Financial Derivatives Company Limited

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ECONOMIC UPDATE

DECEMBER 30, 2022

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THE NIGERIAN ECONOMY IN 2023

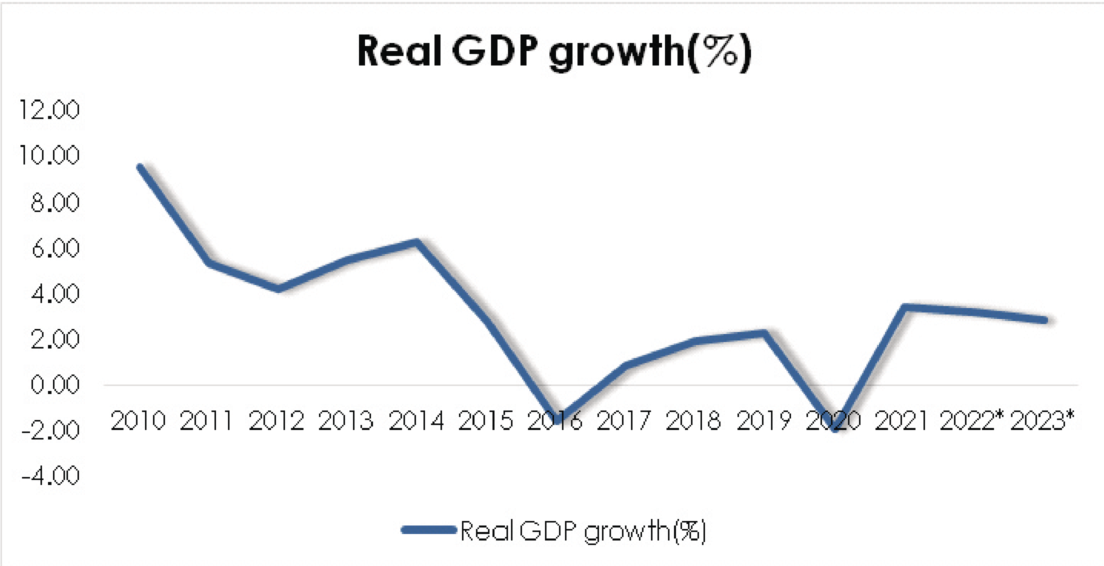
2022 will always be a year to remember for many households, businesses, economic thinkers, and policymakers in Nigeria as the year saw blends of economic challenges, ranging from the COVID-19 fiscal stimulus backlash to shocks arising from Russia's invasion of Ukraine and the far-reaching effect of the blistering monetary policy tightening regime. No doubt, the latter two events - the global monetary tightening and the ongoing Russia-Ukraine war - halted the momentum of post-pandemic recovery, muting output growth in Nigeria and several other countries.

2023 is just a few days away, and signs that this economic, market, and financial related turmoil will end soon are far from reality. The global economy will continue to face these major headwinds, especially from Russia's invasion of Ukraine, which contributed largely to the energy crisis and global commodity price volatility. The Russian war is likely to continue throughout 2023. The war is impacting Nigeria's economy, particularly through supply-chain disruptions and higher commodity prices.

How deeply will Nigeria feel the strains of globally induced shocks?

The internal crises facing Nigeria are making the country less resilient to external shocks. It, therefore, brings to mind the question: in 2023, how deeply will Nigeria feel the strains of these externally induced shocks? Beyond the influence of external forces, Nigeria's domestic economic landscape remains rough. The economic uncertainty created by election expectations, a heavy debt service burden, forex pressures, and inflation are a few of the challenges Nigeria's economy is facing, which will continue to make the country vulnerable to external shocks.

In addition, adverse weather conditions, rising borrowing and logistics costs, and declining demand in major export markets may subdue economic growth in 2023. According to the EIU projection, the Nigerian economy is expected to grow at 2.8% in 2023, down by 1.6% from the estimated growth rate of 3.2% in 2022.



