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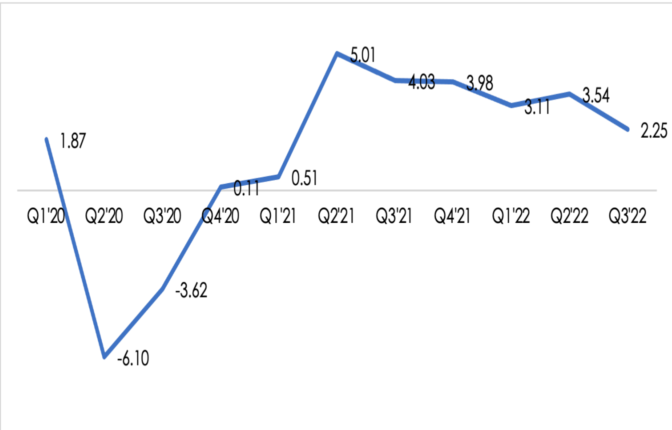
NIGERIA'S ECONOMY SHOWS SLUGGISH GROWTH ON WEAK MACROECONOMIC FUNDAMENTALS

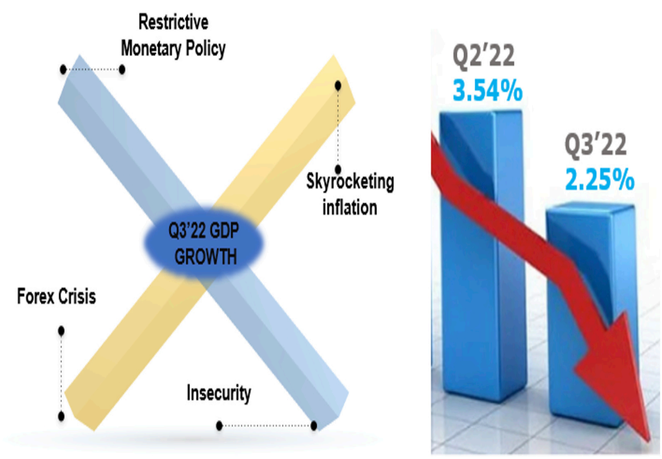
Nigeria's economy is facing increasing vulnerability that could moderate the pace of economic growth for a longer period than expected. The Q3'22 GDP growth rate slowed to 2.25% from 3.54% in Q2'22. This represents 1.29% decline from Q2'22 results and 1.78% decrease when compared with the 4.03% growth rate recorded in the corresponding quarter in 2021. Although this is the eighth consecutive positive growth since Nigeria exited the pandemic-induced recession of 2020, it is the lowest growth rate since the second quarter of 2021.

Real GDP Growth (%)



There is no doubt that the Nigerian economy is battling several challenges, both from the global and domestic fronts. From a COVID-19 induced recession in 2020, it began a recovery phase with an amazing momentum that saw Nigeria exit recession in the last quarter of 2020. By the end of 2021, the economy grew by 3.6%. It slowed to 3.11% in Q1'22 and later accelerated by 3.54% in Q2'22. However, it does appear that the underlying vulnerabilities are now showing up fiercely with the Q3'22 growth slowing to 2.25%, the lowest in the last 6 quarters.

Factors that are contributing to sluggish growth in Nigeria



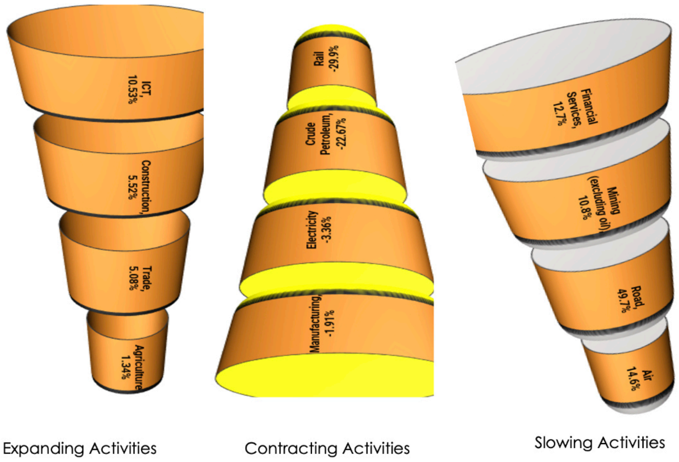
Source: FDC Think Tank

In May, the CBN ditched its loose monetary policy and adopted monetary tightening in a bid to combat inflation and maintain price stability. Nigeria's inflation had risen to 21.1% in October from 15.6% in January. So far in 2022, the CBN had raised interest rate by 500bps to 16.5% and also increased the CRR by 500% to 32.5%. Restrictive monetary policy is typically growth-retarding. It raises the cost of borrowing, thereby constraining both consumer and investment demand. It prompts investors to begin to balance their portfolio in favour of fixed income and this could weigh on the equities market. With lower equity values, and depressed balance sheet, the risk of loan default rises. The resultant rise in bond yield also raises the cost of borrowing, both for the government and corporates. Overall, growth decelerates and aggregate demand declines. Between May, when the first rate hike was announced, and November 25, the stock market has lost 13% of its value.

Nigeria is also facing currency crisis. One of the factors that are causing forex crisis in Nigeria is dwindling forex inflow. Foreign investment inflow has declined to $1.5bn per quarter from $6bn per quarter in 2019. Remittance inflow has also declined relative to its pre-pandemic level. The worst contrast is that Nigeria is yet to benefit from the current oil windfall due to oil theft and rising subsidy payment which the world bank estimates could hit N6trillion Naira by the end of 2022. Year-to-date, external reserves has declined by over 8% to \$37.19% from \$40.5bn in January.

Another critical factor is the multiple exchange rate. One of the problems associated with multiple exchange rates system is that it creates distortions in the economy by altering relative prices, and it gives individuals who have access to preferred rates the chance to engage in rent-seeking activity. It is also an implicit tax on government and this could put a substantial strain on government revenue. In recent time, efforts being made by the government (such as capital controls and rationing) in a bid to sustain the faulty system seems to be creating more distortions. Year-to-date, the Naira has depreciated by over 40% in the autonomous market and this has significantly widened the premium between the official and parallel market rates.

Sectoral Performance: Manufacturing sector slowed for the first time since 2020



Source: NBS, FDC Think Tank

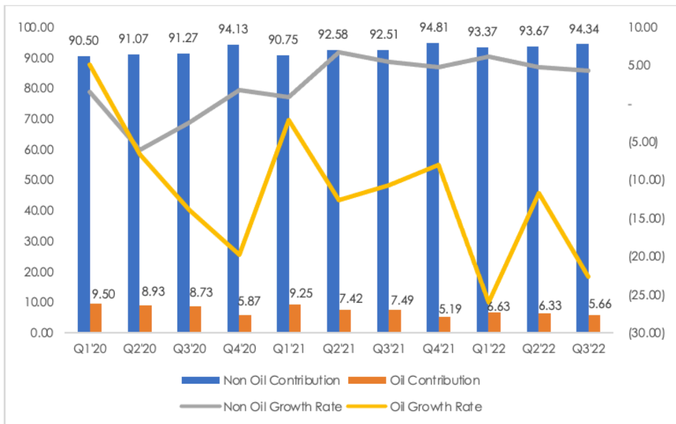
The NBS tracks 46 activities in line with the National System of Accounting (SNA). The economy recorded expansion in 26 activities including ICT (10.5%) Construction (5.5%), Trade (5.1%), Agriculture (1.34%) and several other activities that are mostly job-inelastic. When compared with Q2'22, the following economic activities slowed: financial services (12.0% from 20.1%); mining excluding crude oil (10.8% from 10.9%); road (49.7% from 56.4%) and air (14.6% from 22.5%). The remaining 10 activities including manufacturing sector (-1.91%), crude oil (-22.67%), rail (-29.9%) and electricity (-3.36%) contracted.

It is important to note that the contraction of the manufacturing sector is the first since the first quarter of 2021. The manufacturing sector posted average quarterly growth rate of 3.4% since the end of the COVID-induced recession of 2020. This trend suggests that the output effect of high inflation and restrictive monetary policy is already being felt in the sector. Inflation raises manufacturing costs and operating expenses as well as suppresses sales volume. Interest rate hike is also raising the financing costs of manufacturing firms, making it difficult to finance new investments and plant expansions.

Oil sector contracts for the 10th consecutive time.

The oil sector which accounts for most of the country's foreign exchange earnings also contracted for the 10th consecutive time since Q2'22. On a year-on-year basis, the oil sector shrank by 22.67% in Q3'22, compared to the contraction of 11.77% in the previous quarter. The contraction was on the back of suboptimal oil production levels in Nigeria due to incessant oil theft, pipeline vandalism and production shut-ins. Nigeria has continued to produce below the OPEC production quota (1.83mbpd), capping the gains from high oil prices. The non-oil sector, on the other hand, grew by 4.27%, 0.5% lower than Q2'2022 and 1.18% lower than the corresponding period in the previous year. The positive growth in the non-oil sector was mainly propelled by telecommunication, trade, transportation, finance and insurance, agriculture and real estate.

Oil Sector VS Non-Oil Sector



Source: NBS, FDC Think Tank

Although Nigeria's growth remains positive, the growing fragility and heightening vulnerability are raising concerns for policymakers. There is no doubt that taming inflation may come with the risk of slowing growth. However, the severity of the growth impact of restrictive monetary policy could depend on the overall policy menu of the government. Thus, there is need for both fiscal and monetary responses that will support growth and moderate the effect of tight monetary policy.

