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FINTECH AND THE EMERGING OPPORTUNITIES IN AFRICA

Since the emergence of fintech in the 21st century, there has been a shift from its conventional use in the structured financial system to a well-defined consumer-based orientation. Financial technology is a new technology that upgrades and enhances the delivery of financial services. It helps businesses and customers process their financial operations through the use of specialized software on computers, tabs, smartphones and even phones that are not internet-based. This is seen with M-pesa in Kenya, where money transfers are made via text message. Fintech now encompasses a wide range of economic sectors, including education, investment management, and retail banking.

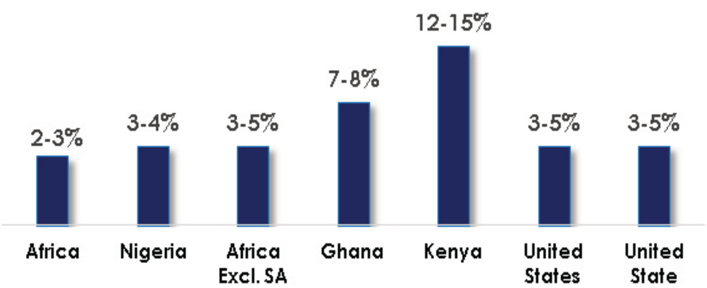
The role of fintech also include the absorption of large unbanked population. Fintech also contributes to aiding cashless economy. According to the Bloomberg estimate, fintech to contribute $150 billion to Africa's GDP in 2022. In some African markets, fintech penetration exceeds world benchmarks, in recent time.

The fintech revenue hit between $4.5bn and $6bn in 2022 for Africa, and in sub-Saharan Africa, over 30% of the population is adopting fintech. This growth facilitated and increased financial technology investment in the region. Several fintech startups in South Africa, Nigeria, and Kenya are implementing frontier financial innovative ideas. This, has resulted in great success so far. Examples include Jumia pay, flutterwave, google pay, Opay, paga, M-pesa, Momo, yellow card financial, paystack, crypto currencies and many more. Companies in fintech leverage on series of factors such as expansion in network coverage, growth in smartphone users, and fast urbanization.

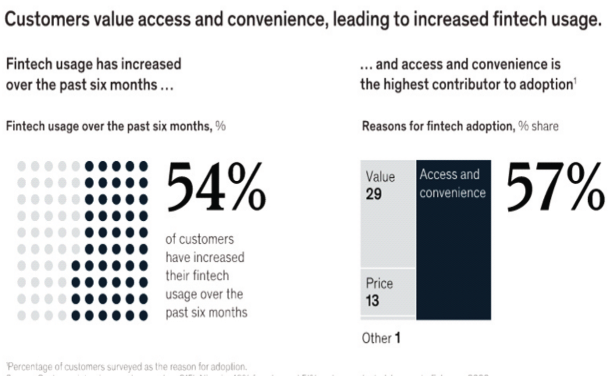
Some African Countries and the Fintech Sector

Fintech is the new trend in the Nigerian financial system. The sector is regulated in Nigeria by the Central Bank of Nigeria and other government commissions and corporations. Like in other African countries, fintech companies are numerous and new start-ups are still springing up. A few of the notable ones are Remita, Piggyvest, Paga, and Momo Agent. In the year 2022, fintech accounted for $439m. And it is projected to increase by 23.69% in the year 2022 because over one-fourth of the 216million Nigerian population is still unbanked. The World Bank enlisted Nigeria

Fintech Revenue Penetration, 2020



Source: McKinsey & Company



McKinsey & Company (2022). Nigerians are increasingly turning to fintech https://www.mckinsey.com/featured-insights/coronavirus-leading-through-the-crisis/charting-the-path-to-the-next-normal/nigerians-are-increasingly-turning-to-fintech as one of the countries with the highest number of unbanked populations. In Nigeria, Remita is the pioneer of fintech companies. Its platform allows NGOs, educational institutions, and small and medium enterprises, amongst others, to make and receive electronic payments. Recently, Remita proposed a new payment innovation called e-Naira e-commerce. The primary focus is to reduce transaction processing time and enhance transaction security. Piggyvest is a rebrand of piggybank.ng. Its uniqueness in Nigeria's fintech is the opportunity the subscribers have to save in bits as it may be convenient either weekly or monthly.

Mobile money (momo) is a product of MTN launched in the fintech space to increase the number of the banked population, especially in rural regions. It offers and scales basic financial services. Its active fintech subscribers increased by 87%, with 2.4m active momo users out of 4.2m registered. Its revenue increased by 27.8% in the second half of 2022 compared to the corresponding period in 2021.

Kenya is a country that is widely known for innovation in the fintech industry. Its innovative response to the local market's demand helped penetration and expansion. There is a massive mobile invasion, with the total number of active sim users to the entire population by 100%, and almost half of them using smartphones. In terms of coverage and performance, non-bank mobile money is the most used mode of payment, even more than banks' mobile payment applications. The outcome of the survey by Bernards (2022) suggest that fintech services in Kenya followed a pattern that can be seen as the fintech boom.

Safaricom's M-pesa is an innovation of Safaricom. Its edge over other competitors (Airtel and Telcom) is that it makes financial services dynamic, accessible, and affordable to everyone that has a mobile phone. Money transfers can be made through text messages. A large population of Kenyans and over 50% of rural dwellers were captured. M-pesa kiosks can be seen in every corner of each area. This increased Kenya's informal sector's financial inclusion as M-

Residency	Total respondents	Number accessing mobile credit (past or present)	Percentage of urban/rural residents accessing mobile credit	Number accessing credit through digital apps (past or present)	Percentage of urban/rural residents accessing credit through digital apps
Urban	3611	621	17.2	411	11.4
Rural	5058	336	6.6	326	6.4
Total	8669	957	11.0	737	8.5

Source: Bernards (2022)

County	Total respondents w/ urban residence	Number accessing credit through mobile money (past or present)	Percentage accessing credit through mobile money	Number accessing credit through digital apps (past or present)	Percentage accessing credit through digital apps
Nairobi	703	191	27.2	63	9.0
Mombasa	231	42	18.2	62	26.8
Kiambu	156	72	46.2	68	43.6
Nairobi Metro/Mombasa* total	**1395**	**349**	**25.0**	**254**	**18.2**
Kisumu	98	15	15.3	1	1.0
Nakuru	98	10	10.2	7	7.1
Uasin Gishu	64	11	17.2	3	4.7
Meru	70	11	15.7	3	4.2
All other urban total**	**2216**	**272**	**12.3**	**157**	**7.1**

Source: Bernards (2022) survey

pesa accounts for close to 70% of the fintech market share. Fintech accounts for about 87% of

the country's GDP, with an expected revenue growth rate of approximately 38% in the year 2023.

Opportunities in Fintech for Africa

The financial technology sector can absorb the large population of the informal and rural populations that are yet unbanked to the financial system. Kenya, where up to 82.9% of population of adult has access to at least one financial product through fintech, is a case in point. Fintech's critical roles in banking the unbanked will support the acceleration of their financial inclusion and put the liquidity into investment. It will further bring ease to subscribers' financial transactions.

In all regions of the world, increased investment is necessary as a catalyst for an economy to thrive. The increased capitalization of fintech industry in Africa will lead to more investment, output growth, and revenue expansion in the continent.

Note that cash is still a major dominator in African transactions. Fintech has the potential to eradicate cash dominance in the region. Many transactions in advanced countries of the world are sealed electronically. This enhances trade and makes it faster and more effective across the globe. Improved fintech has the prospect of expanding African trade within the region and globally.

Lending facilities with low or no interest rates is one of the advantages fintech has over structured financial systems. It has immensely supported small and large-scale businesses. It can further help increase employment opportunities in Africa. Presently, the rural penetration channels engage human resources productively to reach the unbanked population.

The fintech sector has its shortcomings, such as a high rate of insecurity (data breach) and insufficient capital to fund investment, and penetrating the fraction of the population not yet captured by fintech industry. Nonetheless, the opportunities of financial technology still outweigh its drawbacks in Africa.

[7]Nick Bernards (2022). Colonial Financial Infrastructures and Kenya's Uneven Fintech Boom. https://doi.org/10.1111/anti.12810

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TAX INCENTIVES AND FDI INFLOWS INTO NIGERIA'S OIL AND GAS SECTOR

Key developments currently shaping Nigeria's oil and gas sector include the recently enacted Petroleum Industry Act (PIA), and a world transitioning to cleaner, renewable energy sources. The PIA has several built-in tax incentives designed to boost government revenue and engender certainty regarding the regulatory regime. The Act also aims to spur increased investment in the Nigeria's oil and gas sector.

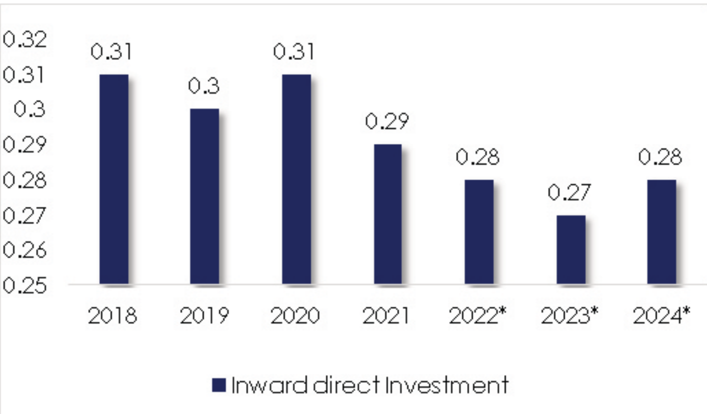
Oil and gas sector in Nigeria accounts for over 80% of foreign exchange and more than 70% of government revenue. Even with its declining contribution to the nation's GDP, the sector holds lots of promise for attracting the much-needed foreign direct investment (FDI) to support Nigeria's steady economic growth. Highlights below show Nigeria's share of global FDI inflow, projected to slid further in 2023 based on the EIU forecast.