Source: CBN EIU FDC Think Tank

The expected slowdown in Nigeria's GDP growth is attributed to both external and internal economic imbalances. Nigeria is not alone, as other economies are not shielded from the adverse impact of the ongoing wave of global economic shocks. In the sub-Saharan African economy, South Africa's economy is projected to slow down to 1.3% in 2023 from about 1.9% in 2022. Similarly, Angola is expected to experience a slight slowdown in 2023, to grow at 2.6% compared to the estimates of 2.8% in 2022, and Botswana is expected to slow to 2% in 2023 from 6% in 2022. Though countries like Kenya and Niger are expected to record an uptick in GDP growth (projected at 5% in 2023 from 4.9% in 2022 for Kenya and 5.1% in 2023 from 1.4% in 2022 for Niger), most of Nigeria's sub-Saharan African trading partners like Ghana and Botswana are expected to

Real GDP Growth(%) in selected Nigeria's trading partners in SSA			
	2022	2023	2024
Ghana	3.3	1.9	2.3
Botswana	6.0	2.0	4.5
South Africa	1.9	1.3	1.8
Sub-Saharan Africa	3.2	2.8	3.3
World	3.3	2.4	3.2

Source: EIU

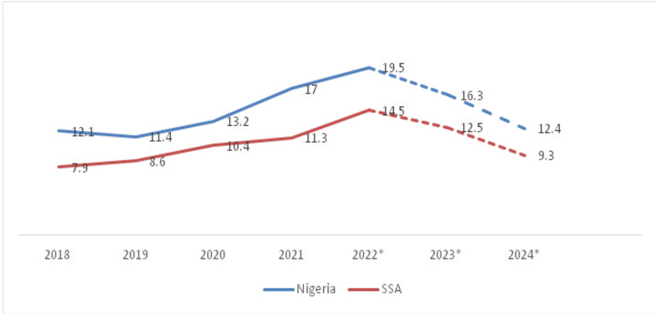
experience slow down in economic activity in 2023.

The slowdown of economic activities in China due to its zero-COVID policy is bucking the growth trend around the world. However, if there are no obstacles to its recent commitment to open up its economy, Nigeria will benefit from increased trade activities. China, which accounts for 18% of the global GDP, is one of Nigeria's most strategic trade partners. In 2019 (pre-pandemic), China accounts for 6.2% and 20.49% of Nigeria's export and import respectively.[1]

It is important to note that the anticipated economic slowdown in sub-Saharan African countries, especially Nigeria, is due largely to the global inflation surge caused by the Russian-Ukraine war, which affects the global trade, and the COVID-19 fiscal stimulus backlash. In sub-Saharan Africa, inflation surges to multi-record highs in 2022. It reaches 50.3% in Ghana, 7.4% in South Africa, 244% in Zimbabwe, and 15.24% in Angola.[2] Nonetheless, inflation has begun to taper in some economies but remains above the targeted threshold. Although Nigeria's inflation is expected to remain elevated in the early part of the coming year. This will be in response to the global interest rate movement. The UK, US, EU, and other leading global economies are expected to keep raising rates in 2023, albeit at a slower pace. Regardless, to tame hyperinflation in the country, protect the currency peg to the US dollar and reverse capital flight, the CBN will likely to maintain its increase in interest rates. As a result of the hike in the anchor rate (MPR), other rates like the treasury bill rates will move in the same direction. However, borrowing costs will stay high, discouraging excess borrowing from consumers for consumption purposes and dwindling the appetite of firms towards collecting loans because of high interest payments.

Nevertheless, Nigeria's inflation is projected to taper by the end of the year due to the lag effect of the central bank's interest rate hike.Also, the demand