MULTIPLE EXCHANGE RATES - BRIDGING THE GAP

Operating a fixed exchange rate system often results in multiple exchange rates, particularly when the fundamentals necessary to support a fixed exchange rate system are weak or absent. These fundamentals include an export-based economy, a consistent and effective monetary and fiscal framework, and a more resilient economy to global shocks. Without these foundational elements, running a fixed exchange rate system becomes extremely challenging as foreign exchange supply falls. This may lead to multiple exchange rates (parallel markets) as controls become rigid. Then, the official exchange rate deviates from its market rate, creating an exchange rate premium. A premium is the outcome of market restrictions which drives the non-official supply and demand of foreign currency. This is what is happening in Nigeria.

Nigeria is a net-importer of non-oil products. In 2020, Nigeria's imports were 16.57% of its GDP compared to its exports of 8.83%. Nigeria's major export revenue is largely derived from the sale of crude oil. Therefore, a decline in the price of oil, which is determined globally, will mean reduced exchange earnings and lower external reserves, making it difficult to defend its currency. Also, Nigeria's monetary and fiscal policies have been ineffective partly due to a delay or wrong timing in policy implementation as well as being politically biased. Given these weak structures, it is almost impossible to operate a fixed exchange rate system in Nigeria.

Problems of Multiple Exchange Rates in Nigeria

According to the World Bank, dual exchange rates create distortions by manipulating relative prices in the economy and encouraging rent-seeking behaviors for those who have access to cheaper rates[1]. Rent-seeking activities are a means of increasing wealth through the manipulation of the allocation of economic resources[2]. Most especially, when the exchange rate premium is wide, it becomes an incentive to rent-seeking behaviors. The gap between the official exchange rate and the parallel market rate (exchange rate premium) is about N434. That's enough incentive for rent seekers in the foreign exchange market. Rent-seeking activities are disruptive to market efficiencies and create pricing disadvantages to market participants. Multiple exchange rates also fuel currency speculation and spur illusive demand pressures, leading to extreme currency volatility. Multiple exchange rates are a disincentive for foreign domestic investors as they are confused as to what the fair value of a country's currency is, especially when there is a wide disparity between its official rate and market rate. According to the International Monetary Fund, countries with multiple exchange rates are usually faced with lower growth and high inflation.

Steps Towards Exchange Rate Unification

Since Nigeria is a net importing country, one of the major steps towards unifying its exchange rates, is the gradual devaluation of its currency towards its fair value; this will attract inflows. For example, on April 21, 2017, the Investors & Exporters window was introduced by the CBN with the aim to boost liquidity in the foreign exchange market while also allowing demand and supply of foreign exchange to determine its rate. The CBN, also intervenes by supplying foreign exchange to the I & E window to stabilize the currency, that is, to protect against adverse movement in the Naira value. The window was designated to execute invisible foreign exchange transactions, like bills for collection, loan repayments, loan interest payments, capital repatriation, etc. International airline ticket sales were excluded while other visible transactions were left to be carried out through the official market.

[1]Marcello Estevao, Michael Gieger, Kevin Carey, Ha Nguyen. 2021."What countries need to consider when dual exchange rates are a problem". World Bank. https://blogs.worldbank.org/allaboutfinance/what-countries-need-consider-when-dual- exchange-rates-are-problem.

Before the introduction of the window, the Naira fell to a low of about N520/$ at the parallel market before appreciating to about N385/$ on the hint that the window was going to be introduced, while the official exchange rate remained at N306.45/$. At the beginning of its operation (April 24th, 2017) the exchange rate at the I & E window, which was N377.11/$ closely reflected the rate at the parallel market (N390.00/$), while there were times when it was almost equal. At the end of 2019, foreign capital importation increased by 96% to $23.99 billion. This was not an official devaluation of the country's currency as the official exchange rate remained fixed at N306.45/$. The official window rate reflected its market price. This boosted inflows and foreign exchange liquidity, with little incentive for rent seeking activities. The currency stabilized around N360/$-N365/$ both in the parallel market and in the I & E window between 2017 and 2019, until the COVID-19 period when oil prices fell due to demand slowdown and dampened investors' confidence. Nigeria's external earnings largely depended on oil and the CBN struggled to supply foreign exchange.

Currency devaluation is aimed at adjusting a country's currency towards its fair value while supporting inflows and at the same time discouraging imports as they become more expensive. It is also meant to thin out the gap between the official and parallel market rates, reducing the exchange rate premium.

However, there are certain policies and reforms that must be channeled along the depreciation path to manage the possible fallout from currency devaluation.

1. The CBN should manage inflation and, depreciation expectations that come through currency speculation by adopting a monetary tightening policy. This means raising its monetary policy rate close to its inflation rate, making the Naira attractive to hold, save and invest in by both domestic and foreign investors.

2. Fiscal policies and reforms must be created to increase the country's competitiveness in the external environment. These involve creating a friendly environment for small scale businesses through public investment in vital infrastructures that will boost productivity and eradicate bottlenecks like high export tariff and customs that affect exporting commodities. China is pursued policies and reforms in an export-led path to growth based on maintaining macro-economic stability, persistent investment growth, a vigorous industrial and technological development, as well as access to domestic credit and, most importantly, ensuring measurable improvements in education. In the 1980s, Chinese exports increased by 5.7%. By 2003, China's export growth rate was seven times greater than the world's overall export growth rate.

3. Maintaining low external debt levels to avoid higher debt burden is another policy reform. Currency devaluation has greater negative impact for countries with high foreign debt. It becomes expensive to service its debt[3].

Conclusion

The elimination of multiple exchange rates in Nigeria will reduce the incentive to carry out arbitrage activities on the currency and will boost the country's external reserves through increased inflows.

[2]Christina Majaski.2021." Rent Seeking" Investopedia. https://www.investopedia.com/terms/r/rentseeking.asp.
[3]Marcello Estevao, Michael Gieger, Kevin Carey, Ha Nguyen. 2021."What countries need to consider when dual exchange rates are a problem". World Bank. https://blogs.worldbank.org/allaboutfinance/what-countries-need-consider-when-dual-exchange-rates-are-problem.

DEFORESTATION AND CLIMATE CHANGE CRISIS IN NIGERIA

According to the United Nations Food and Agricultural Organization, nearly four million hectares of forest are cut down each year in Africa. In 2010, Nigeria had 10.9 million hectares of natural forest, extending over 12% of its land area, but in 2021, it lost 96.5 thousand hectares of natural forest, equivalent to 58.5 Million tonnes(Mt) of CO2 emissions4. Also, in 2005, Nigeria had the world's highest deforestation rate(3.5%), with more than 55.7% of its forest already destroyed by logging, subsistence farming and collection of fuel wood[5]. From 2000 to 2005, the country lost 81% of its old-growth forest, as most of its population largely depended on wood for heating and cooking[6]. Between 2002 and 2020 the Akure-Ofosu Forest Reserve alone lost 44% of its primary trees[7]. This predicament threatens food security.

Poverty

The Global Forest Watch, an open source web which monitors global forests, shows that 5,000 hectares of land in Nigeria was lost to bush burning, shelter and construction purposes in late January of 2022. In addition, animals, such as monkeys, gorillas, and antelopes, are now endangered due to hunting[8]. This number continues to grow as more people roam the forests in search of animals for food and trees for wood. Due to the government's inability to handle the situation, forest lands have become monetized as temporary occupants now pay an annual bribery fee of N10,000 to supposed law enforcement representatives, to have access to the resources of the forest[9].

Furthermore, the subsistence farming practice of poor farmers, who use rain forest resources for their survival, also impact the forests. These farmers have no means to acquire productive lands, which forces them to use slash-and-burn techniques, a method of deforestation that involves the felling of trees and bush burning. The land is cleared with this technique and then crops, like rice, beans, and maize, are planted. After two years of productive harvest, the soil loses its fertility leaving the farmers to dig deeper into the forest for the next land space. The repetition of these acts by hundreds of farmers in various parts of the country contributes to the decline in vegetation[10].

Subsistence farming vs exportation

Subsistence farming used to be a main driver of deforestation, but the trend has shifted as Nigeria considers increasing its lumber exports. Malaysia is also a top deforester with a significant percent of deforestation resulting from agricultural expansion. The demand for palm oil and palm oil products has resulted in the replacement of the natural forest with palm oil trees a, further threatening of Malaysia's biodiversity[11]. In Gambia, on July 1, 2022, the government revoked all wood export licenses to combat illegal logging of rosewood trees, which has driven the rosewood species in Gambia to near extinction.

WHAT IS NIGERIA DOING?

Reforestation

Reforestation requires an immediate response to the growing rate of deforestation in Nigeria. On January 31, 2022, the federal government announced a successful reforestation of 6,191,363 hectares of land through the green bond project implemented by the Forest Research Institute of Nigeria. The institute also added that another 6,550,056 seedlings have been raised and distributed to the state governments and institutions. In addition, the Nigerian Erosion and Watershed Management Project, which is a World Bank funded project, has reclaimed 23,829 hectares of degraded land, with 25,491 households benefitting directly from the project, through increased food production and establishment of new enterprises such as bee keeping[12].

Alternatives to cooking fuel

On September 13, 2022, in a meeting with John Kerry the US Special Presidential Envoy on Climate Change, Vice-President Osinbajo announced Nigeria's Energy Transition Plan, which is the first such plan in Africa. It focuses on exploiting the abundant natural gas reserves in Nigeria to curb deforestation. This is one step in the right direction, as substituting dirty fuels like kerosene and diesel with gas or other alternatives like green charcoal - an eco-friendly alternative that uses agricultural waste and clay soil - will reduce CO2 emissions, and the use of woods as fuel for heating and cooking. Research shows that gas is more concentrated, as 60% of energy generated is transferred to the pot and requires annual usage of 36kg unlike wood which requires 400kg of wood and transfers only 10-20% energy. Moreover, gas is easily turned off, while wood continues to emit choking smoke as it burns[13].