Current Applicable Tax Incentives

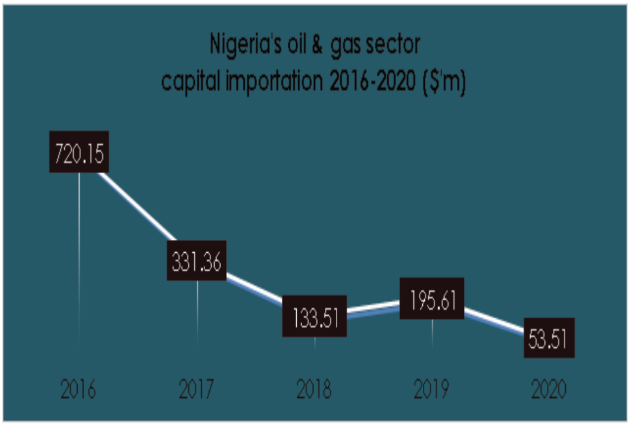
The extant tax incentives under the new PIA include the following:

- Gas utilization incentive for an initial tax-free period of 3 years' subject to renewal for another 2 years where performance of the business is satisfactory
- Tax vacation of up to 10 years for certain categories of investment

The incentives aimed to attract more capital to the oil and gas sector. A review of the sector shows that capital importation into the Nigeria's oil and gas sector as shown in the graphs below persistently decline, with FDI accounting for a low of 9.65% while 49.3% is made up of the FPI.



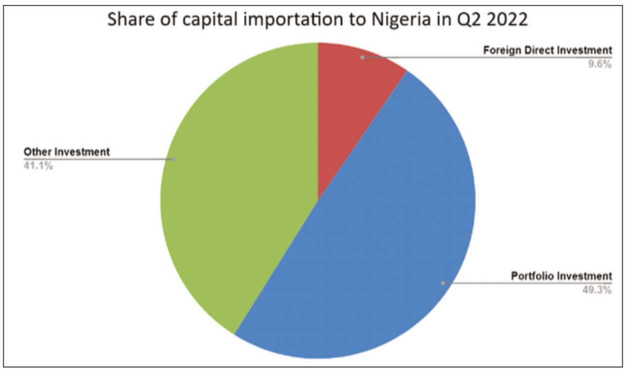
Source: EIU(2022)[1] ; FDC(2022)



Nigeria's Share in Regional FDI inflows

Year	Total FDI Inflow Nigeria ($'bn)	Total FDI Inflow Africa($' bn)	Nigeria's Share (%) in Total FDI inflow to Africa	Total FDI Inflow West Africa($' bn)	Nigeria's Share (%) in Total FDI inflow to Africa
2020	2385	38952	25.54	9340	6.12
2021	4844	8291	34.98	8291	58.42

Source: FDC (2022)[1] ; World Investment Report(2022)[2]



[1]http://country.eiu.com/article.aspx?articleid=248216608&Country=Togo&topic=Economy&subtopic=Forecast&subsubtopic=Policy+trends
[2]https://unctad.org/webflyer/world-investment-report-2022
[3]Timipre Sylva- Minister of State, Petroleum Resources at UNGA meeting in New York Sept. 2022

Tax Incentive Alone Not Enough

The emerging dynamics of the structure of the Nigerian economy indicate that technology start-ups hold a lot of promise for the continuous inflow of capital into the country. Over $1.2bn was raised by the sector, representing 40% of Fintechs capital importation into Africa in 2021. The contribution of the technology sector has been rising steadily over the years accounting for 18.44 % of GDP in Q2, 2022. In a similar vein, diaspora remittances have been growing in importance rising to $19.2bn in 2021 and contributing 6.1% to Nigeria's GDP in Q2, 2022.

Notwithstanding, it is important to mention that the global energy industry is currently in transition towards cleaner renewable energy sources. The Nigerian oil and gas sector cannot be an exception. A shift in emphasis towards more deliberate exploration and use of associated gas, being a cleaner energy resource must be pursued. Given Nigeria's proven gas reserves of over 200 trillion cubic feet (tcf) by some estimates, the country is well positioned to tap the immense opportunities that the growing gas market presents.

The need to improve on the ease of doing business in Nigeria generally, and especially on the security arrangements in the oil-bearing Niger Delta region in particular cannot be over-emphasized. The industry has suffered significant losses due to incessant sabotage activities of militants and illegal oil refiners as part of the bunkering business across the Niger Delta region.

Case Study: Tax Incentives and FDI flows - Lessons from the Vietnamese Experience

Across several developing countries, a positive correlation can be established between tax incentive schemes and foreign direct investments (FDI). However, there is need to weigh the potential benefits against the costs.

Tax incentives taken in isolation without regard to the prevailing market conditions in other oil and gas producing countries could deliver sub-optimal results as the Vietnam experience shows. Given the trade-off relationship between the goal of achieving budgeted revenues and that of maintaining an attractive investment climate in a world of increasingly fungible capital, it is imperative for Nigeria- Africa's largest economy, to undertake a cost- benefit analysis of tax incentives in order to reasonably gauge their potential impact on foreign direct investment and the economy as a whole.

The New Petroleum Industry Act (PIA) 2021 and the Future of Oil and Gas Industry in Nigeria

By far the most ambitious oil and gas sector legislation to date, the PIA 2021 holds much promise for the future of the industry in Nigeria. Even though it is not a silver bullet with all the answers to the nagging issues facing the oil and gas sector in Nigeria, the Act by its very robust nature seeks to address many of the legacy issues that have left Nigeria's oil industry underperforming its potential.

The Act also aims to tackle emerging issues and the changing dynamics of the oil and gas industry across the globe. This represents a bold statement to position the oil and gas industry in Nigeria for global competitiveness, separating the regulator from being an industry player while at the same time engendering more transparency and certainty amongst industry stakeholders.

The Act seeks to establish a progressive fiscal framework for attracting investments into the sector and makes clear the allowable deductions and capital allowance as part of the process to balance risks with reward while enhancing revenues for the government.

Oil producing host communities are also taken into account. The PIA establishes a trust to be financed by an annual contribution of 3% of actual annual operating expenditure of the preceding year of upstream companies.

With proper implementation, the PIA 2021 can easily become the gold standard for natural resource management in Africa.

A Silver Lining on the Horizon?

For too long, successive administrations in the country have paid lip service to the imperative of diversifying the economy away from oil and gas dependency. This has left the economy vulnerable to the frequent external shocks arising from the vicissitudes of the global oil market. With the changing fortunes of oil and gas and a global market keen to wean itself from fossil fuels and transition to cleaner energy with a lower carbon footprint, perhaps now is the auspicious moment for Nigeria to muster the political will required to implement policies and programmes that will shift the focus away from oil and gas, and reap the benefits that will naturally accrue to a

[4] Dennis Amata (2022), "In Q2 2022, Capital Importation into Nigeria Dropped by 2.40%", https://www.dataphyte.com/latest-reports/finance/in-q2-2022-capital-importation-into-nigeria-dropped-by-2-40
[5] AbikeDabiri- The Cable 25/08/2022

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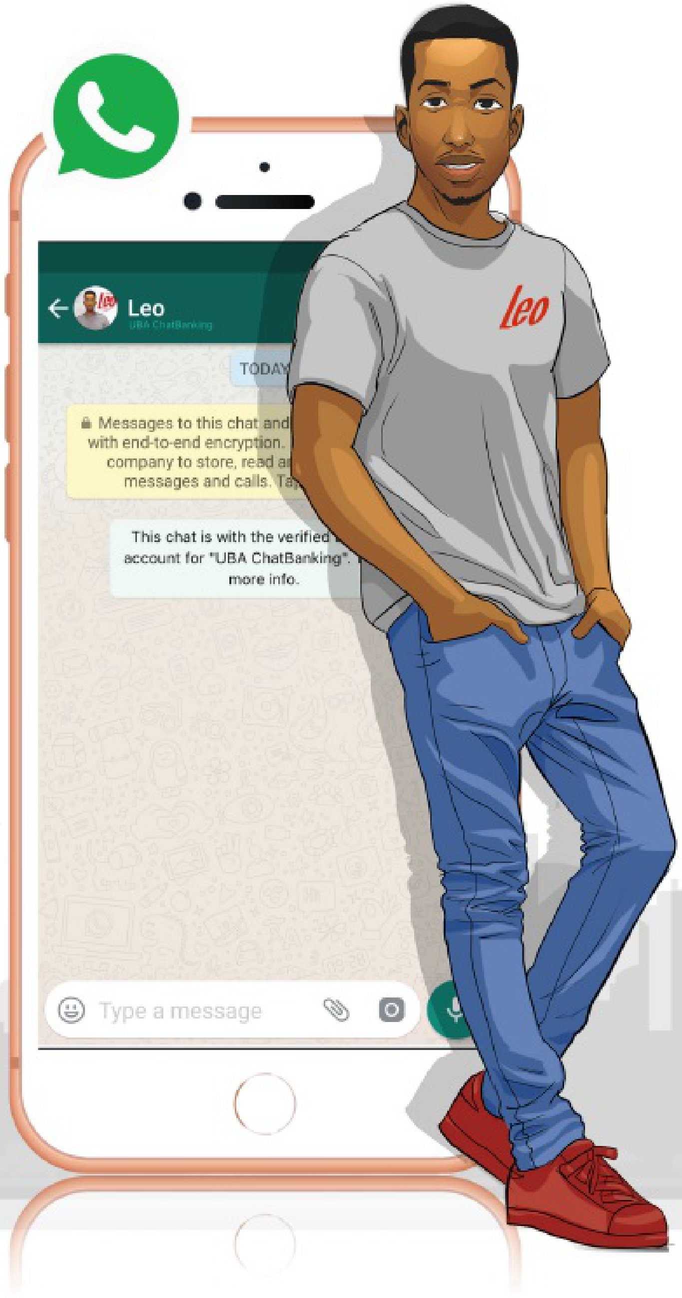