Inflation in Nigeria and SSA



Source: EIU

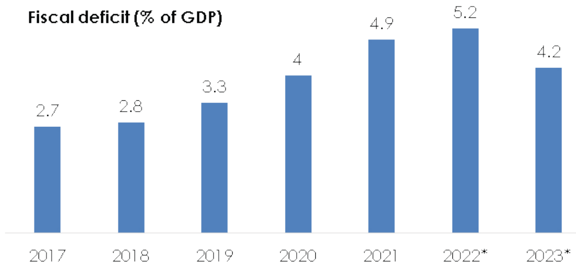
for crude oil at the global market is rising. The increased demand is expected to keep the oil price elevated. The oil price is expected to average $85 per barrel in 2023. The OPEC+ oil cut and the EU's oil cap on Russia's energy will keep the crude oil price elevated. The expected rise in oil prices above the 2023 budget benchmark is expected to bolster external reserves, which may help alleviate the pressure in the forex market currently stocking inflation. However, this does not change the fact that the exchange rate premium may not vanish in 2023. The divergence between the official and parallel rates could persist in the coming year, due to forex supply shortages. To this end, exchange rate policy reform in 2023 is inevitable as it is the panacea to easing the current pressure in the forex market.

Another important trend to watch for in 2023 is fiscal balance. The 2023 budget worth N21.8 trillion, has been passed, with the fiscal deficit now amounting to N11.1 trillion and debt service payments estimated at N6.6trillion. Nigeria faced a limited fiscal space in 2022, and is expected to worsen in the coming year due to high level of corruption and low oil production. Subsidies are also eroding a substantial part of government revenue, thereby worsening the fiscal crisis in the country.

It is worth mentioning that earnings from crude oil account for half of Nigeria's retained revenue. The newly passed budget assumes an average crude oil price of $75 per barrel per day, with daily oil production set at 1.69 million barrels. Given the decline in oil production amid oil theft and vandalism, Nigeria may not achieve the targeted earnings from the crude oil sale to fund the 2023 budget. The narrow non-oil revenue base is not helping the situation. Nigeria is challenged by high fiscal pressure. The government's deficit will grow as spending exceeds expenditure. The fiscal deficit has widened from 4% of GDP to approximately 5.2% of GDP between 2021 and 2022. The fiscal sustainability

[1]National Bureau of Statistics. 2019 "Foreign trade statistics". https://www.nigerianstat.gov.ng/pdfuploads/FOREIGN_TRADE_STATISTICS_Q4_2019.pdf
[2]Economist Intelligent Unit. 2022. "Viewpoints". https://viewpoint.eiu.com/analysis/geography/XN/NE/reports/one-click-report

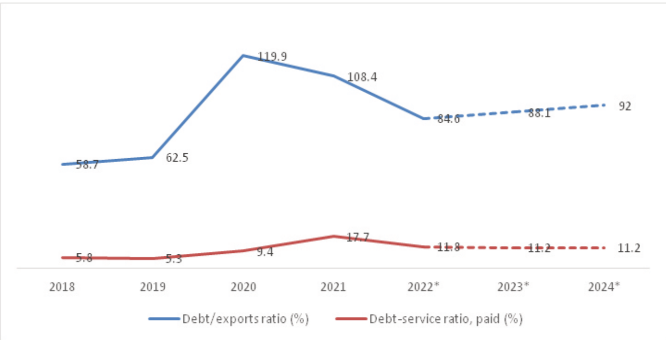
criteria for most countries is typically 3%. Nigeria's fiscal deficit is already above the threshold, suggesting that Nigeria's fiscal space is overheating.



Source: EIU

Though fiscal deficit is expected to slightly ease in 2023 owing to more efficient utilization of revenue and expected gradual removal of subsidy, the Nigeria's public debt profile is becoming concerning.

Nigeria's public debt hit N44.06 trillion in Q3'22, up from N42.84% recorded in Q2'22.



Source: EIU

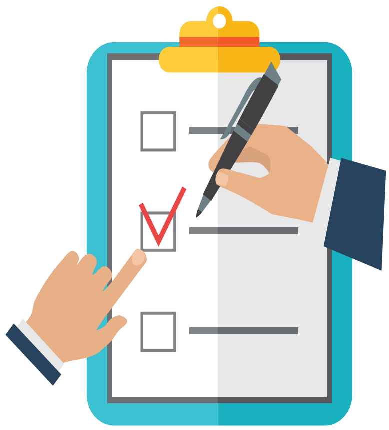
The astronomical increase in Nigeria's debt stock in the past decade is pushing Nigeria to the brinks of sovereign default. In 2023, Nigeria will have no choice than to approach the IMF and could commence policy support instruments (PSI) programs that could see her move to restructure its debts. By 2023, Nigeria's debt-to-GDP ratio is expected to cross the 40% mark with debt-service-revenue ratio of nearly 100%. This will shrink the fiscal headroom, making it difficult to finance critical developmental projects.