Awareness of impact on human health and climate change

There is little awareness on the effects of deforestation on climate change and human health. Deforestation has negative impacts on the immediate environment and on the global scale, climate change. Somalia's changing climate is largely attributable to deforestation, from 2001 to 2021, Somalia has lost 492,000 hectares of tree cover which is equivalent to 840,000 tons of carbon dioxide emissions.

For a country like Somalia, which is largely dependent on its agricultural sector, due to climate change, about 4.6 million people face acute hunger and malnutrition[14]. This pressure not only affects the environment, but also human health.

According to the World Health Organization, Africa is experiencing higher climate-related health complications, in the past two decades. An analysis, carried out by the WHO, shows that of 2121 public health problems in Africa, 56% of them were caused by climate change. Water-borne diseases from water and air pollution, due to unfiltered air, contributed 46% of the health issues, while yellow fever and Congo-

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[4] Global forest watch. 2021.Primary forest loss in Nigeria. https://www.globalforestwatch.org/dashboards/country/NGA/?category=forest-change&dashboardPrompts=eyJzaG93UHJvbXB0cyI6dHJ1ZSwicHJvbXB0c1ZpZXdlZCI6W10sInNldHRp
[5] Wikipedia. 2022. Deforestation in Nigeria. https://www.fao.org/3/ac918e/ac918e00.pdf
[6] Wikipedia. 2022. Deforestation in Nigeria. https://www.fao.org/3/ac918e/ac918e00.pdf
[7] Mongabay. 2022. What is the link between poverty and deforestation in Nigeria. https://www.weforum.org/agenda/2022/03/deforestation-on-the-rise-as-poverty-soars-in-nigeria/
[8] Global forest watchers. 2022. Primary forest loss in Nigeria. https://www.globalforestwatch.org/dashboards/country/NGA/?category=summary&dashboardPrompts=
[9] Mongabay. 2022. What is the link between poverty and deforestation in Nigeria.
[10] Mongabay. 2022. What is the link between poverty and deforestation in Nigeria
[11] Shevade VS, Loboda TV. Oil palm plantations in Peninsular Malaysia: Determinants and constraints on expansion.2019. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6382120/

Crimean hemorrhagic fever accounted for 28% and 40% respectively[15]. Other health complications include; respiratory failure, skin cancer, heat stress and cardiovascular diseases, as people are exposed to carbon emissions from industries in residential areas, vehicles and charcoal from cooking with wood. The WHO has officially named April 7 as world health day, themed – ‘Our planet, our health’, and is using it as a means to raise awareness on the impact of climate change, a new threat to humanity. In addition to this step, countries have begun educating citizens on climate change and deforestation, in Brazil, through the Reducing Emissions from Deforestation and Degradation (REDD+) strategy, introduced in in 2005, Brazil’s citizens played a crucial role in tackling the Amazon deforestation, by pushing their governments and placing pressure on businesses that contributed to the ongoing deforestation.

In 2006 and 2009, the non-government organizations widely publicized an expose on the impact of the soybean and beans factories on deforestation. Also, research institutes in Brazil, such as IPAM (Instituto de Pesquisa Ambiental da Amazônia)and Imazon, played major roles, by monitoring farmers, loggers, and ranchers, and introducing them to ways to improve productivity, while lowering deforestation. The goal of the REDD+ strategy was to reduce the deforestation rate by 80% by 2020. Between 2005 to 2010, Brazil had accomplished half of its goal. Data from 2009 – 2010, showed that Brazil reduced its area of deforestation by 67% to 6,451km2 from 19,508km2.[16]Furthermore, in 2017, Ghana and Ivory Coast joined the Cocoa and Forest Initiative, along with 35 leading cocoa and chocolate companies, to end deforestation and replant trees. As of 2020, Ivory Coast and Ghana had made progress with this initiative, with Ivory Coast planting over 10 million trees, and developing a satellite system to help monitor forest areas and curb deforestation. Likewise, Ghana rehabilitated 230,000 hectares of forest area, which is equal to 870 football fields.

CONCLUSION

Several countries across the globe, including Nepal, Indonesia, and the Philippines, are facing a sharp rise in deforestation. In Nigeria, the rate of deforestation is alarming. On average, Nigeria has lost 24.10% of its forest over the last five years. Poverty and unemployment are two of the primary causes. Unemployed graduates are frequently trooping through the forests in search of shelter and a source of income, which has resulted in rapid deforestation. High carbon emissions, leading to climate-induced crises such as drought and unusual rainfall, are some of the consequences of deforestation. Nigeria, with its sub-national governments, had once flagged tree-planting projects to cushion deforestation. However, in most states, this has not been widely successful. Therefore, Nigeria should adopt afforestation strategies used in Ghana and the Ivory Coast to replant about three trees for every tree that has been felled and start a sensitization campaign to publicize the grave effect of deforestation on human health. There is no time to wait. Action must begin immediately if we are to turn around the negative consequences of deforestation.

[12]Joseph Erunke. Afforestation. 2022. Vanguard News. https://www.vanguardngr.com/2022/02/afforestation-fg-forests-over-6-million-hectares-of-land-through-green-bond-project-ikeazor/
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[16]Union of Concerned Scientists. Brazil’s success in reducing deforestation. 2011. https://www.ucsusa.org/resources/brazils-success-reducing-deforestation

GLOBAL PERSPECTIVE:
WILL COMMODITIES BE SPARED FROM THE GREAT REVERSION OF 2022?

-CULLED FROM BLOOMBERG INTELLIGENCE

Commodities face pressure as the Federal Reserve intensifies its tightening in the world's largest economy despite deflating financial markets, while an increasingly autocratic leadership threatens growth in China. Though the Bloomberg Commodity Index Total Return was up about 15% in 2022 to the end of October, it may be at greater risk of following a 20% decline by the S&P 500 and copper. It's a question of what might stop the typical process of commodities being their own worst enemy when they spike and strain global GDP, and add incentives for the most central banks in history tightening in a bid to reduce inflation.

In times of stress, commodities often revert toward their costs of production and in the world's largest producer of crude oil and corn — the US — that's about $40 a barrel and $4 a bushel.

Don't fight the Fed, fading global GDP may not spare commodities

The risk of some form of nuclear attack in the Russia-Ukraine war and related supply disruptions are catalysts for grain prices, but central banks intensifying tightening despite the world tilting toward recession is a top headwind for broad commodities. Material prices typically get too cold and help reset economies, but they remain quite warm at the end of October.

Bottom for commodities, China equities elusive

An increasingly autocratic Chinese leadership shifting focus away from growth that had been the greatest demand driver for commodities over two decades is a problem for prices. Add to the mix the most central banks in history hiking rates as stocks, bond markets and global GDP decline, and it's clear commodity-price resistance is becoming more entrenched. Our graphic shows what could augur a bottom: a trough in the MSCI China Index. The Bloomberg Commodity Spot Subindex appears relatively elevated at the end of October vs. slumping equity prices in China (on an auto-scale basis since 2000).

China's sinking equities have joined downward trajectories in the yuan and interest rates, on the back of pandemic-driven lockdowns and a potentially extended property crisis.

What stops commodity price reversion? Not the Fed

There may be little to stop broad commodity prices from reverting lower, especially as Federal Reserve rate-hike expectations continue to rise. The spike in commodities in 1H accelerated the pace of rate hikes, and our graphic shows the recent disparity of the declining Bloomberg Commodity Spot Index (BCOM) vs. the still-rising one-year federal funds future (FF13). About the halfway mark from the 2020 low to 2022 peak may be gaining force as target support as declining stocks, copper and industrial metals weigh on the BCOM. For WTI, an equivalent level may be the 2021 average price of about $68 a barrel vs. about $86 at

Fed Rate Hike Expectations May Follow Commodities

Source: Bloomberg Intelligence

The key question may be what stops downward reversion in most risk assets, notably commodities, and we see a plateau low enough to mute inflation forces and stop central-bank rate hikes.

Reverting commodities may help bottom bonds

If the lone major asset class to rally in 1H — commodities — doesn't continue to revert lower along with the stock market, central-bank tightening may intensify as the world tilts toward recession. This is the state of play at the end of October and we see greater potential for the Bloomberg Commodity Index, at the top of the 2022 scorecard, to trade places with the Bloomberg US Treasury 20+ Index near the bottom. Declining commodities into 2023 may fit better with the Bloomberg Economics recession-probability model at 100% during President Joe Biden's administration and that US yields may have peaked.

Were one to look back at the performance a year from now, commodities might appear as the sore-thumb asset class, which if it didn't drop would suggest the world is more likely to enter an enduring recession.

The energy sector risks following industrial metals

Up about 100% in 2022 at its peak in June, the current gain of 60% in the Bloomberg Energy Subindex Total Return may be at greater risk of following industrial metals down closer to 17% to the end of October. The lose-lose for broad commodities is if the energy sector doesn't drop and help relieve global economic and inflation stress, the most central banks in history intensifying tightening are more likely to stay that course. What's typical is energy and commodities tend to drop with global GDP and help the reset process.

Our key question at the start of November, is what stops this process? Not the Fed. Not the fact that the cost of production in the US, the world's largest producer of crude and corn, is almost double the price. Additional commodity headwinds come from China's increasingly autocratic leadership.