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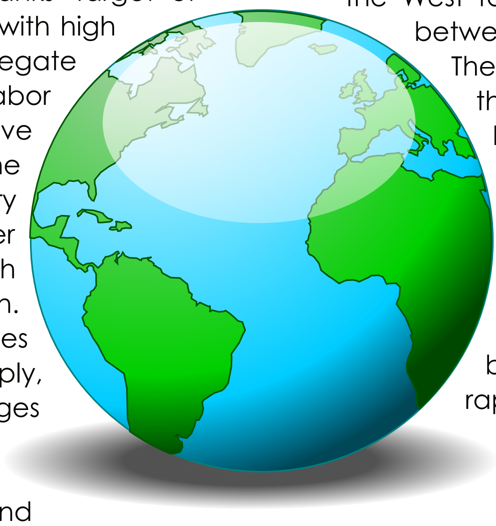
GLOBAL PERSPECTIVE: WE FACE THE MOTHER OF ALL STAGFLATION

-CULLED FROM THE TIME MAGAZINE

Inflation is back, and it is rising sharply, especially over the past year, owing to a mix of both demand and supply factors. This rise in inflation may not be a short-term phenomenon: the Great Moderation of the past three decades may be over, and we may be entering a new era of Great Stagflationary Instability.

Unless you are middle-aged and gray-haired, you probably hadn't heard about the term stagflation until very recently. You may have barely heard about inflation. For a long time, until 2021, inflation-the increase in prices year to year-was below the advanced economies' central banks' target of 2%. Usually, inflation is associated with high economic growth. When aggregate demand for goods, services, and labor is strong, coupled with positive animal spirits, optimism about the future, and possibly loose monetary and fiscal policies, you get stronger than potential economic growth and higher than target inflation. Firms are able to set higher prices because demand outstrips supply, and workers receive higher wages given a low unemployment rate. In recessions, on the other hand, you have low aggregate demand below the potential supply of goods, which leads to a slack in labor and goods markets, with ensuing low inflation or even deflation: prices go down as consumers' spending declines.



Stagflation is a term that refers to high inflation that happens at the same time as stagnation of growth or outright recession. But sometimes the shocks hitting the recession. But sometimes the shocks hitting the economy, rather than coming from changing demand, can come from the supply side: an oil-price shock, say, or a rise in food or other commodity prices. When that happens, energy and production costs rise, contributing to lower growth in countries that import that fuel or food. As a result, you can get a slowdown of growth, or even a recession, while inflation remains high. If the response to this negative supply shock is loose monetary and fiscal policy-banks setting low interest rates to encourage borrowing--to prevent the slowdown in growth, you feed the inflation flames by stimulating rather than cooling demand for goods and labor. Then you end up with persistent stagflation: a recession with high inflation.

IN THE 1970S we had a decade of stagflation as two negative oil shocks and the wrong policy response led to inflation and recession. The first shock was triggered by the oil embargo against the U.S. and the West following the 1973 October War between Israel and the Arab states. The second shock was triggered by the 1979 Islamic revolution in Iran. In both cases a spike in oil prices caused a spike in inflation and a recession in the oil-importing economies of the West.

The inflation was fed by the policy response to the shock because central banks did not rapidly tighten and impose strong monetary and fiscal policy to contain the inflation. So, we ended up with double-digit inflation and a severe recession that doomed the presidencies of Gerald Ford and Jimmy Carter. It took a painful double recession in 1980 and again in 1982 to break the back of inflation when Fed Chairman Paul Volcker raised the interest rates to double-digit levels.

What Will be the Market Consequence of Inflation

Coming after the stagflation of the 1970s and early 1980s, the Great Moderation was characterized by low inflation in advanced economies; relatively stable and robust economic growth, with short and shallow recessions; low and falling bond yields (and thus positive returns on bonds), owing to the

secular fall in inflation; and sharply rising values of risky assets such as U.S. and global equities. This extended period of low inflation is usually explained by central banks' move to credible inflation-targeting policies after the loose monetary policies of the 1970s, and governments' adherence to relatively conservative fiscal policies (with meaningful stimulus coming only during recessions). But more important than demand-side policies were the many positive supply shocks, which increased potential growth and reduced production costs, thus keeping inflation in check.

During the post-Cold War era of hyperglobalization, China, Russia, India, and other emerging-market economies became more integrated in the world economy, supplying it with low-cost goods, services, energy, and commodities. Large-scale migration from the poor Global South to the rich North kept a lid on wages in advanced economies; technological innovations reduced the costs of producing many goods and services; and relative geopolitical stability after the fall of the Iron Curtain allowed for an efficient allocation of production to the least costly locations without worries about investment security.

The Great Moderation started to crack during the 2008 global financial crisis and then finally broke during the 2020 COVID-19 recession. In both cases there were severe recessions and financial stresses, but inflation initially remained low given demand shocks; thus, loose monetary, fiscal, and credit policies prevented deflation from setting in more persistently.

BUT THIS TIME it's different, as inflation has been rising since 2021, and many serious and important questions are now emerging and being debated by economists, policymakers, and investors. What is the nature of the current inflation? How persistent will it be? Is it driven by bad policies--loose monetary and fiscal policies-or bad negative aggregate supply shocks?

Will the attempt of central banks to fight inflation lead to a soft landing or a hard landing? And if the latter, will this be a short and shallow recession or a more severe and protracted one? Will central banks remain committed to fight inflation, or will they blink and wimp out and cause persistent long-term inflation? Is the era of Great Moderation over? And what will be the market consequence of a return to inflation and stagflation?

First question: Will the rise in inflation in most advanced economies be temporary or more persistent? This debate has raged for the past year, but now it is largely settled: "Team Persis-tent" won, and "Team Transitory"_ which included most central banks and fiscal authorities--has now admitted to having been mistaken.

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THE FOURTH QUESTION: Are we in a recession already? In both the U.S. and Europe, forward-looking indicators of economic activity and business and consumer confidence are heading sharply south. The U.S. has already had two consecutive quarters of negative economic growth in the first half of this year, but job creation was ro-bust, so.we weren't yet in a formal recession. But now the labor market is softening, and thus a recession is likely by year's end in the U.S. and other advanced economies.

Now that a hard landing is becoming a baseline for more analysts, a new fourth question is emerging: Will the coming recession be mild and short-lived, or will it be more severe and characterized by deep financial distress? Most of those who have come late and grudgingly to the hard-landing baseline still contend that any recession will be shallow and brief.

They argue that today's financial imbalances are not as severe as those in the run-up to the 2008 global financial crisis, and that the risk of a recession with a severe debt and financial crisis is therefore low. But this view is dangerously naive.

There is a ample reason to believe the next recession will be marked by a severe stagflationary debt crisis. As a share of global GDP, private and public debt levels are much higher today than in the past, having risen from 200% in 1999 to 350% today. Under these conditions, rapid normalization of monetary policy and rising interest rates will drive highly leveraged households, companies, financial institutions, and governments into bankruptcy and default.

When confronting stagflationarv shocks, a central bank must tighten its policy stance even as the economy heads toward a recession. The situation today is thus fundamentally different from the global financial crisis or the early months of the pandemic, when central banks could ease monetary policy aggressively in response to falling aggregate demand and deflationary pressure. The space for fiscal expansion will also be more limited this time, and public debts are becoming unsustainable.

Moreover, because today's higher inflation is a global phenomenon, most central banks are tightening at the same time, thereby increasing the probability of a synchronized global recession. This tightening is already having an effect: bubbles are deflating everywhere-including in public and private equity, real estate, housing, meme stocks, crypto, SPACs, bonds, and credit instruments. Real and financial wealth is falling, and debt and debt-servicing ratios are rising.

Thus, the next crisis will not be like its predecessors. In the 1970s, we had stagflation but no massive debt crises, because debt levels were low. After 2008, we had a debt crisis followed by low inflation or deflation, because the credit crunch had generated a negative demand shock. Today, we face supply shocks in a context of much higher debt levels, implying that we are heading for a combination of 1970s-style stagflation and 2008-style debt crises-that is, a stagflationary debt crisis.

The fifth question is whether a hard landing would weaken central banks' hawkish resolve on inflation. If they stop their policy tightening once a hard landing becomes likely, we can expect a persistent rise in inflation and either economic overheating (above-target inflation and above-potential growth) or stagflation (above-target inflation and a reces-sion), depending on whether demand shocks or supply shocks are dominant.

