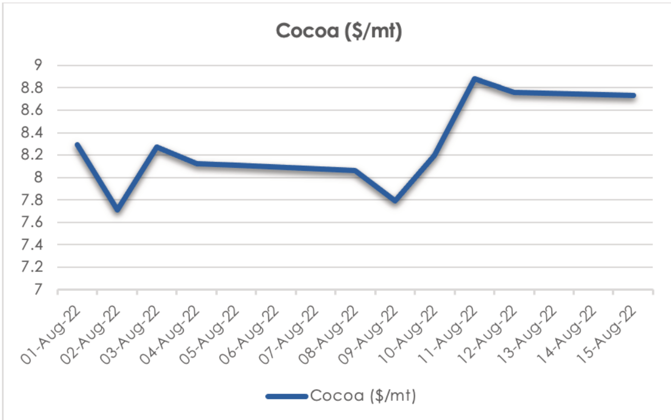
Gas price is expected to remain elevated as supply continues to remain tight due to the shortfall from Russia and the increased demand for gas in the US due to hot weather conditions.

IMPACT

Higher gas price will raise the country's external revenue as well as its fiscal revenue through higher FAAC remittances. This is likely to aid the implementation of salient policies in the country.

Cocoa

Cocoa price reached a high of $2438/mt despite the prospect of an improved supply in top producing countries (Ivory Coast and Ghana) but fell slightly to close the review period (Aug 15th) at $2394/mt. On average, the cocoa price rose by1.83% to $265.91/mt in the first half of August from $2323.44/mt in the corresponding period in July.



Source: Bloomberg, FDC Think Tank

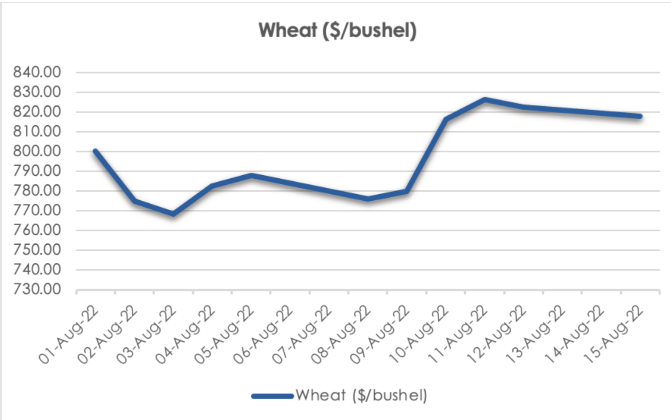
OUTLOOK

The improved supply by Ivory Coast and Ghana will continue to support lower cocoa prices. Although in Nigeria, mid-crop harvest in some cocoa-planting regions has now begun to end, farmers are now looking forward to the main-crop harvest in September. Good soil moisture content in Ivory Coast's cocoa regions is expected to aid October to March main crop cocoa harvest.

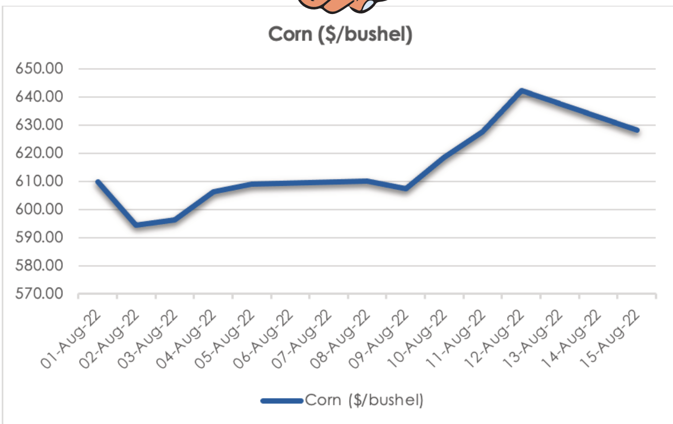
IMPACT

Tapering cocoa prices will lower the country's foreign exchange earnings and, in turn, limit government revenue.

COMMODITIES IMPORTS



Source: Bloomberg, FDC Think Tank



Source: Bloomberg, FDC Think Tank

Wheat

The improved wheat supplies from top producing countries (Russia) and the removal of the blockade at Ukraine's black sea ports helped stabilize the price of wheat in the review period. It fell to a low of $775.75/bushel on August 8th before rising to $826.25/bushel on August 11th on dim supply prospects due to the destruction of lands in Ukraine by Russia's invasion. It, however, declined marginally to close the month at $817.75/bushel. On average, wheat price fell marginally by 2.79% to $795.64/bushel within the review period from the average of $818.44/bushel in the first half of July.