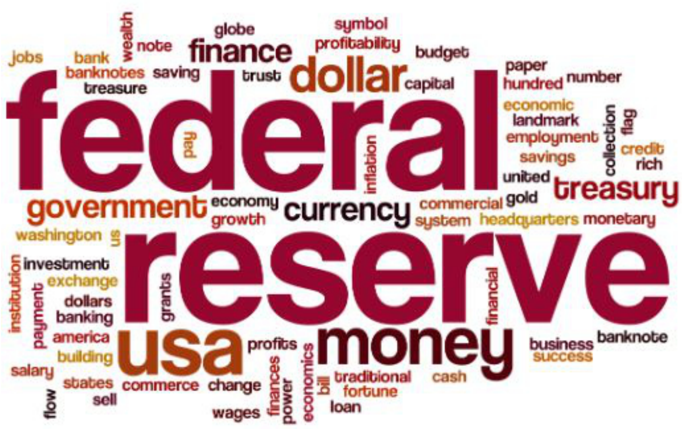
What Stops Commodity Reversion? The Fed, China?

Ticker	%YTD	Chg Oct.	1Yr % Chg	2Yr % Chg
BBG Commodity Index TR	+15.8%	+1.99%	+11.2%	60.0%
WTI Crude Oil	+14.7%	+8.55%	+3.2%	141.0%
Bloomberg Dollar Spot	+13.7%	-.21%	+15.0%	13.8%
Broad Dollar Index	+10.9%	+.15%	+12.5%	11.2%
BBG Commodity Spot Index	+7.4%	+.15%	+2.7%	48.9%
Gold Spot $/Oz	-10.7%	-1.66%	-8.9%	-13.1%
S&P 500 Total Return	-17.7%	+8.05%	-14.7%	22.0%
MSCI WORLD ex USA NR	-22.2%	+5.49%	-22.0%	5.7%
Copper future	-24.4%	-1.05%	-22.7%	10.8%
MSCI Emerging Markets TR	-29.6%	-3.40%	-31.2%	-19.6%
Bloomberg U.S. Treasury 20+ Index	-33.9%	-5.37%	-33.1%	-36.7%
Bitcoin	-56.0%	+4.96%	-66.6%	49.4%

Source: Bloomberg Intelligence

ARE CENTRAL BANKS IN EMERGING MARKETS NOW LESS OF A SLAVE TO THE FED?

-CULLED FROM THE ECONOMISTS



In America and Europe, central banks turned only recently from encouraging economic recovery to battling stubborn inflation. In some emerging markets this shift began much earlier. Brazil's central bank raised interest rates by three-quarters of a percentage point back in March 2021, 15 months before the Federal Reserve did the same. It foresaw that fiscal stimulus in the rich world raised the risk of inflation, which would upset financial markets and complicate life for emerging economies. The governor of Russia's central bank, Elvira Nabiullina, warned over a year ago that the prospect of sustained inflation was likelier "than perceived at first glance". The pandemic had changed spending patterns, she pointed out. No one knew if the shift would last. But that very uncertainty was discouraging firms from investing to meet demand.

These kinds of comments look prudent and prescient in hindsight. Indeed, with some notable exceptions, central banks in emerging markets have won increased respect in recent years. Their monetary-policy frameworks have improved, according to a new index (based on 225 criteria) developed by the imf. Their frameworks are more coherent (their targets serve sensible objectives), transparent (they say what they are doing) and consistent (they do what they say). According to calculations by the World Bank, expectations of inflation in emerging markets in 2005-18 were about as well-anchored as they had been in rich countries in 1990-2004. Inflation also became less sensitive to falls in the exchange rate. Your columnist remembers a sign outside a café in the Malaysian state of Penang in 2015. "Don't worry!" it said. "As our ringgit falls, coffee price remains the same."

More people expected emerging markets to succeed in their fight against inflation, which in turn made success more likely. This enhanced credibility raised enticing possibilities. Perhaps their central banks, like those in the rich world, would not need to worry about each depreciation and every inflation spike. If so, perhaps they could pay less slavish attention to two forces that had bedeviled them in the past: namely, the global price of capital, which is dictated by the Fed, and that of commodities.

When the Fed tightens monetary policy, trouble has often followed for emerging markets. In 2013, for example, Ben Bernanke's talk about reducing (or tapering) the pace of the Fed's bond-buying sparked the "taper tantrum", a big sell-off in Brazil, India, Indonesia, South Africa and Turkey. Things are different in the rich world. When the Fed tightens, central banks in Britain, the euro area and Japan do not feel obliged to raise interest rates. Their currencies may fall. But unless these depreciations look likely to raise inflation persistently above their targets, they are ignored. Likewise, when the price of oil goes up, so does the cost of living. Yet consumer prices need not go on rising, unless people demand higher wages in response, putting further upward pressure on prices in a self-reinforcing spiral. In both cases, central banks can ignore a one-time increase in prices. The more securely inflation expectations are anchored, the more leeway central banks enjoy.

The past year has subjected emerging-market anchors to one severe test after another. Global interest rates have risen in anticipation of a faster pace of tightening in America, as the Fed wrestles with a credibility test of its own. And emerging markets have suffered remorseless increases in the prices of food and fuel, which make up more of their consumers' shopping bills than they do in the rich world. According to the World Bank, food and energy account for over 60% of South Asia's consumer-price index.

Some central banks have been able to "look through" the rise in food and fuel prices. One example is Thailand's central bank, which has done nothing even as inflation has surged. It insists that "medium-term inflation expectations remain anchored," and it wants to make sure the economic recovery gains traction. But other emerging markets, including Mexico and Brazil, felt compelled to raise interest rates forcefully long before their economies fully recovered. They were quicker to respond than their counterparts in mature economies, point out Lucila Bonilla and Gabriel Sterne of Oxford Economics. But "that's partly because they had to be." Much of their tightening had to keep up with a worrying rise in inflation expectations. They have stayed ahead of the curve. But the curve has been brutally steep.

The Fed has been a "somewhat less dominant" force in this emerging-market tightening cycle than in the past, note Andrew Tilton and his colleagues at Goldman Sachs. Fears of a second taper tantrum have not been realised. One reason may be that a lot of footloose foreign capital had already left during the pandemic. Moreover, some of the countries that might otherwise be vulnerable to Fed tightening, especially those in Latin America, are also big commodity exporters that have benefited from higher prices for their wares, point out Ms Bonilla and Mr Sterne.

Following the leader

The Fed, however, is far from finished. And inflation, already rising in emerging markets, may become more sensitive to any falls in domestic currencies. "It's like adding combustible material to a fire," says David Lubin of Citigroup, a bank. A depreciation may not be enough to ignite inflation. But once it is already burning, a weaker exchange rate could make it hotter. A Malaysian café that is already revising its prices to keep up with costlier commodities may be more likely to factor in a weaker ringgit.

Much therefore depends on how far the Fed has to go to restore its anti-inflation credentials and contain price pressures in America. The harder the Fed must work to meet the test of its own credibility; the more trouble emerging markets will face. Their hawkish pivot began much earlier than in America, but it probably cannot end much sooner. This year has reminded emerging markets that for all their progress, they are not yet blessed with fully credible central banks. It has taught America the same lesson.

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MACROECONOMIC INDICATORS (NOVEMBER 16TH TO 30TH)

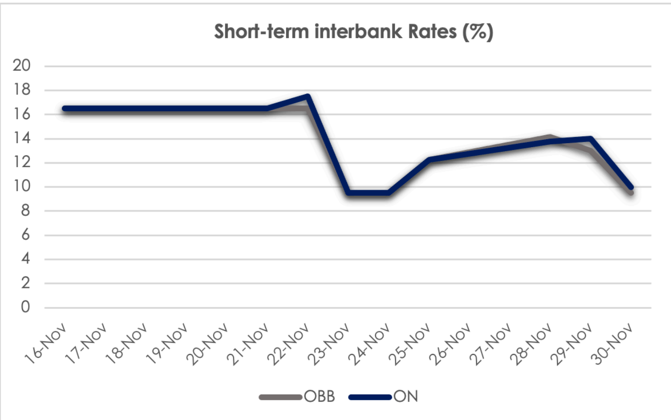
MONEY MARKET

The average opening position of banks rose by 125.43% to a balance of N18.09bn in the second half of November from a negative average value of N117.84bn in the corresponding period in October. The OMO repayment during the period under review stood at N65bn. At the end of November, the short-term interbank rate fell significantly. It averaged 13.67% over the review period. This is 241 bps lower than the average of 15.41% recorded in the corresponding period in October. The decline in the short-term interbank cost of fund is due to the increased money market liquidity.

In the second half of November, one primary market auction was conducted. A total of N213.43 billion was allotted, a decrease of 1.67% from the total allotment of N217.06 billion in the corresponding period in October. Total repayment in the second half of November was approximately N213.43 billion, a decrease of 11.17% from the total of N240.26billion in the second half of October.

Outlook and implication

Short-term interbank rates are expected to rise back in the short term owing to CBN's monetary policy tightening. This will keep interest rates on loan high. This, however, could lead to a default on loans, and high impairment costs for banks.