Indeed, while currently the debate is on soft vs. hard landing and how severe the hard landing will be, that assumes that central banks that are now talking hawkishly will stick to their commitment to return to 2% regardless of whether that policy response leads to a soft or hard landing. Most market analysts seem to think that central banks will remain hawkish, but I am not so sure. There is a chance that central banks will wimp out and blink, and not be willing to fight inflation. In this case the Great Moderation of the past 30 years may be over, and we may enter a new era of Great Inflationary/ Stagflationary Instability fed by negative supply shocks and policymakers--as in the 1970s-being unwilling to fight the rising inflation.

On the demand side, loose and unconventional monetary, fiscal, and credit policies have become not a bug but rather a feature. Between today's surging stocks of private and public debts (as a share of GDP) and the huge unfunded liabilities of pay-as-you-go social-security and health systems, both the private and public sectors face growing financial risks. Central banks are thus locked in a "debt trap": any attempt to normalize monetary policy will cause debt-servicing burdens to spike, leading to massive insolvencies and cascading financial crises.

With governments unable to reduce high debts and deficits by spending less or raising revenues, those that can borrow in their own currency will increasingly resort to the "inflation tax": relying on unexpected price growth to wipe out long-term nominal liabilities at fixed rates.

Early signs of wimping out are already discernible in the UK. Faced with the market reaction to the new government's reckless fiscal stimulus, the Bank of England has launched an emergency quantitative-easing (QE) program to buy up government bonds (the yields on which have spiked).

Monetary policy is increasingly subject to fiscal capture. Central banks will talk tough, but there is good reason to doubt their willingness to do whatever it takes to return inflation to its target rate in a world of excessive debt with risks of an economic and financial crash.

On the supply side, the backlash against hyperglobalization has been gaining momentum, creating opportunities for populist, nativist, and protectionist politicians. Public anger over stark income and wealth inequalities also has been building, leading to more policies to support workers and the "left behind." However well intentioned, these policies are now contributing to a dangerous spiral of wage-price inflation.

Making matters worse, renewed protectionism (from both the left and the right) has restricted trade and the movement of capital. Political tensions, both within and between countries, are driving Political tensions, both within and between countries, are driving a process of reshoring. Political resistance to immigration has curtailed the global movement of people, putting additional upward pressure on wages. National-security and strategic considerations have further restricted flows of technology, data, and information.

This balkanization of the global economy is deeply stagflationary, and it is coinciding with demographic aging, not just in developed countries but also in large emerging economies such as China. Because young people tend to produce and save, whereas older people spend down their savings, this trend also is stagflationary.

The same is true of today's geopolitical turmoil. Russia's war in Ukraine, and the West's response to it, has disrupted the trade of energy, food, fertilizers, industrial metals, and other commodities. The Western decoupling from China is accelerating across all dimensions of trade (goods, services, capital, labor, technology, data, and information). Other strategic rivals to the West may soon add to the havoc. Iran's crossing the nuclear-weapons threshold would likely provoke military strikes by Israel or even the U.S., triggering a massive oil shock.

Now that the U.S. dollar has been fully weaponized for strategic and national-security purposes, its position as the main global reserve currency may begin to decline, and a weaker dollar would of course add to the inflationary pressures. A frictionless world trading system requires a frictionless financial system. But sweeping primary and secondary sanctions against Russia have thrown sand into this well-oiled machine, massively increasing the transaction costs of trade.

On top of it all, climate change, too, is stagflationary. Droughts, heat waves, hurricanes, and other disasters are increasingly disrupting economic activity and threatening harvests (thus driving up food prices). At the same time, demands for decarbonization have led to underinvestment in fossil-fuel capacity before investment in renewables has reached the point where they can make up the difference. Today's large energy-price spikes were inevitable.

Pandemics will also be a persistent threat, lending further momentum to protectionist policies as countries rush to hoard critical supplies of food, medicines, and other essential goods.After 2½ years of COVID-19, we now have monkey pox. Finally, cyberwarfare remains an un-derappreciated threat to economic activity and even public safety. Firms and governments will either face more stagflationary disruptions to production, or they will have to spend a fortune on cybersecurity. Either way, costs will rise.

Thus, as in the 1970s, persistent and repeated negative supply shocks will combine with loose monetary, fiscal, and credit policies to produce stagflation. Moreover, high debt ratios will create the conditions for stagflationary debt crises; i.e., the worst of the 1970s and the worst of the post-global-financial-crisis period.

THAT LEADS to a final question: How will financial markets and asset prices-equities and bonds-perform in an era of rising inflation and return to stagflation? It is likely that both components of any traditional asset portfolio-long-term bonds and U.S. and global equities--will suffer, potentially incurring massive losses. Losses will occur on bond portfolios, as rising inflation increases bond yields and reduces their prices. And inflation is also bad for equities, as rising interest rates hurt the valuation of firms' stock. By 1982, at the peak of the stagflation decade, the price-to-earnings ratio of S&P 500 firms was down to 8; today it is closer to 20.

The risk today is a protracted and more severe bear market. Indeed, for the first time in decades, a 60/40 portfolio of equities and bonds has suffered massive losses in 2022, as bond yields have surged while equities have gone into a bear market. Investors need to find assets that will hedge them against inflation, political and geopolitical risks, and environmental damage: these include short-term government bonds and inflation-indexed bonds, gold and other precious metals, and real estate that is resilient to environmental damage.

The decade ahead may well be astagflationarydebt crisis the likes of which we've never seen before.

SOARING DOLLAR LEAVES FOOD PILED UP IN PORTS AS WORLD HUNGER GROWS

-CULLED FROM THE BLOOMBERG

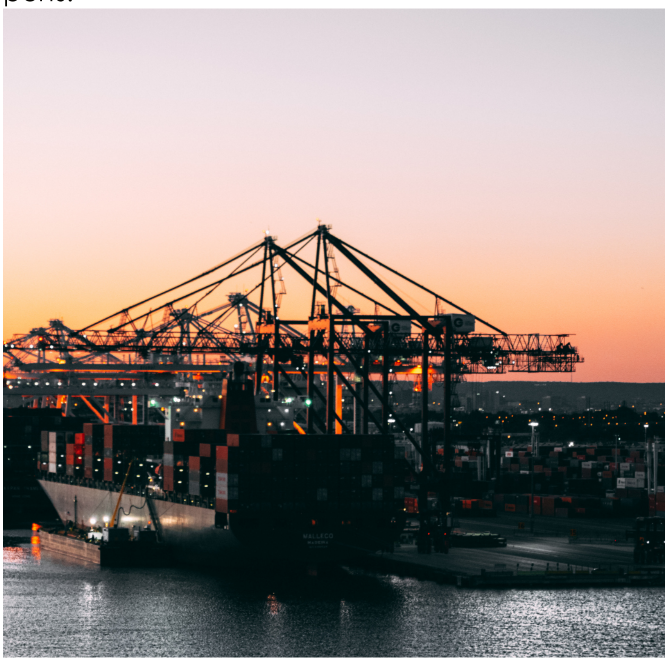
Food importers from Africa to Asia are scrambling for dollars to pay their bills as a surge in the US currency drives prices even higher for countries already facing a historic global food crisis. In Ghana, importers are warning about shortages in the run up to Christmas. Thousands of containers loaded with food recently piled up at ports in Pakistan, while private bakers in Egypt raised bread prices after some flour mills ran out of wheat because it was stranded at customs.

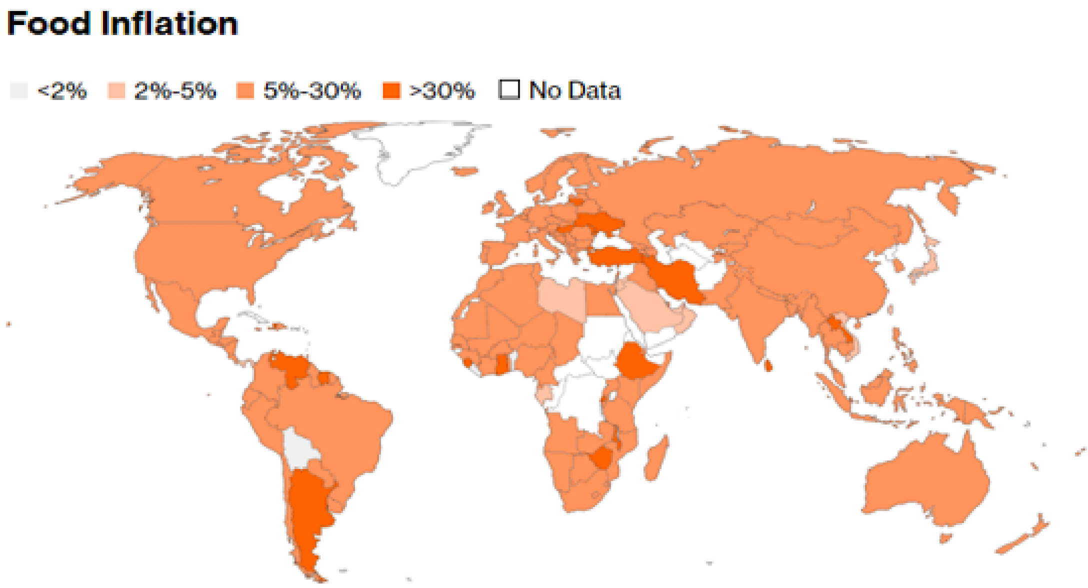
Around the world, countries that rely on food imports are grappling with a destructive combination of high interest rates, a soaring dollar and elevated commodity prices, eroding their power to pay for goods that are typically priced in the greenback. Dwindling foreign-currency reserves in many cases has reduced access to dollars, and banks are slow in releasing payments. “They cannot afford it, they cannot pay for these commodities," said Alex Sanfeliu, world trading head for crop giant Cargill Inc. “It's happening in many parts of the world."