OUTLOOK

The price of wheat is expected to remain low in the near term due to improved supplies supported by the harvest season in major exporting countries (US and Russia) as well as unblocked Ukraine's black sea ports.

IMPACT

The fall in wheat prices is expected to reduce the country's import bill while lowering manufacturing costs for food processing industries. This will lower inflation risk as retail prices taper, leading to an increase in consumers' real income. However, downside risk exists from currency depreciation.

Corn

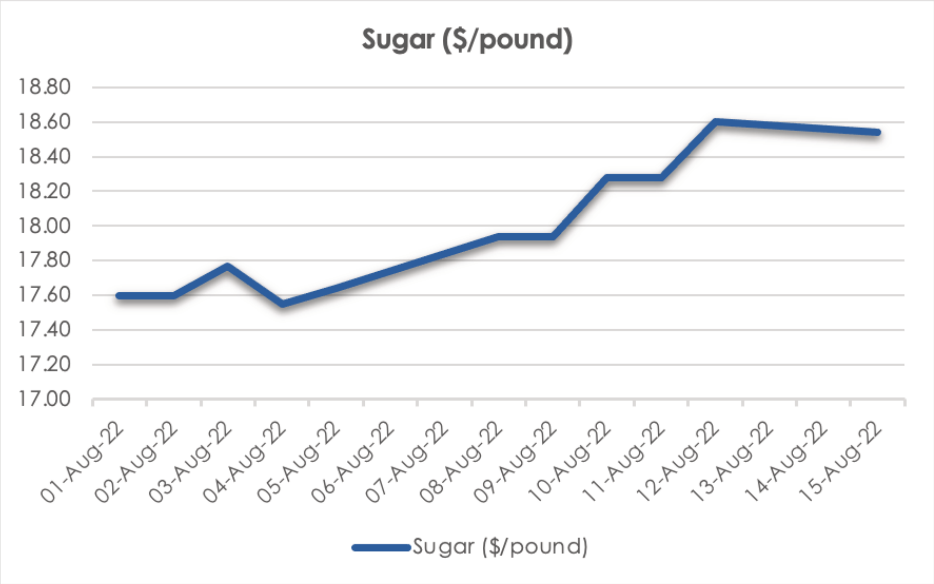
The hot and dry weather condition in the US, which is the largest exporter of corn is dampening corn supply prospects as the heat waves in the country is worsening its crop conditions. The price of corn rose to a high of $642.25/bushel on August 12th despite the opening of Ukraine's black sea ports for grain exports, before settling at $628.25/bushel. Corn price averaged $613.59/bushel in the first half of August, up by 2.83% from the average of $596.69/ bushel in the first half of July.

OUTLOOK

Corn price are expected to remain high in the short term as hot and dry weather conditions harm grain harvest in the United States, despite improved supply from Ukraine, which ranks fifth in the world's top corn exports.

IMPACT

The increase in the price of corn will raise the country's import bill while increasing manufacturing costs for food processing industries. This is likely to raise inflation risks as manufacturers pass increased costs in form of higher prices to consumers, leading to a further shrink in consumers' real income.



Source: Bloomberg, FDC Think Tank

Sugar

The price of sugar rose to a high of $18.60/pound on August 12th due to tight supplies before settling slightly to close the month at $18.54/pound on improved supply from Brazil, the world largest sugar exporter. Overall, the price of sugar averaged $17.98/pound in the review period, 2.98% lower than the average of $18.53/pound in the first half of July.

OUTLOOK

The price of sugar is expected to taper as supply improves in the top exporter country, Brazil due. The data from the shipping agency in Brazil showed that 86 vessels are expected to load 3.6 million tonnes of raw sugar for exports at the Brazilian ports in August, up from the 36 vessels expected to load 1.32 million tonnes in the same period last year.