Source: FDC Think Tank

Tenor	Primary Market (Nov 9, 2022) (%)	Primary Market (Nov 24, 2022) (%)
91-day	6.50	6.50 ↔
182-day	8.05	8.05 ↔
364-day	13.99	14.84 ▲

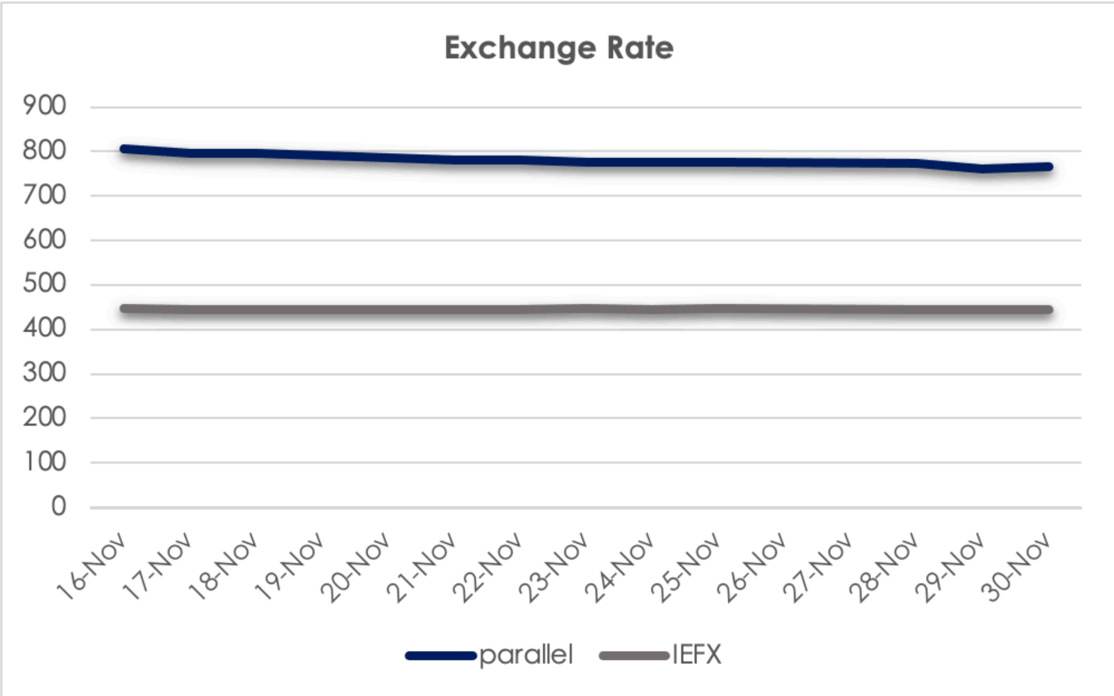
Source: FMDQ, FDC Think Tank

FOREX MARKET

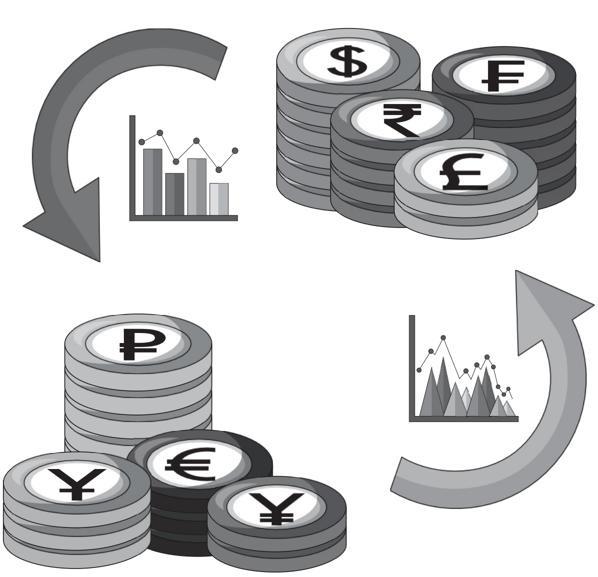
The Nigerian forex market is segmented with multiple exchange rates. The official market is the Investors and Exporters window (IEFX). The exporters and investors use this window, while the CBN intervenes to stabilize the currency. It serves as a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance. Due to forex rationing from the CBN, the parallel market has become more efficient for carrying out most foreign transactions.

EXCHANGE RATE

The exchange rate premium (gap between the IEFX and parallel market rates) fell slightly in the second half of November. The Naira appreciated by 4.97% to close in the second half of November at N765/$ from N805/$ at the parallel market. The IEFX rate traded within a band of N444.7/$-N446.67/$ in the second half of November.



Source: FDC Think Tank



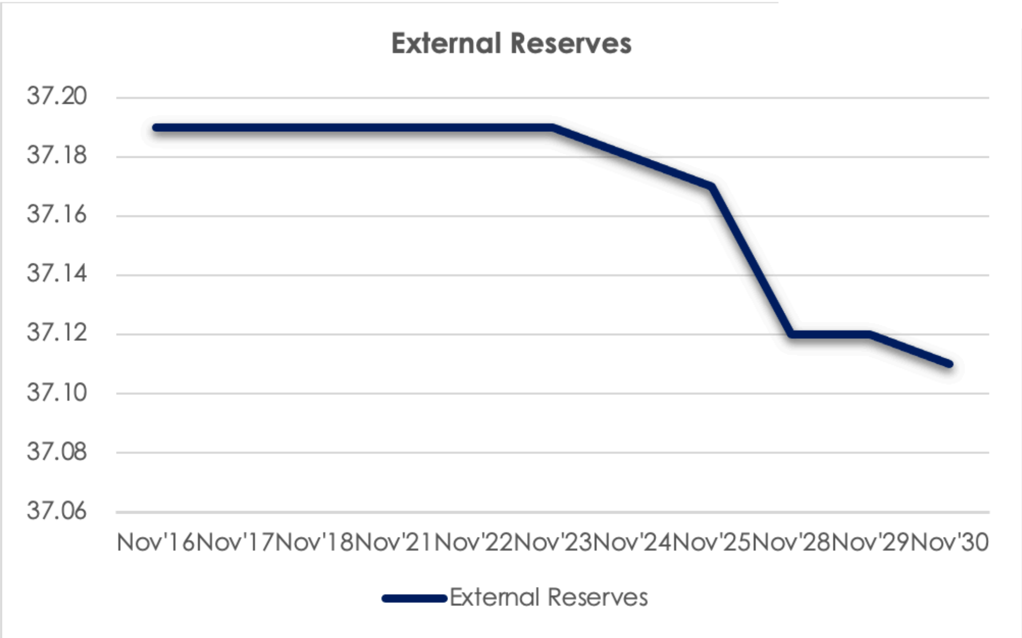
Outlook

The Naira is expected to remain under pressure in the near term due to increased uncertainty and loss of confidence on the Naira which will fuel demand.

[17]Source: FDC Think Tank

EXTERNAL RESERVES

The external reserves fell by $280mn (0.75%) in the second half of November from $37.39bn in the last period of the second half of October. The decline was due to the CBN's continuous intervention in the forex market and sub-optimal oil production earnings.



Source: CBN, FDC Think Tank

Outlook

The external reserve is likely to deplete further in the short term due to limited sources of foreign exchange earnings and continuous forex market intervention by the CBN.

Implication

The fall in external reserves is likely to discourage the CBN from supplying foreign exchange at the forex market. This may adversely affect the Naira's stability over time.

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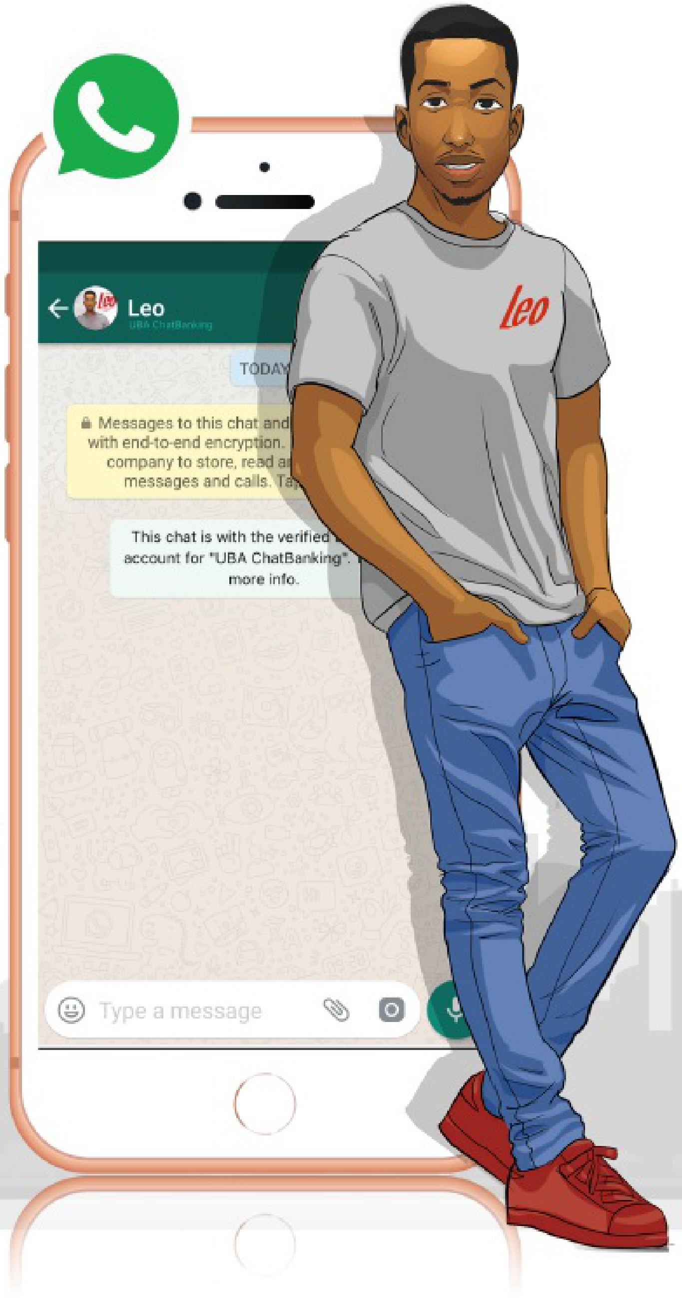