The problem isn't a new one for many of the countries — nor is it limited to agricultural commodities - but the reduced purchasing power and dollar shortages are compounding wider strains across global food systems following Russia's invasion of Ukraine.The International Monetary Fund has warned of a catastrophe at least as severe as the food emergency in 2007-08, US Treasury Secretary Janet Yellen this week called for more food aid for the most vulnerable, while the World Food Programme says the globe is facing its largest food crisis in modern history. On the ground, many importers are struggling with rising costs, shrinking capital and difficulty in obtaining dollars to ensure their shipments are released from customs on time. That means cargoes get stuck at ports or may even be diverted to other destinations.

“There was always a historical strain on making these payments, but at the moment it's unbearable pressure," said Tedd George, a consultantspecializing in Africa and commodities markets.In Ghana, where the cedi has lost about 44% this year against the dollar — making it the second-worst-performing currency in the world — there are already worries about supplies ahead of Christmas. “We think there is going to be a shortage of some food items," said Samson AsakiAwingobit, executive secretary ofGhana's importers and exporters association which includes buyers of grains, flour and rice. “The dollar is swallowing our cedi and we are in a hopeless situation.

"To be sure, some countries may be cushioned by their purchases in other currencies like euros, while energy-exporting nations will profit from overseas revenues. Global food-commodity costs have also fallen for six straight months, giving hopes for a relief to consumers.But the soaring dollar threatens to erode some of that benefit, according to Monika Tothova, an economist at the United Nations' Food and Agriculture Organization, which sees this year's global food import bill at a record high.The situation is still fragile. Concerns are mounting anew over supplies out of the Black Sea region as the war in Ukraine escalates and there are questions over the future of the deal to ship grains out of Ukrainian ports.





Source: World Bank Food Security Update

Weather shocks have driven volatility in recent months, stocks are low and soaring fertilizer and energy prices are boosting food production costs. As the Federal Reserve continues to tighten monetary policy, the dollar's strength versus currencies in emerging and developing markets will add to inflation and debt pressures, the IMF said in its global outlook this week. In flood-ravaged Pakistan, government moves to prevent foreign-exchange outflows meant that containers holding food like chickpeas and other pulses piled up at ports last month, sending prices surging, according to Muzzammil Rauf Chappal, the chairman of the Cereal Association of Pakistan.

The situation eased after the appointment of new finance minister who pledged to clear pending transactions for businesses that have been delayed because of a dollar shortage in its interbank market."The situation was quite dangerous," said Chappal, whose company is the country's biggest private sector wheat importer. "We were expecting the country to face a serious grain crisis. "In Egypt, one of the world's top wheat importers, shortages have plagued private sector mills that supply flour for bread that isn't part of the country's subsidy program.About 80% of millers have run out of wheat and stopped operations as some 700,000 tons of grain remain stuck at the country's ports since the start of last month, according to the Chamber of Cereal Industry. The supply ministry said Wednesday it would provide wheat and flour to private sector mills and pasta factories.

Cargill's Sanfeliu said he expects global wheat trade flow to shrink by as much as 6% in the upcoming months, with corn and soybean meal flows dropping by as much as 3%, as developing countries struggle to pay for food and animal feed.In Bangladesh, business conglomerate Meghna Group of Industries may have to cut the amount of wheat it had planned to import before the war broke out amid at least a 20% jump in wheat import costs due to the stronger dollar, said Taslim Shahriar, the company's procurement official. "Currency fluctuations are creating huge losses for the company," said Shahriar. "We have never seen this before."

GROWING HUNGER, HIGH FOOD PRICES IN AFRICA DON'T HAVE TO BECOME WORSE TRAGEDY - CULLED FROM UNITED NATIONS AFRICA RENEWAL

The cascading global events of the 2020s seems to have no end in sight. The once-in-a-century pandemic (COVID-19) has been followed by the destructive Russian invasion in Ukraine, strong inflationary pressures around the world linked, ominously, to a surge in global food and energy prices.

As the United Nations Secretary-General Antonio Guterres declared recently, we are living the perfect storm caused by the tangled web of food, energy, and financial crises.

This is not the first time the world has faced the threat of massive hunger and starvation following a spike in food prices. In 2007-2008 and in 2010-2011 food prices suddenly increased following a three-decade hiatus when food prices were stable and low.

However, the current shock is of a different magnitude: as the graph below shows, the surge in food prices, reflected in the Food and Agriculture Organization´s Food Price Index, is the highest recorded since 1961 – even higher than the surge in the first half of the 1970s, during the infamous 1973 Oil Crisis.

The cost of food is 42% higher now than 2014-2016.

"To avoid a significant disaster, national governments and the international community must focus on employment and income protection for those groups whose food claims have been negatively affected, via temporary jobs programmes, unemployment insurance or cash transfers. In addition, there needs to be readiness to protect the health and education of members of household under food stress to avoid long-term consequences of the food shock."

To make matters worse, the food price shock comes at a time when food security was already under stress.

In the aftermath of the COVID-19 pandemic, world hunger increased substantially – estimates from the State of Food Security and Nutrition around the World (SOFI) reveal that as many as 161 million people fell into hunger between 2019 and 2020, bringing the world´s total to 811 million people facing food insufficiency. In other words, about one in 10 people in the world went to bed without enough nutrition in the first year of the COVID-19 pandemic.

Africa badly hit

Africa has been particularly vulnerable: about 21% of people on the continent suffered from hunger in 2020, a total of 282 million people. Between 2019 and 2020, in the aftermath of the pandemic, 46 million people became hungry in Africa. No other region on the world presents a higher share of its population suffering from food insecurity.

Also, African households spend a large share of their income on food. According to a recent note in the Financial Times, citing estimates from the IMF, food represents 17% of expenditure in advanced economies, in sub-Saharan Africa the figure is 40%.

"Hunger is a many-headed monster," wrote Jean Drèze and Amartya Sen in their influential 1989 monograph Hunger and Public Action. Drèze and Sen were describing the multiple deprivations (biological, social, and economic) associated with hunger and malnutrition.

The multiplying effects of joint bouts of illness, unemployment, and absence of social protection can push people into long-term poverty and destitution. The causes are equally multifaceted: the current pressures on food systems in Africa derive from multiyear droughts in the Horn and East Africa; a locust swarm; the internal conflict in Ethiopia; flood, drought, conflict and the economic effects of COVID-19 in West Africa; and obviously the international shocks associated with the pandemic and the war in Ukraine.

The stress signals are present, but the challenge of growing hunger in Africa does not need to become a worse tragedy: the world has learned from past experiences, and the sooner national governments and the international community act, the better the results.

Some actions have already been taken – others not taken. For example, food trade has not been severely halted as it was during the 2007-2008 food price spike. This is a good start. However, a complex problem with multiple causes and consequences needs a battery of policies and interventions, many of which have proven effective in the past.

The initial policy response requires the recognition of some principles, famously identified by Amartya Sen: hunger and famine do not only occur when there is less food but when certain groups of society cannot access food, even if food is available.

The ability to access food via trade, production, work, or transfers change in time of crisis, especially for some vulnerable groups. Mr. Sen´s insight is so powerful because it recognizes that issues of hunger, starvation and malnutrition go well beyond food systems and depend on social arrangements (including the markets for food and labour, for instance), the economy, and the functioning of the state and governments.

"The initial policy response requires the recognition of some principles, famously identified by Amartya Sen: hunger and famine do not only occur when there is less food but when certain groups of society cannot access food, even if food is available."

To avoid a significant disaster, national governments and the international community must focus on employment and income protection for those groups whose food claims have been negatively affected, via temporary jobs programmes, unemployment insurance or cash transfers. In addition, there needs to be readiness to protect the health and education of members of household under food stress to avoid long-term consequences of the food shock.

Moreover, stabilization of food prices through support of the local food systems could also be an option – making sure to avoid price controls that would make the matters worse. In the longer term, policies and investments to make local food systems more resistant to climate change and external shocks is key.

The third decade of this millennium has already presented enormous challenges to humanity – pandemics and wars remind us of the biblical horsemen. We do not need the horseman of famine and starvation. We have the policy tools and knowledge to avoid it: the ability of people in Africa (and the world) to access food in times of global food price spikes and local stresses requires decisive action from governments and international organizations.

MACROECONOMIC INDICATORS (OCTOBER 17TH TO 31ST)

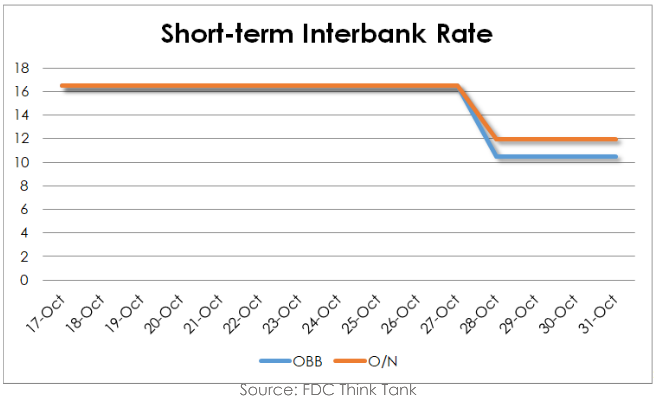
MONEY MARKET

Banks average opening position was N71.15bn within the second half of October (17th -31st). This is 60.43% lower than the average of N179.81bn in the second half of September. This was due to CBN's monetary policy tightening as it continued to mop-up excess liquidity from the system. OMO repayment totalled N29.67bn during the review period while no OMO sales were made. Short-term interbank rates mirrored the liquidity tightness as open buy back rate averaged 15.54% within the review period, a 163bps increase from the average of 13.91%p.a in the second half of September.