Nonetheless, 2023 is characterized by political uncertainties as the nation goes to poll in February. A tight and unprecedented three-way race for the presidency is being envisaged by the EIU. However, we expect that whoever that picks the mantle of leadership in 2023 will have no other choice than to undertake critical and far-reaching reforms - fiscal, market and institutional reforms. Indeed, the future is not bleak but challenges abound!

Nonetheless, Nigeria's capital market will remain volatile, but it is expected to perform better in 2023 than in 2022, owing to increased investor confidence after the general election.

Additionally, corporates including MTN Nigeria, Airtel Africa, Okomu Oil will be a driver of the uptick in the Nigeria stock performance in 2023 due to the ability to leverage growth in mobile phone penetration, wider coverage of the 5G network, and high commodity prices in the coming year.

Asides the concerning macroeconomic situation, the outcome of the 2023 general elections remains the burning issue. Who becomes the next president of Nigeria could ultimately define a new path of recovery for the country or continue to raise the eyebrows the international community on the possibility of Nigeria steering its way back to growth like it did in the early 2000s. Tensions are high and the risks of political instability ensue.

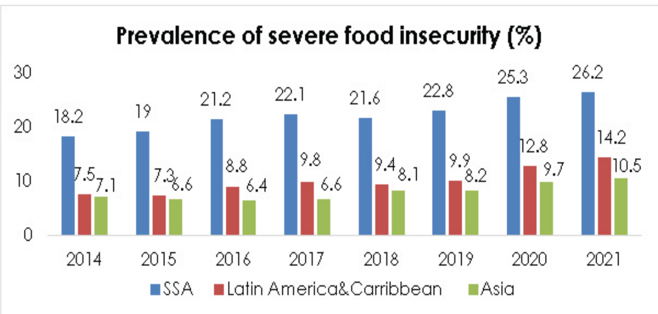


CLIMATE CHANGE AND HUNGER CRISES IN SUB-SAHARAN AFRICA

Sub-Saharan Africa (SSA) is going through hard times as hunger ravages many of the countries in the region more than seen in past decades. Approximately 146 million people in the region, about 12.51 per cent of the population of the region, are suffering from severe hunger. In the Horn of Africa alone, over the past five years, approximately 50 million (mn) people have become vulnerable to hunger.[3]

In 2021, about 20.2% (278mn) of Africa's population was hungry.[4] Hunger in sub-Sub is related to food insecurity in the region. As the chart below shows, food insecurity is far more prevalent in SSA when compared to Latin America and Caribbean or Asia, and it

The last five years have also seen women and children in SSA as a whole disproportionately impacted by the rise in severe hunger, which has increased by 83% to an estimated 54mn people. In 2021, about 20.2% (278mn) of Africa's population was hungry, compared to less than 2.5% in North America and Europe combined. As the chart below shows, hunger is far more prevalent in SSA than it is in Latin America, the Caribbean, or Asia, and it is notably getting worse.



Source: FAO STAT FDC Think Tank

In addition to food insecurity, according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), hunger, which is projected to worsen in 2023 in sub-Saharan Africa, is caused by conflict, endemic, poverty, inflation, and most importantly, the climate crisis.[5]