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COMMODITIES

EXPORTS

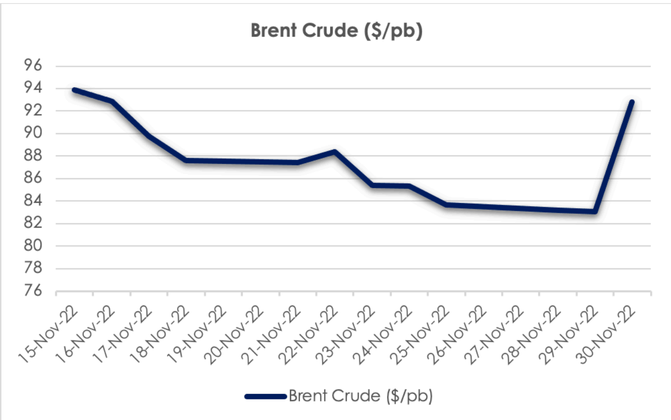
Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

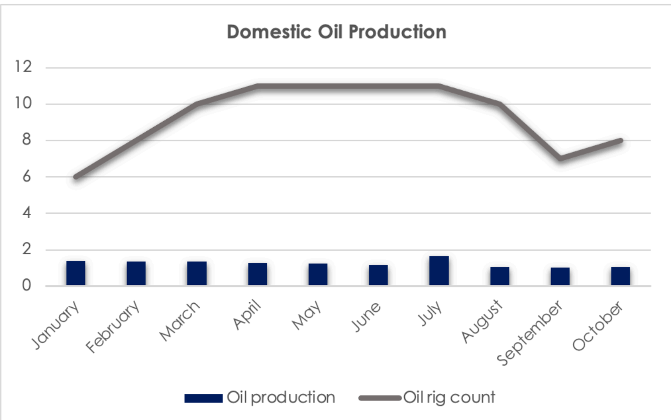
The price of oil lower in the second half of November when compared to the corresponding period in October. The crude oil traded within the range of $83.03/pb - $92.86/pb. On average, the price of Brent crude oil declined by 6.66% to $87.23/bp in the second half of November from $93.45/bp in the corresponding period in October. The declined in the average price of crude oil is due in part to weakening oil demand in China and the strong US dollar which makes demand for oil more expensive.

OIL PRODUCTION

OPEC's average oil production declined marginally by 0.71% to 29.49mb/d in October from 29.70mb/d in September. Oil production lowered majorly in Saudi Arabia and Angola decline while it increased in Nigeria and Iraq. Nigeria's average oil production increased by 2.91% to 1.06mb/d in October from 1.03mb/d in September. Similarly, its oil rig count rose by one point to eight.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

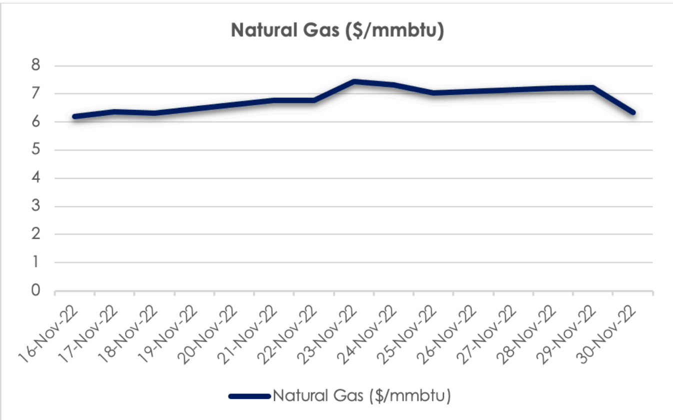
OPEC+ increased its supply cuts for November oil production quota by 2mbpd, up from 1mbpd in October, supporting a tightened supply outlook. This is likely to keep oil prices above $90pb in the short term. Nevertheless, downside risk exists from the zero-covid-19 policy in China (a top importer), geopolitical uncertainties, especially from the Eastern Europe, and weakened global economic activities.

Impact

Higher oil price will increase the country's foreign exchange earnings which could shore up its external reserves. This will in turn enable the CBN to stabilize the currency through improved forex supply. However, downside risk exists from the country's sub-optimal oil production.

NATURAL GAS

The average price of gas was relatively higher in the second half of November when compared to the corresponding period in October. The price of gas averaged $6.82/mmbtu in the second half of November, an increase of 21.35 % from the average of $5.62/mmbtu in October.



Source: Bloomberg, FDC Think Tank

Outlook

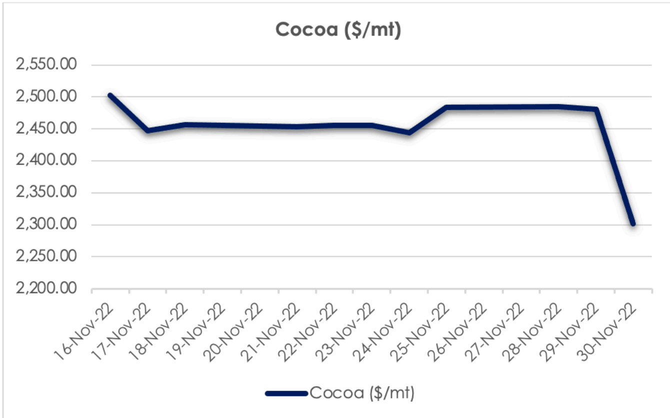
The price of gas is likely to trend upwards due to forecasts of a colder weather in the first period of December that may foster high demand.

Implication

Nigeria's inability to supply importing nations gas after the high incidence of floods amidst crude oil theft and vandalism may restrict its capacity to profit from rising gas prices.

COCOA

The average price of gas was relatively higher in the second half of November when compared to the corresponding period in October. The price of gas averaged $6.82/mmbtu in the second half of November, an increase of 21.35 % from the average of $5.62/mmbtu in October.



Source: Bloomberg, FDC Think Tank

Outlook

Cocoa price is likely to remain low in the short term due bumpy harvest in many cocoa-producing counties.

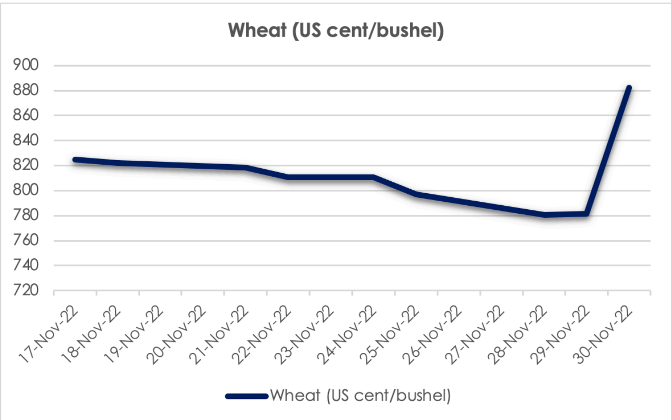
Implication

Cocoa is one of the major non-oil export commodities in Nigeria. A fall in its price will lower the country’s foreign exchange earnings. It could also be a disincentive for local farmers as their income falls.

COMMODITIES
IMPORTS

WHEAT

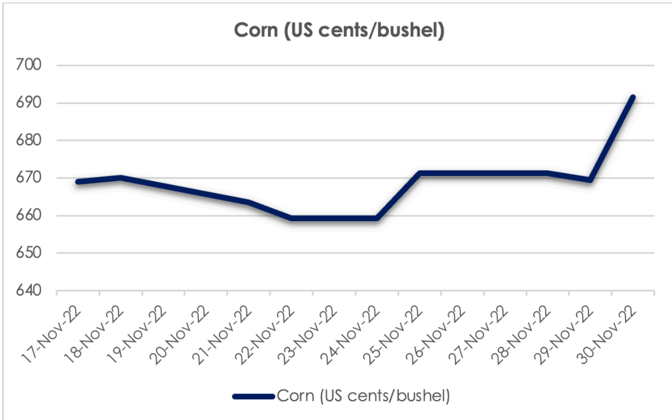
The price of wheat on the average rose to $813.83/ bushel in the second half of November from $803.73/bushel in the same period in October. It reached a low of $780.75/bushel on 28 November before appreciating to close under the review period at $882.25/bushel due to concerns on Russia's decision to suspend the UN-brokered agreement that guaranteed the shipment of grains through the Black sea ports.



Source: Bloomberg, FDC Think Tank

CORN

Corn price recorded a high of $691.5/bushel on the 30th of November on concerns of Russia abandoning the UN-brokered deal. On average, the price of corn slightly dipped to $668.38bn/bushel in the second half of November from the average price of $699.61/bushel in the corresponding period in October.



Source: Bloomberg, FDC Think Tank

Outlook and Implication

Wheat price is likely to remain within the range of $830/bushel - $895/bushel. The improved supply following Russia's agreement to resume the UN- brokered deal and increased output in Australia and Kazakhstan (major wheat producer) is expected to stabilize wheat prices.

Outlook

Corn prices are expected to decline marginal in the coming months due to Russia's agreement to resume the UN-brokered deal. The recession fears will also mute spike in corn prices.

Implication

Lower grain prices are expected to moderate the country's import bill as well as reduce the cost of production for food processing industries. However, upside risk to inflation still exists from Naira depreciation and the increase in the price of other baking items.