Two primary market auctions were conducted in the second half of October. A total sum of N217.06bn was allotted. This is 46.87% lower than the total sum of N408.52bn allotted in the same period in September. Primary market rates increased across all the three maturities at an average of 56bps. However, secondary market yields were unchanged from their levels at the beginning of the review period.

Outlook and Implication

The CBN is expected to continue mopping up excess liquidity in response to its monetary tightening policy. 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 could increase default risk, raising impairment cost for financial institutions.



Source: FDC Think Tank

Tenor	Primary market (October 18th 2022) (%)	Primary market (October 26th 2022) (%)	Secondary market (October 17th 2022) (%)	Secondary market (October 31st 2022) (%)
91-day	6.47	6.50 ▲	10.00	10.00 ↔
182-day	7.90	8.05 ▲	6.62	6.62 ↔
364-day	13.00	14.50 ▲	8.26	8.26 ↔

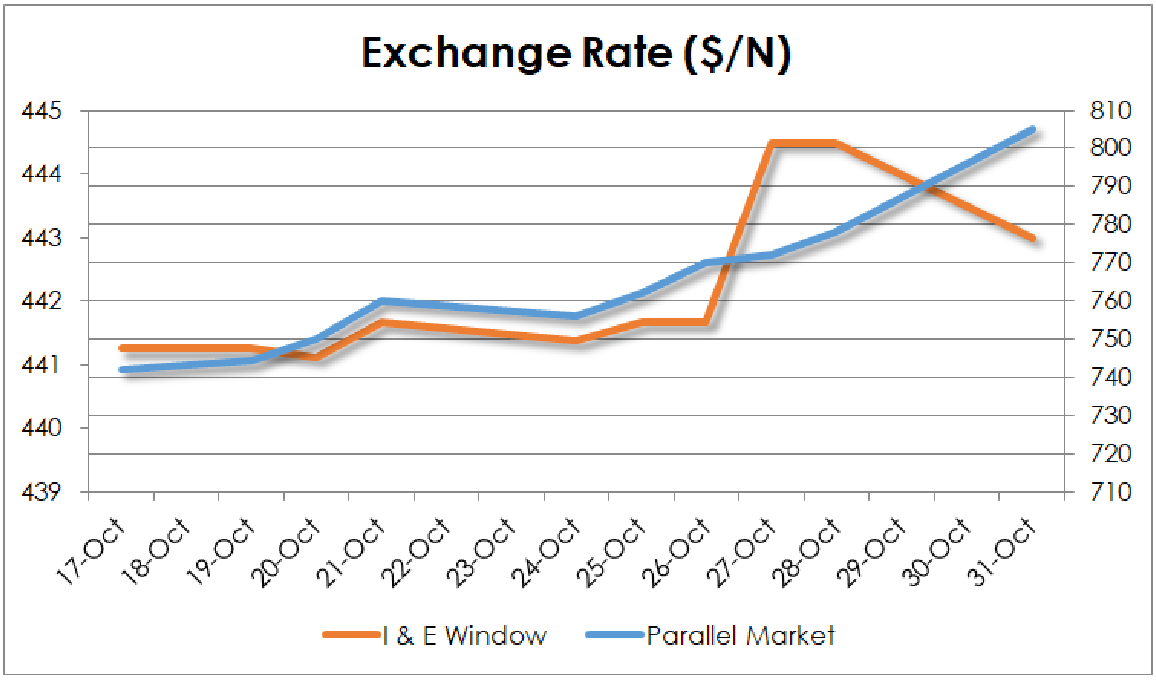
Source: FMDQ, FDC Think Tank

FOREX MARKET

The Nigerian forex market is segmented with multiple exchange rates. The official market is the Investors and Exporters window (IEFX). The exporters and investors use this window, while the CBN intervenes to stabilize the currency. It serves as 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. Due to the wide disparity between the IEFX rate and the parallel rate (N413) and low forex supply from CBN, the parallel market has become more efficient for carrying out most foreign transactions.

EXCHANGE RATE

The IEFX rate traded within the band of N441.13/$ - N444.5/$ within the review period. The demand pressure on the naira aggravated at the parallel market as the announcement of the redesigning program spurred panic buying and high speculation. Naira fell by 8.49% from N742/$ at the beginning of the review period (Oct 17th) to N805/$ on Oct 31st.



Source: FDC Think Tank

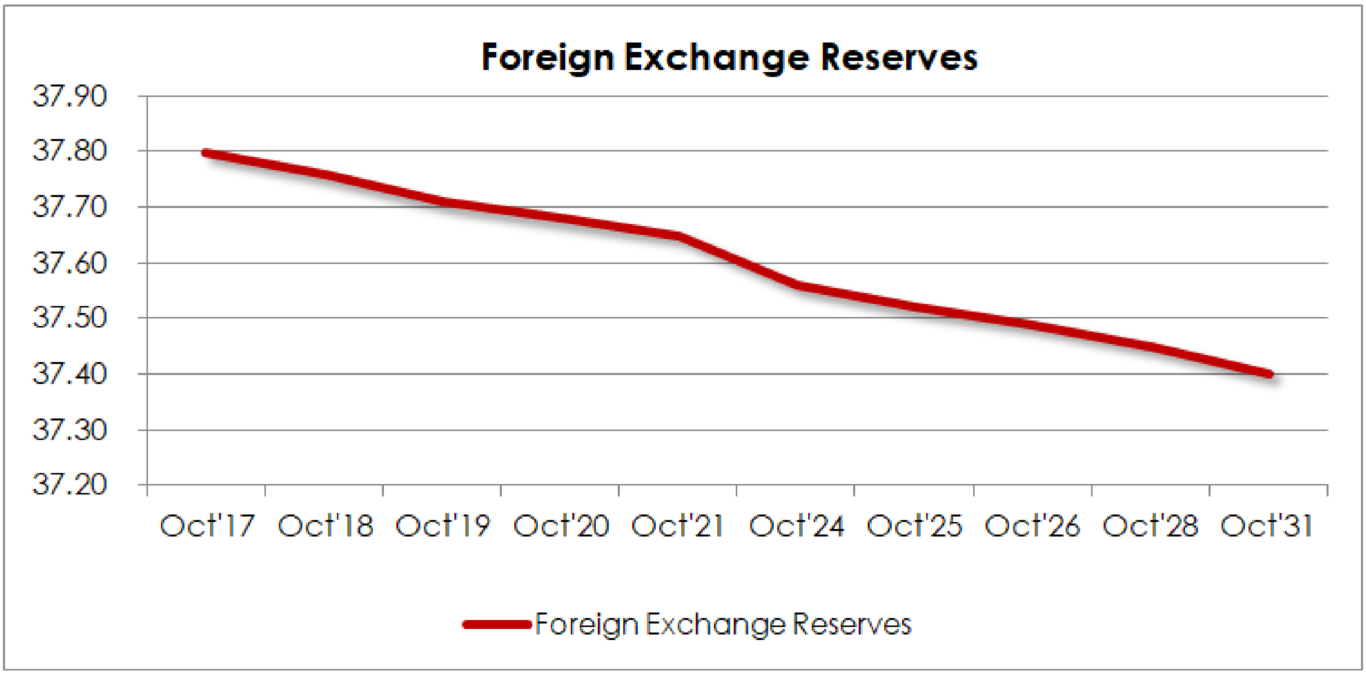
Outlook

The naira will remain under pressure at the parallel market due to low forex supply and arbitrage on the naira. Likely to fall towards N900/$ on the short term. The IEFX rate is expected to trade around N442/$ - N445/$.

[17]Source: FDC Think Tank

EXTERNAL RESERVE

The external reserves fell consecutively within the review period. It lost 1.06% ($400mn), closing the review period at $37.40bn (Oct 31st) from $37.80bn at the beginning of the period (Oct 17th). The decline was due to the fall in oil price and the country's sub-optimal production.



Source: CBN, FDC Think Tank

Outlook

The depletion on the external reserves is expected to continue on the short-term as oil price falls.

Implication

This will limit CBN's ability to defend the naira which will increase forex rationing, which will further widen the gap between the IEFX rate and the parallel rate through increased demand pressure at the parallel market.