IMPACT

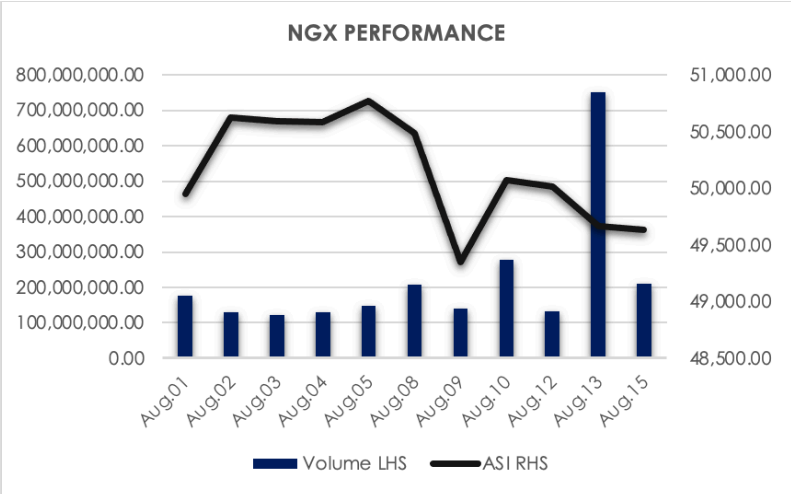
Lower sugar price is positive for the country's terms of trade. The fall in the price of sugar will reduce manufacturing costs for confectioners while lowering inflation risk and expanding consumers' real income.

OUTLOOK FOR TERMS OF TRADE

The country's terms of trade are expected to remain negative as the prices of its imports rise relative to its exports.

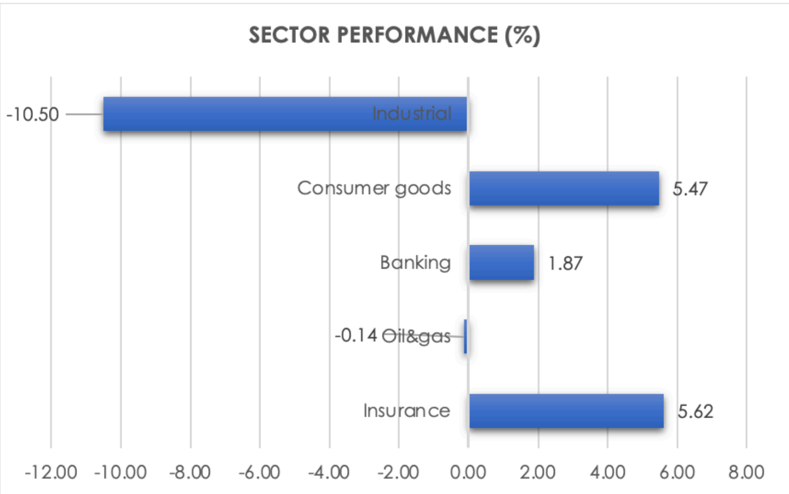
STOCK MARKET REVIEW

The NGX closed on a negative note from August 1st – 15th. It lost 1.47% to close at 49,629.43 points on August 15th from 50,370.25 points on July 29th. Also, the market capitalization decreased by 3.04% to N26.77trn relative to its close of N27.61trn on July 29th. The market YTD return fell to 16.18% from 17.92% in the review period. The market breadth was positive at 1.19x as 43 stocks gained, and 77 stocks remained unchanged while 36 lost.



Source: NGX, FDC Think Tank

Market activity level was positive in the review period. The average volume traded increased by 36.61% to 220.67mn units from 161.53mn. Similarly, the average value of trades increased by 19.27% to N2.60bn from N2.18bn in the review period.



Source: NGX, FDC Think Tank

The performance of the sectors was positive in the review period, as three sectors gained while two lost. The insurance sector recorded the highest gain (5.62%). This was followed by the consumer goods sector (5.47%) and the banking sector (1.87%). Meanwhile, the industrial sector had the highest loss (-10.50%), followed by the oil and gas sector (-0.14%).

Japaul Gold & Ventures Plc topped the gainers' list with a 60.87% increase in its share price. This was followed by Courteville Business Solutions Plc (40.00%), Honeywell Flour Mill Plc (38.05%), Nem Insurance Plc (29.71%), and Ikeja Hotel Plc (23.71%).

The laggards were led by Bua Cement Plc (-23.23%), Mcnichols Plc (18.68%), Skyway Aviation Handling Company Plc (-17.52%), Learn Africa Plc (-15.38%), and Presco Plc (-9.97%).

Outlook

Despite the positive H1'22 performance reported in some blue chip companies' corporate results, market performance in the first half of August was negative due to higher returns on cash that prompted investors to liquidate their assets. We anticipate a sustained negative market sentiment in the short term as economic uncertainties persist.