SUGAR

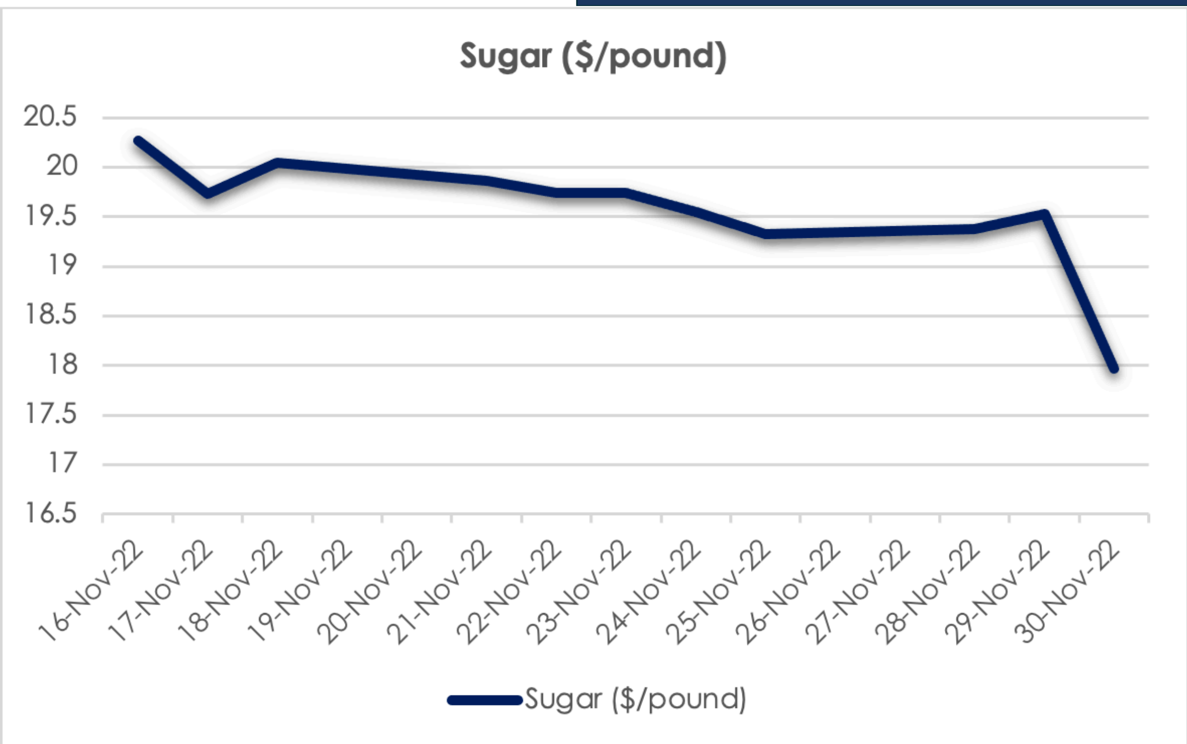
The price of sugar maintained a downward trend throughout the second half of November. The price of sugar fell from $20.27/pound on November 16th to $17.97/pound on November 30. This decline was despite falling output in Brazil, the largest sugar exporter globally. Sugar price averaged $19.56/pound in the second half of November, 7.47% higher than the average of $18.20/pound in the second half of October.

Outlook

The price of sugar is expected to rise as a result of supply disruption in top producing countries, especially Brazil and India. However, a sustained fall in oil price could moderate the demand or sugar and thus reduce pressure of its price.

Implication

High price of sugar will put pressure on the foreign exchange reserves as import bill rises. It will also increase the cost of production for confectioners.

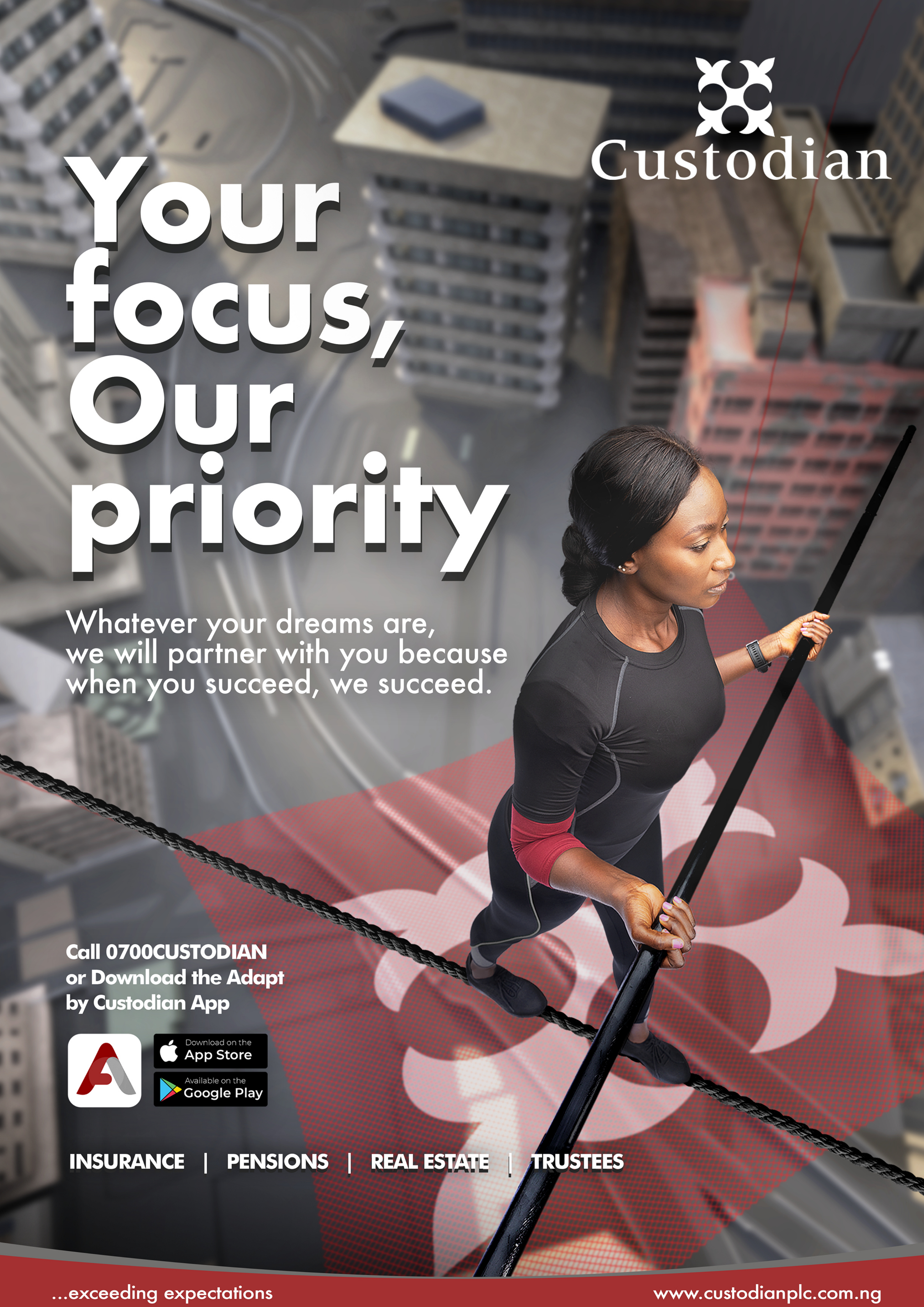


Source: Bloomberg, FDC Think Tank

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. This would result in unfavorable balance of trade.

[25]Source: Bloomberg, FDC Think Tank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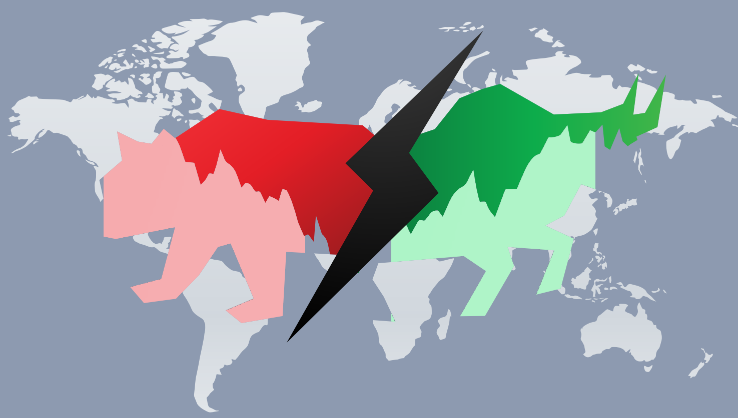
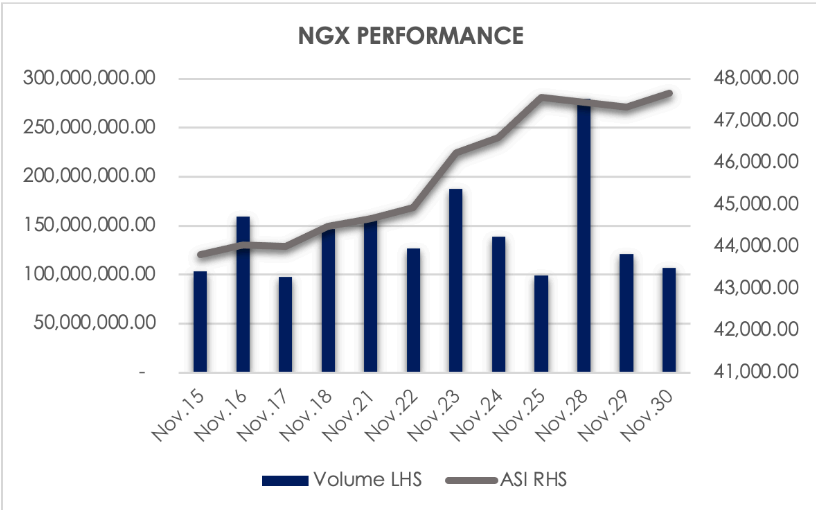
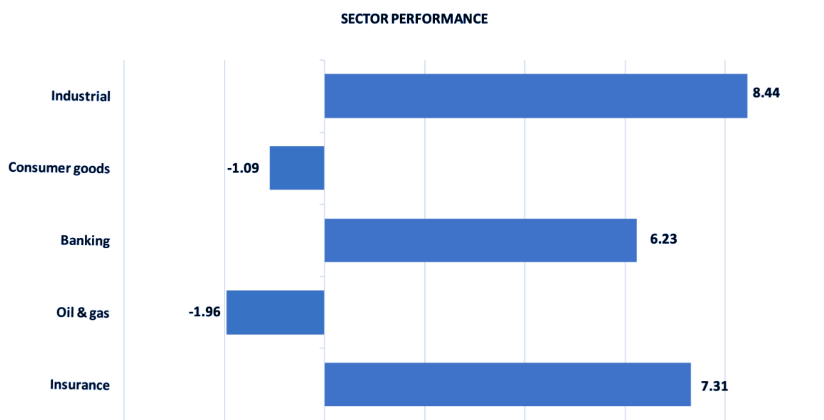
STOCK MARKET REVIEW NOV 16TH - 30TH