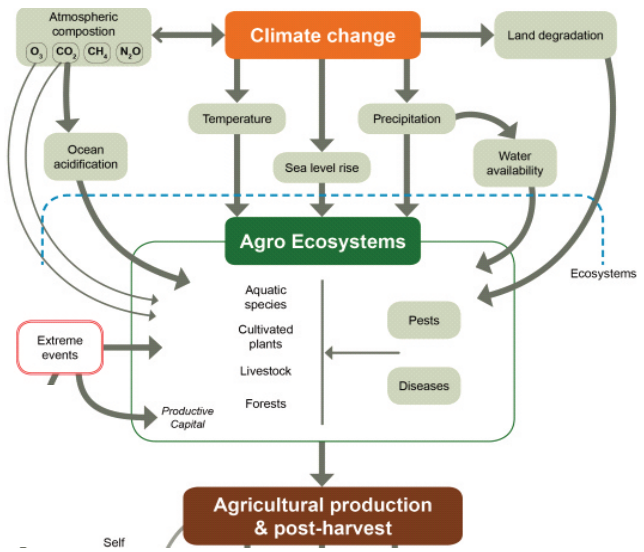
Impact of Climate change on hunger

Although inadequate social welfare, rapid population growth, and other factors play a role in aggravating hunger, the climate crisis is heightening the risk of millions of people falling into unprecedentedly high levels of the hunger crisis. Heatwaves, droughts, floods, and storms are increasing in intensity and frequency across many SSA countries, with devastating impacts on farmlands, crops, and food. From the repeated droughts pushing people to the edge of famine in the Horn of Africa to deadly floods in West and Central Africa, climate events are happening in every corner of the SSA.

Weeks of intensive rains and excessive flooding hit 19 countries across West and Central Africa, adversely affecting at least five million people, killing and displacing thousands, and destroying croplands, farm products, and infrastructure. In Somalia, the Democratic Republic of Congo, Mali, and other places, the climate crisis is exacerbating hunger and compounding people's ability to survive. More than 500,000 Somali children are anticipated to suffer acute malnutrition from famine[7], induced by drought due to climate change[8].

[3,4]Relief Web. 2021. "Africa hunger crisis emergency appeal". OCHA Services. https://reliefweb.int/report/nigeria/africa-hunger-crisis-emergency-appeal-no-mgr60001
[5]Down to Earth. 2022. "Africa must be priority if humanity is to conquer hunger; but it is only getting worse there". https://www.downtoearth.org.in/news/africa/africa-must-be-priority-if-humanity-is-to-conquer-hunger-but-it-is-only-getting-worse-there-83625
[6]Relief Web. 2021. "Africa hunger crisis emergency appeal". OCHA Services. https://reliefweb.int/report/nigeria/africa-hunger-crisis-emergency-appeal-no-mgr60001
[7]Reuters (2022). "Half a million Somali children face hunger in world's worst famine this century." OCHA Services. https://www.reuters.com/world/africa/more-than-half-million-young-children-somalia-facing-malnutrition-2022-09-13/

[8]Relief Web .2022. "Regional call to action - Horn of Africa drought crisis: climate change is here now". OCHA Services. https://reliefweb.int/report/ethiopia/regional-call-action-horn-africa-drought-crisis-climate-change-here-now-july-2022



Schematic representation of climate change impact on food

Interestingly, despite SSA countries like Burkina Faso, Kenya, Somalia, Djibouti, Zimbabwe, Niger, and Madagascar being hotspots for climate change globally, these countries and the region as a whole contribute the least to climate change issues globally.[9] For example, sub-Saharan Africa contributed between 2.34% of the global carbon emission in 2018, though slight up by 0.06% to 2.40% in 2019.[10]

Climate crisis and the role COP27

Leaders and policymakers around the world gathered in November 2022 at the organized COP27 to address the problem of climate change. Among the goals highlighted in the framework for reducing climate change are adaptation and mitigation strategies. However, poor funding and differences in the countries' vulnerability to the climate crisis are hindrances to achieving the COP27 objectives. Nonetheless, the agreement reached during the conference is hopeful for helping address the climate issues in sub-Saharan Africa.

Addressing climate crisis in sub-Saharan Africa: The role of climate action Investment

Investment in climate action is one of several smart strategies that could be adopted to combat climate change in Africa. And these investments in include building and operating a zero-pollution industrial hub (green energy transitions).