18

COMMODITIES

EXPORTS

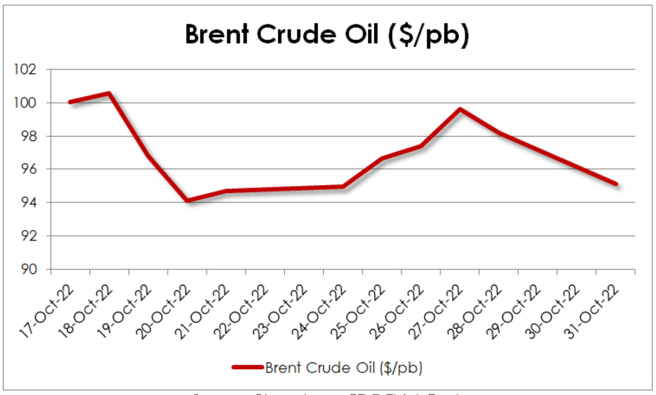
Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

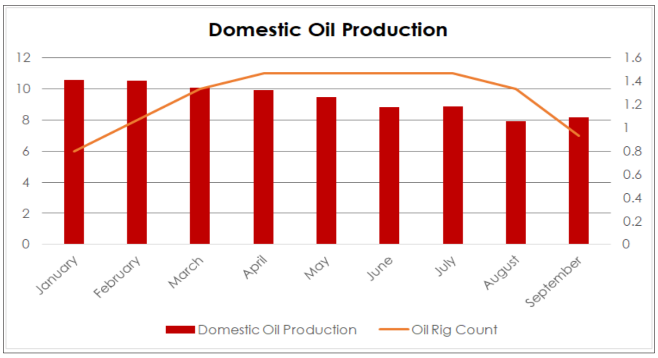
The price of oil traded below $100pb throughout the review period despite the tightness in supply following OPEC's supply cuts. During the review period, it touched a high of $96.96pb on supply tightness before settling to close the period at $92.81pb on recession fears. On the average, oil price rose by 5.17% to $93.45pb in the second half of October from $88.86pb in the second half of September.

OIL PRODUCTION

OPEC+ average oil production rose marginally by 0.02% (146,000bpd) to 29.77mbpd in September from 29.31mbpd in August. Oil production increased majorly in Saudi Arabia, Nigeria, Libya and the UAE, while it declined in Iraq, Venezuela and IR Iran. Nigeria's average oil production increased by 2.84% (310,000bpd) to 1.09mbpd in September from 1.06mbpd in August. Its oil rig count however fell by three points to seven points.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

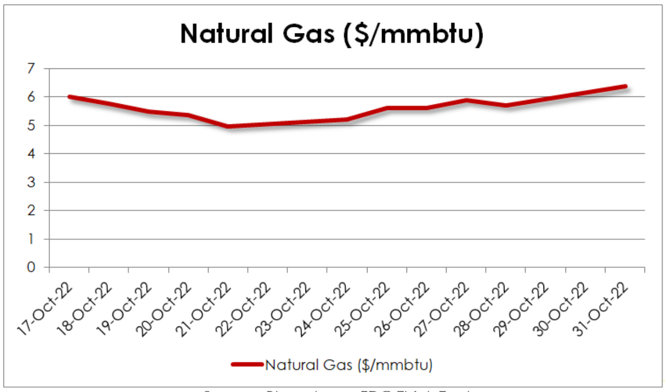
Oil price will remain below the $100pb threshold as US fed multiple rate hikes heightens recession fears. The OPEC+ is likely to cut supply further in its next meeting in the bid to influence oil price. Nigeria's oil production is expected to increase slightly due to the re-opening of the western Niger Delta oil pipeline which is expected to add 300,000bpd to the country's oil stream.

Impact

The increase in the country's oil production will boost its export earnings as well as its external reserves. This could help the CBN increase liquidity in the foreign exchange market while stabilizing the currency.

NATURAL GAS

The price of gas touched a low of $4.69/mmbtu within the review period on lower weather driven demand and bigger than expected US storage build before rising to close the review period (Oct 31st) at 6.35/mmbtu on slow-down of the US inventory. On the average, the price of gas fell by 21.35% to $5.62/mmbtu in the second half of October from the average of $7.15/mmbtu in the second half of September. The strong US gas inventory drove investors' sentiments for most of the period.



Source: Bloomberg, FDC Think Tank

Outlook

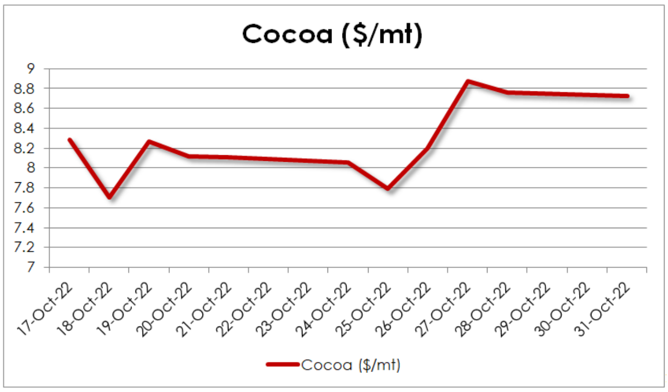
US gas price is likely to remain low due to mild weather forecast in the US which is likely to ease demand in the short term.

Implication

The decline in gas price will result in lower foreign exchange earnings for Nigeria, which will lead to the fall in its fiscal revenue and could limit growth on the external reserves.

COCOA

The price of cocoa was relatively stable within the review period due to cocoa main-crop harvest in major producing countries (Ivory Coast, Ghana and Nigeria). Cocoa price traded within the band of $2278/mt - $2377/mt. On the average, the price of cocoa fell slightly by 0.61% to $2310/mt in the second half of October from $2324.27/mt in the corresponding period in September. However, supplies from Nigeria have remained sub-optimal due to the extended rainfall in its producing states (Ondo, Cross River, Ogun, Akwa Ibom, Ekiti, Delta, Osun and Oyo) which has limited farmers' ability to properly dry their cocoa beans. This has resulted in higher domestic prices in some growing regions. The price of cocoa rose in Edo state and fell in Cross river state in October.



Source: Bloomberg, FDC Think Tank

Outlook

The global price cocoa price is expected to remain low due to main crop harvest period in producing countries like Ghana, Ivory Coast and Nigeria. However, the extended rainfall in Nigeria will limit supply as it struggles to properly dry its cocoa beans. Its main-crop harvest is expected to extend to March 2023 as a result of this.

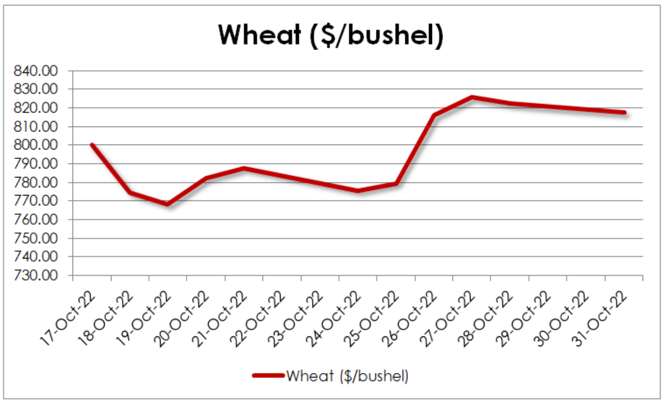
Implication

Low cocoa price will lead to a decline in the country's foreign exchange earnings. This will also result in a fall in the income of cocoa farmers.

COMMODITIES
IMPORTS

WHEAT

The price of wheat was relatively stable in the second half of October due to recession fears. It traded within the band of $829.25/bushel - $850.75/ bushel. On the average, the price of wheat fell by 4.08% to $847.59/bushel within the review period (Oct 17th -31st) from $883.64/bushel in the corresponding period in September.



Source: Bloomberg, FDC Think Tank

Outlook

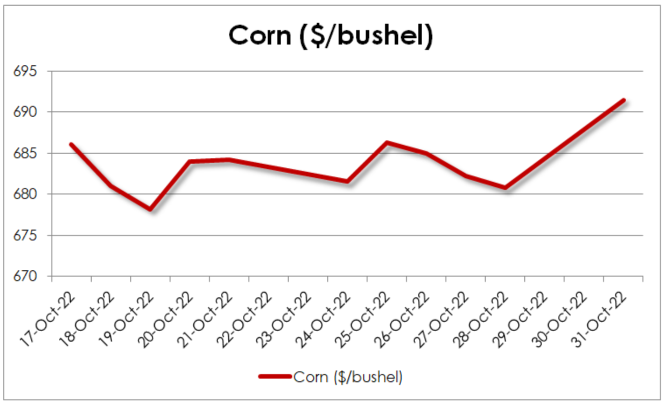
Concerns on demand due to recession fears are expected to keep the price of wheat low in the short term. This will be further supported by improved supply due to the resumption of the Ukraine Black sea ports where vessels of grains are carried through to other countries.

Implication

While the fall in wheat price is expected to lower the domestic price of wheat, the depreciation of the naira is likely to pose a downside risk. This will result in raising inflation risk as food processing industries pass increased cost to consumers in form of higher prices.

CORN

The price of corn traded within the range of $678.25/bushel - $691.5/bushel within the review period. It averaged $683.7/bushel, up 0.92% from the average of $677.5/bushel in the second half of September. This was due to the dry weather conditions in the US, who is a top producer of corn, which has resulted in lower than expected yields from farmlands.



Source: Bloomberg, FDC Think Tank

Outlook

Corn price are likely to remain high in the short term due to the persisting dry weather conditions in the US, who is a top producer of corn.