The NGX closed on a positive note from November 16th to 30th. It gained 8.79% to close at 47,660.04 points on November 30th from 43,808.25 points on November 15th. Also, the market capitalization increased by 8.80% to N25.96trn relative to its close of N23.86trn on November 30th. The market YTD return increased to 11.57% from 2.56% in the review period. The market breadth was positive at 1.71x as 53 stocks gained, 73 stocks remained unchanged while 31 lost.



Market activity level was negative in the review period. The average volume traded increased by 40.09% to 143.85mn units from 240.11mn. Also, the average value of trades fell by 13.20% to N2.17bn from N2.50bn in the review period.



The performance of the sectors was mixed in the review period, as three sectors gained while two lost. The industrial sector recorded the highest gain (8.44%). This was followed by the insurance sector (7.31%) and the banking sector (6.23%). Meanwhile, the oil & gas sector lost (-1.96%) followed by the consumer goods sector (-1.09%).

Cornerstone Insurance Plc topped the gainers' list with a 25.00% increase in its share price. This was followed by NEM Insurance Plc (20.00%), AXA Mansard Insurance Plc (17.28%), UAC of Nigeria Plc(16.67%) and MTN Nigeria Communications Plc(16.60%).

TOP 5 GAINERS

Company	Nov-16 (N)	Nov- 30 (N)	Absolute Change	Change (%)
CORNERST	0.40	0.50	0.10	25.00
NEM	3.75	4.50	0.75	20.00
MANSARD	1.62	1.90	0.28	17.28
UACN	9.00	10.50	1.50	16.67
MTNN	187.40	218.50	31.10	16.60

The laggards were led by SCOA Nigeria Plc (-32.91%), Nestle Nigeria Plc (-20.67%), Royal Exchange Plc (-18.18%), Sunu Assurance Plc (-15.63%) and Guinness Nigeria Plc (-15.61%).

TOP 5 LOSERS

Company	Sep-31 (N)	Oct-31 (N)	Absolute Change	Change (%)
SCOA	1.58	1.06	-0.52	-32.91
NESTLE	1215.00	963.90	-251.10	-20.67
ROYALEX	0.77	0.63	-0.14	-18.18
SUNUASSUR	0.32	0.27	-0.05	-15.63
GUINNESS	74.65	63.00	-11.65	-15.61

Outlook

Investor sentiment will remain tepid as they trade with cautious optimism. The renewed pressure on the naira will also dampen investor sentiment in the coming days. This could lead to a volatile performance in the near term as investors await the inflation data to be released on December 15

EQUITY REPORT:

CURRENT PRICE: N10.70
MARKET CAPITALIZATION: N20.10 BILLION
INDUSTRY: CONSUMER GOODS

CADBURY NIGERIA PLC

ANALYST NOTE

Cadbury Nigeria Plc's topline rose by 41.56% to N42.54 billion(bn) for the nine months period ended September 30th when compared with the corresponding period in 2021. The growth was supported mainly by domestic sales, which recorded a 42.98% upsurge to N41.05 billion. In the period under review, export sales increased by 12% to N1.49 bn from N1.33 bn in the corresponding period in 2021. A disaggregation of revenue by business segment shows that sales from refreshment beverages rose by 52.1% while sales from confectionary grew by 26%. Conversely, income from intermediate cocoa products declined by 15.96% but was offset by the strong growth in revenue from beverages and confectionary. Meanwhile, the company's gross profit rose sharply by 49.11% to reach N8.38 bn as the pace of revenue growth surpassed the rate of increase in the cost of sales.

Rapid growth in operating profit underpinned by strong growth in gross revenue

In the nine months to September 30th (9M'22), Cadbury Nigeria Plc's operating profit spiked by 80.87% to N3.31 bn from N1.83 bn in the corresponding period in 2021 (9M'21). Other income rose by xx% to N79.98 mn(mn), from N21.94 mn in 9M'21. The growth in other income was driven by N46mn gain on disposal of property, plant and equipment. The company's accelerated operating profit thus underscores its operating efficiency and the impact of operating leverage.

Similarly, Cadbury Nigeria Plc's net finance income jumped to N712.16 mn from N333.25 mn in 9M'21. The jump, which represented a 113.70% increase was mainly due to an upsurge in the interest income from bank deposits.
In 9M'22, bank deposits recorded a sharp increase to N1.06 bn from N482.75 mn in the corresponding period in 2021. This offset the 349.85% rise in the finance cost, which rose to N672.52 mn from N149.50 mn.

Stable effective tax rate supports net profit

Cadbury Nigeria Plc recorded a profit-before-tax of N4.02 bn in 9M'22, an 86.11% increase from N2.16 bn in the same period in 2021. In the same vein, the company's profit-after- tax accelerated by 86.75% to N2.82 bn from N1.51 bn in the same period in 2021. The effective tax rate for 9'M22 and 9M'21 remains unchanged at 30%. The company's strong performance this period defied the country's challenging macroeconomic environment.

Industry overview

In the nine months which ended on September 30th, a challenging operating environment had a significant negative influence on the performance of FMCG companies. The performance of the industry as a whole was impacted by spiralling inflation, weakening consumer demand, rising raw material costs, and currency pressures. The industry was also under pressure due to a number of long-term issues, such as an epileptic power supply, rising diesel prices, which added to the cost of operations.

The sector will continue to be impacted by the spending power of Nigerian consumers in the near future. While wages have remained stagnant, persistent inflation is fast eroding consumer purchasing power.

The international Monetary Fund (IMF) is forecasting that consumers in Africa will continue to live on the edge in the near to medium term. As agriculture remains constrained due to rising insecurity, there are concerns that the cost of inputs and raw materials will further escalate. Typically, consumers resort to downtrading when income is squeeze and this may lead to reduction in volume of goods sold. However, as a coping strategy, several FMCGs are going into different kinds of backward integration, a move that does not only increase access to raw material but also reduces the cost.

Company overview

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

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

The beverage segment accounts for 71% of revenue. Confectionary accounts for 27% and intermediate cocoa products for 2%..

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

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

The Bulls say:

- An industry leader in Nigeria's food and beverage sector
- A strong and recognizable brand value
- Strategic alliance and support from parent company
- Creative initiatives to raise appeal and customer satisfaction.

The Bears say:

- Stiff competition from other top competitors like Unilever and Nestlé
- Weak purchasing power of consumers
- Ongoing macroeconomic difficulties may reduce consumer demand
- A shift in consumer preference toward cheaper goods
- Small product selection

Risks and Outlook

The continuous macroeconomic issues, credit risk, liquidity risk, market risk (currency, interest rate, and share prices), and capital management risk are the main threats that could keep Cadbury from reaching its objectives of enhanced profitability, increased sales, and managed costs.

The unique traits of each customer have a significant impact on the company's exposure to credit risk. The business established a credit policy where each customer is evaluated for creditworthiness in order to reduce this risk. The danger of a company's inability to pay commitments related to its financial liabilities that are satisfied by the delivery of cash or other financial assets is known as liquidity risk. The business reduces this risk by making sure it always has adequate liquidity to pay its debts when they're due without suffering intolerable losses or running the danger of harming the business's reputation.

The risk that arises from market pricing, foreign exchange rates, interest rates, and equity prices and how they will impact the company's earnings or the value of its financial instrument holdings. When necessary to rectify short-term imbalances, the company buys or sells foreign currencies at spot rates to ensure that its net exposure to monetary assets and liabilities denominated in foreign currencies is kept to an acceptable level. The company continues to maintain a strong capital foundation and keeps an eye on the return on capital in order to preserve investor, creditor, and market confidence as well as to sustain future business expansion.

OUTLOOK FOR NEXT MONTH

The lag effect of the recent flood and the festive season are likely to keep inflation rising. In response to the worsening inflation rate, the central bank of Nigeria is likely to further raise the interest rate. More so, short-term interbank rates will remain elevated in the near to medium term as a result of the CBN's monetary policy tightening. Additionally, despite the CBN's intervention, currency pressure is projected to persist in the forex market. The pressure will likely cause a further depreciation of the Naira in the parallel market. The price of crude oil is expected to remain elevated, owing primarily to OPEC and its allies' cuts in crude oil supply (oil production rationing). GDP growth in Q3'22 slowed to 2.25% from 3.54% in Q2'22. We expect the GDP for Q4'22 to moderate further to 1.98%.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