For example, many environmental experts pointed to switching from fossil fuels to electric-powered vehicles as a better strategy to eliminate emissions that cause climate change. The number of electric vehicles is projected to reach 145 million by 2030. The challenge will be the proportion of the number of those vehicles coming into sub-Saharan Africa, which is likely to be insignificant in the near term. A vital caveat here is that the production of electric vehicles could induce emissions even more than the production of petroleum-powered vehicles.[11]

As a result, pursuing a strategy to control climate change in order to reduce the risk of hunger in SSA requires extreme caution, particularly given the potential consequences of such actions. Yet, climate action requires huge investments. According to the IMF estimate, SSA requires about $1.6trn to combat climate change.This, therefore, calls for collaboration between SSA governments and international bodies to fund investment in climate action. In this regard, the United Nations' role in climate action investment must be sustained, especially among the countries most affected by the climate crisis in the SSA.

Conclusion

Climate change is one of the factors that could instigate hunger in sub-Saharan Africa. This is possible owing to its negative impact on critical sectors, especially agriculture. Major food crops grown across sub-Saharan Africa are highly vulnerable to climate change. Animal production will also be negatively affected. This scenario could trigger widespread hunger in the SSA, where climate change is becoming severe. To solve the problem of hunger in the SSA in the near future, it is critical to address the climate crisis.

[8] IMF .2021. Africa Cannot Confront Climate Change Alone". https://www.imf.org/en/Blogs/Articles/2021/12/17/africa-cannot-confront-climate-change-alone
[9] CBNC.2021. "Are electric cars 'green'? The answer is yes, but it's complicated". https://www.cnbc.com/2021/07/26/lifetime-emissions-of-evs-are-lower-than-gasoline-cars-experts-say.html
[10] YAWZA. 2022. "Funding of up to $1.6trn needed to combat climate change in sub-Saharan Africa". https://www.zawya.com/en/world/africa/funding-of-up-to-16trln-needed-to-combat-climate-change-in-sub-saharan-africa-y606dd9i
[11] CBNC.2021."Are electric cars 'green'? The answer is yes, but it's complicated".https://www.cnbc.com/2021/07/26/lifetime-emissions-of-evs-are-lower-than-gasoline-cars-experts-say.html

2022 HAS BEEN A YEAR OF BRUTAL INFLATION

-CULLED FROM THE ECONOMIST

Low inflation is indeed the problem of this era." Thus said John Williams, president of the Federal Reserve Bank of New York, in late 2019, espousing the dominant view at the time. Fast forward to the present, and the problem is the exact opposite. Just about every country in the world has grappled with soaring prices in 2022. The situation is all but certain to improve in the coming year, but at a severe cost to economic growth.

What made 2022 so unusual was the breadth of price pressures. The global rate of inflation will finish the year at roughly 9%. For many developing countries high inflation is a recurrent challenge. But the last time that inflation was so elevated in rich countries was the early 1980s. In America consumer prices are on track to have risen by about 7% in 2022, the highest in four decades. In Germany the rate will be closer to 10%, its first bout of double-digit inflation since 1951.

The common factors driving up inflation everywhere were soaring fuel and food costs. Prices for many consumer goods were already trending up at the start of 2022 because of covid-19's lingering impact on supply chains. Russia's invasion of Ukraine in February proved even more disruptive. The cost of oil climbed by a third as Western countries slapped sanctions on Russia, a major crude producer. Food prices also surged, pushed up by fertiliser and transportation costs as well as by Russia's blockades of grain exports from Ukraine, a major wheat producer. In economic terms, this amounted to a classic supply shock. The sudden rise in prices for key commodities quickly filtered into daily life for the world's citizens. In Europe, long reliant on Russian gas, millions will struggle to afford heating this winter. Across all regions, food and fuel accounted on average for more than half of inflation in 2022 (see chart).