TOP 5 GAINERS

Company	JuL-29 (N)	Aug-15 (N)	Absolute Change	Change (%)
JAPAULGOLD	0.23	0.37	0.14	60.87
COURTVILLE	0.40	0.56	0.16	40.00
HONYFLOUR	2.05	2.83	0.78	38.05
NEM	3.40	4.41	1.01	29.71
IKEJAHOTEL	0.97	1.20	0.23	23.71

Source: NGX, FDC Think Tank

TOP 5 LOSERS

Company	Jul-29 (N)	Aug-15 (N)	Absolute Change	Change (%)
BUACEMENT	69.30	53.20	-16.10	-23.23
MCNICHOLS	0.91	0.74	-0.17	-18.68
SKYAVN	6.85	5.65	-1.20	-17.52
LEARNAFRCA	2.60	2.20	-0.40	-15.38
PRESCO	158.40	142.60	-15.80	-9.97

Source: NGX, FDC Think Tank

EQUITY REPORT: DANGOTE

ANALYST NOTE

Buy Now and Reap Later

Dangote Cement Plc (DCP) is Africa's largest cement manufacturer. With a production capacity of 51.6Mta, it remains one of the fastest growing companies in Africa. Dangote cement has its footprints present in 10 sub-Saharan African (SSA) countries engendering healthy diversification and less concentration risk.

The company accounts for 17% of total equities market capitalization. The stock is currently trading at N258.8 with a cumulative average growth rate of 2.8% in two years. DCP has maintained a stable and strong dividend payout over the years with a current dividend yield of 7.73%.

In an effort to curb the lackluster impact of energy supply disruptions on cement production, Dangote cement has embarked on a brilliant energy project to reduce exposure to the use of volatile energy sources. The industry giant is poised to expand its production capacity in the coming quarters across existing plants coupled with the installation of new plants in other African countries.

Double digit Top-line performance amidst low sales volume

In spite of multiple headwinds that disturbed Nigerian business environment in the first six months of the year, Dangote Cement Plc recorded an impressive top-line performance. The company's revenue rose to N808bn in H1'22, a 17% growth from N690.5bn in the corresponding period of 2021. This result was achieved due to higher cement prices despite a 7% decline in sales volume.

Sales volume declined across all regions as inflationary pressures choked consumers' purchasing power and energy supply disruptions tapered production. In Q2'22 total sales volume slowed to 6.95mn tonnes from 7.2mn tonnes in Q1'22.

Nigeria's sales volume, which is about 66% of total sales volume decreased by 5.3% to 9.3mn tonnes from 9.9mn tonnes in H1'21. Pan-Africa's sales volume also declined by 11% driven by plant maintenance constraining production in Senegal and Congo coupled with volatility surrounding landing costs in Cameroon, Ghana and Sierra-Leone.

Current Price

N 258.80 per share

Market Capitalization

N4.41trn

Industry: CEMENT

Strong EBIDTA alleviates spiraling operating cost

On the operations side, Dangote cement reported a 5.3% growth to N318 billion. Despite a 16% increase in cost of sales, the double digit revenue growth was able to offset the increase in cost of sales and delivered a 17% growth in Gross profit to N485.6 billion. The 16% increase in cost of sales is attributable to a 31% surge in energy cost to N129.9 billion.

Operating expenses spiked by 43% to N169 billion and other income declined by 74% to N1.6 billion. A significant increase in haulage expenses due to high diesel cost weighed on selling and distribution expenses coupled with inflationary pressures and currency volatility.

Foreign exchange loss tapered Net income growth

The bottom-line performance contracted by 10% to N172 billion from N191.6 billion in H1'21 as foreign exchange losses ripped Dangote cement off profit in H1'22. During the period under review, depreciation in the CFA and Ghana currency resulted in N40.7 billion foreign exchange loss which fostered a negative bottom-line growth.

Industry Overview

The Nigerian cement industry achieved an average growth rate of 5.26% in the last two years outperforming the real GDP growth of 0.73%. The industry has continuously benefitted from government patronage owing to increased infrastructure activities. Also, with a growing population of over 200 million people and rapid urbanization, the need for cement consumption cannot be over emphasized. Industry players are expected to continue to ramp up production capacity to meet increasing demand.