Implication

The increase in the price of corn will raise the country's import bill as well as increase production cost for food processing industry and poultry industry

SUGAR

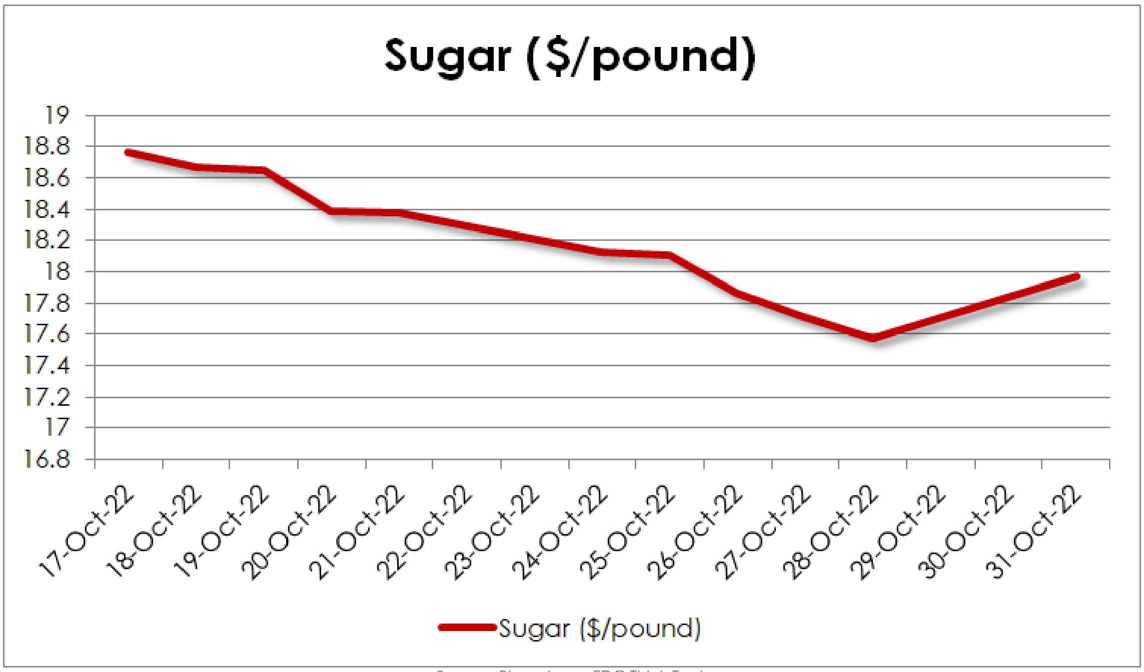
The price of sugar fell consecutively from $18.77/ pounds at the beginning of the review period to $17.57/pounds in October 28th, before rising slightly to close the review period (Oct 31st) at $17.97/ pounds. However, prices were relatively higher when compared to the second half of September. This was due to tight supplies following the diversion of sugar canes to biofuel production. On the average, the price of corn rose by 2.52% to $18.20/ pound in the second half of October from $17.75/ pounds in the second half of September.

Outlook

The price of sugar is likely to remain high in the short-term due to tight supplies from major producing countries (India & Brazil) as both countries increase biofuel production with sugar canes.

Implication

High sugar price will stoke the country's import bill while worsening its balance of trade. It will also result in increased production cost for confectioners.



Source: Bloomberg, FDC Think Tank

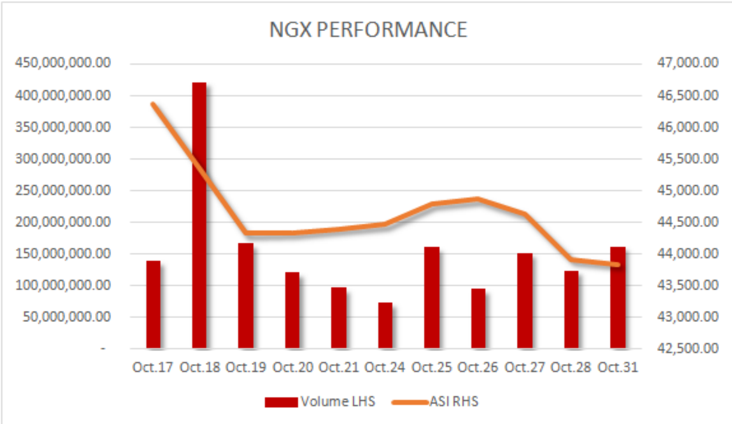
Terms of Trade

The country's terms of trade is expected to be negative as the price of its exports lessen in contrast to that of its imports.

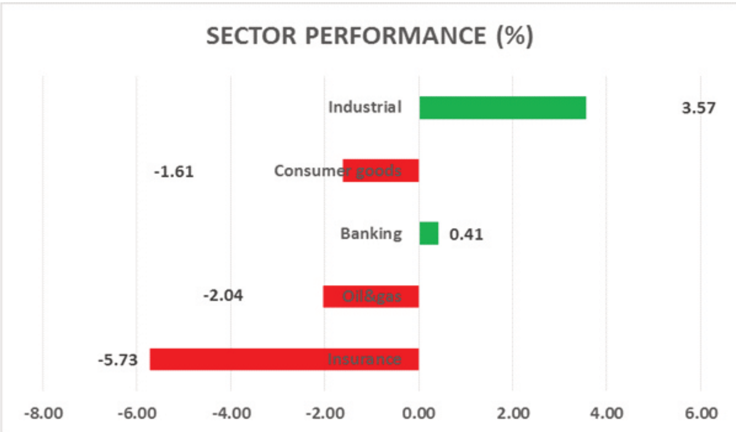
[25]Source: Bloomberg, FDC Think Tank

STOCK MARKET REVIEW OCT 17TH -31ST

The NGX closed on a negative note from October 17th – 31st. It lost 7.84% to close at 43,839.08 points on October 31st from 47,569.04 points on October 14th. Also, the market capitalization decreased by 7.83% to N23.88trn relative to its close of N25.91trn on October 14th. The market YTD return decreased to 2.63% from 11.36% in the review period. The market breadth was negative at 0.80x as 33 stocks gained, 83 stocks remained unchanged while 41 lost.



Market activity level was positive in the review period. The average volume traded increased by 1.36% to 154.36mn units from 152.27mn. Similarly, the average value of trades rose by 70.11% to N3.13bn from N1.84bn in the review period.



The performance of the sectors was negative in the review period, as three sectors lost while two gained. The insurance sector recorded the highest loss (-5.73%). This was followed by the oil and gas sector (-2.04%) and the consumer goods sector (-1.61%).

Meanwhile, the industrial sector gained 3.57% and was followed by the banking sector (0.41%).

TOP 5 GAINERS

Bua Cement Plc topped the gainers' list with a 23.89% increase in its share price. This was followed by Fidelity Bank Plc (21.74%), University Press Plc (19.33%), FTN Cocoa Processors Plc (11.11%) and Red Star Express Plc (9.72%).

Company	Oct-14 (N)	Oct- 31 (N)	Absolute Change	Change (%)
BUACEMENT	56.5	70	13.50	23.89
FIDELITYBK	3.45	4.2	0.75	21.74
UPL	1.5	1.79	0.29	19.33
FTNCOCOA [RST]	0.27	0.3	0.03	11.11
REDSTAREX	2.16	2.37	0.21	9.72

TOP 5 LOSERS

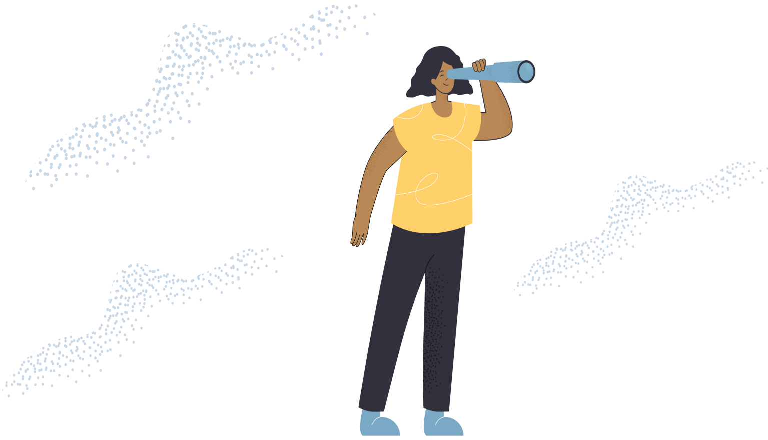
The laggards were led by Airtel Africa Plc (-29.17%), Ikeja Hotel Plc (-18.55%), Nem Insurance Plc (-18.53%), Royal Exchange Plc (-18.48%) and Linkage Assurance Plc (-17.02%).

Company	Oct-14 (N)	Oct-31 (N)	Absolute Change	Change (%)
AIRTELAFRI	1800	1275	-525.00	-29.17
IKEJAHOTEL	1.24	1.01	-0.23	-18.55
NEM	4.91	4	-0.91	-18.53
ROYALEX	0.92	0.75	-0.17	-18.48
LINKASSURE	0.47	0.39	-0.08	-17.02

Outlook

Market performance in the second half of the month was largely impacted by the fall in the share price of Airtel Africa (-29.17%) which has a large capitalization (over 19%) of the total market capitalization. Investor sentiment has also been negative fueled by the 17-year high inflation, currency woes and uncertainties surrounding the 2023 election. We anticipate a sustained bearish performance in the market given these factors.

OUTLOOK FOR NEXT MONTH



Outlook

The MPC is likely to maintain the monetary policy rate at 15.5% in its upcoming meeting on November 21 & 22. However, the CBN will continue to mop-up excess liquidity from the system in line with its monetary policy tightening. This will keep short-term interest rates elevated, while borrowing cost spikes. The price of oil is expected to remain below $100bp as recession fears outweighs supply tightness. This will limit growth on the country's external reserves and could lead to a negative balance of trade. The parallel market is expected to remain under pressure due to forex rationing from the CBN and high speculation activities. The naira is likely to depreciate further towards N900/$. Higher fixed income yields due to CBN's interest rate hike will continue to attract investors into the fixed income market leading to a fall in stock market capitalization.

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