The multiple effect of unending Russian-Ukraine war, supply chain challenges, and heightened inflation hampered Nigerian businesses including the resilient Nigerian industrial sector. The hike in energy prices disrupted cement manufacturers' operations and triggered slow production.

The top players are however taking strategic steps to curb the negative impact of energy challenges on production volume and margins by actively sourcing for cheaper alternatives. This strategy is expected to mitigate the high cost of coal and Automotive Gas oil (AGO) and promote the use of clean energy.

Company Overview

Dangote Cement Plc accounts for the largest share of the industry (71%) with a production capacity of 51.6Mta and an average revenue growth rate of 15% in the last five years. The industry player currently operates three manufacturing plants in Nigeria (Obajana, Ibese, Gboko, and Okpella in view) with long-term plans to expand its capacity to meet Africa's growing demand for cement and also make West, Central Africa cement, and clinker self-sufficient.

The company's cement and clinker export to other African countries makes Dangote cement an outlier in the industry. DCP's clinker strategy remains viable and is expected to take advantage of the absence of limestone in majority of West African countries who typically import bulk cement and clinker from Asia and Europe.

The industry giant was affected by the energy challenges and epileptic power supply in 2022, contracting production by 7%. However, the company is actively working on reducing its weighty reliance on fossil fuels with the installation of mechanical Multi-fuel systems in order to spur productivity across all plants. The alternative fuel thermal substitution rate improved to 3.3% compared to

2.0% in H1'2021. This strategy is expected to optimize efficiency through cost-effectiveness and improved sustainability practices.

Despite heavy investment in infrastructure, Dangote cement has a robust capital structure. The company has made great strides in the Nigerian debt capital market as the largest corporate bond issuance in the Nigerian capital market. The successful bond issuance gives the company the opportunity to further diversify funding sources and also extend debt portfolio and profile to match investment in infrastructure.

The excellent management team has done remarkably well in maintaining the firm's reputation as a force to contend with in the industry. The company has constantly returned enormous value to shareholders in form of share buy-back coupled with robust and consistent dividend payment.

We expect the adverse impact of energy challenges on production to wane gradually as the company intensifies the usage of alternative fuels which will leverage on existing waste management solutions.

The Bulls say:

- The wide infrastructure gap in the Nigerian economic space presents an opportunity for growth
- Increased urbanisation necessitates housing and developmental projects
- Reputable company with a proven track record and strong brand recognition
- Stronger regional presence in domestic market compared to peers

The Bears say:

- Government delay in the implementation and release of funds for capital projects
- Key market risk, the Nigerian economy remains the major driver of revenue
- Impact of currency pressure on costs and purchasing power
- Higher material and energy cost could erode profit

OUTLOOK

Dangote cement is expected to leverage on economies of scale to outfox peers through robust capital structure, infrastructure and will continuously benefit from government patronage and growing urbanization. The company will likely deepen its African foot prints and self-sufficiency game through aggressive installation of plants across African countries.

DCP's energy-mix restructuring exercise will reduce reliance on foreign currency and curb the negative impact of foreign exchange challenges on profitability In addition, the company's expansion plan and fertilizer investments will open new trade routes for the company and Nigeria under several trade deals. We expect the continuous improvement in operations to further bolster earnings and a resultant uptick in share prices.

ECONOMIC OUTLOOK

FOR THE NEXT MONTH

The month of August was characterized by mixed economic outcomes, ranging from weak naira and high inflation to strong economic growth. The market sentiment was also mixed, oscillating between bearish and bullish sentiments. Generally, we expect investors to remain tepid, or at best, cautiously optimistic while expecting the outcome of the next MPC meeting scheduled for September. August Inflation numbers to be released in September are expected to cross the 20% psychological mark, as food and energy costs remain elevated. The expected increased consumer spending impacts of the 2023 general election campaign, beginning on the 28 of September, will further tilt up inflation.

We expect the forex scarcity to persist in September as the demand continues to outweigh supply while CBN's intervention in the forex market remains constrained due to the international reserve dwindling. As a result, the naira in the parallel market is expected to hover around N680/$-N710/$ in September. The average crude oil price in September will be below $100pb as recession fears and subdued demand in China persist. In the month of September, FAAC will remain elevated, keeping the momentum of bulging revenue that began in June. While the CBN's monetary tightening regime continues, we expect the CBN to leave all monetary parameters unchanged in September as it monitors the impact of its restrictive monetary policy on the economy.

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