Were inflation just a supply-side phenomenon, it would have been painful enough. But the most worrying development for central bankers was that pressures seeped into "core" components of price indices—that is, goods and services other than volatile food and energy. The rise in core prices was an indication that inflation was gathering momentum all of its own. That, in turn, pointed to causes beyond the oil shock. Many countries now have ultra-tight labour markets, partly a result of a wave of early retirements during covid. As a result companies are paying higher wages to attract workers, adding to inflationary momentum. In America, where the rise in core inflation was particularly steep, an additional culprit was excessive stimulus—by both the government and the Fed—at the height of covid. For much of 2022 that translated into overheated demand, with real personal spending higher than the pre-pandemic trend. Tellingly, the big economy with the lowest inflation was China. Its "zero-covid" strategy pushed spending far below the pre-pandemic trend.

Almost everywhere there was anxiety that rising prices would reset people's inflation expectations, leading them to demand higher pay. Known as a wage-price spiral, such a dynamic would make inflation far harder to eradicate. The mere threat of the dynamic was sufficient to stir central banks to action. The Fed was the most aggressive, raising interest rates from a floor of zero in March to more than 4% today, its sharpest dose of monetary tightening in four decades. Central banks throughout the rich world, from Stockholm to Sydney, followed in its wake.

One way of looking at inflation prospects for 2023 is as a duel between rebounding supply and falling demand. Promisingly, some of the factors that fuelled inflation early in 2022 have started to fade. Prices of consumer goods have declined as supply chains have returned to normal. The cost of oil has fallen back to its level a year ago, in part thanks to a recovery in production. Tighter monetary policy works by choking off demand, and that is starting to happen, too. The most rate-sensitive sectors are suffering the most: a sudden chill has settled over once-sizzling property markets, with transactions drying up. If the recovery in supply—including, crucially, of willing workers—is big and fast enough, central banks may be able to stop tightening before provoking a deep recession. But at this point it seems more likely that they will exact a real toll on the global economy. In 2023 fears of inflation may give way to concerns about unemployment.

THE EASY MONEY ERA IS OVER BUT WORLD LEADERS HAVEN'T GOT THE MEMO

-CULLED FROM THE FINANCIAL TIMES

While global investors increasingly recognize that the era of easy money is over, many world leaders do not – and markets are punishing them for free spending in a new era of tight money.

In the 2010s, when interest rates hit historic lows, markets punished little free spenders – Greece, Turkey and Argentina, in particular – for excessive fiscal or monetary irresponsibility. Now that inflation is back, rates are rising and debt levels are high around the world, investors are targeting an ever-expanding list of countries.

Markets have forced policy changes or at least a tone on countries this year from the UK to Brazil, Chile, Colombia, Ghana, Egypt, Pakistan, even populist Hungary. What these countries shared was relatively high debt and widening twin deficits – government and external – combined with unorthodox policies were likely to make these burdens worse. But tight money is here to stay. The target list will grow. No country is likely to be immune, not even the US, which has one of the largest twin deficits in the developed world.

The new mood is often described as a return to "bond market cautiousness" as if it were confined to bond investors and "market fanatics". But tight money is gripping all asset markets including stocks and currencies, punishing governments of the right and left and raising a practical question of whether countries can pay their bills without easy money.

Conservative UK Prime Minister Liz Truss was ousted in October after markets reacted to her without tax cuts by dumping the pound. His successor dismantled his agenda. Shortly thereafter, the spending plans of Brazil's future president, leftist firebrand Luiz Inácio Lula da Silva, triggered a selloff.

When Lula attributed this reaction to "speculators" rather than "serious people", markets drove up Brazil's real interest rates, which were already among the highest in the world. Lula's allies continued to play down his comments. His fellow socialists emerging in Latin America are also on target.

Colombia's first left-wing president, Gustavo Petro, came by promising free higher education, a public job for every unemployed person, and to wean the economy off oil. Suspecting that the petro could pay for the new profits with lower oil revenues, investors unloaded the peso, forcing its finance minister to reassure the market that he would "not do crazy things".

Gabriel Boric became president of Chile, promoting a new constitution that many saw as "utopian" promises, including free healthcare, education, and housing. Investors fled and the peso fell 30 percent

in just six weeks, sparking protests against the constitution, which was overwhelmingly rejected by voters in a September referendum. Borić was forced to turn his hardline cabinet towards the centre.

Over the past decade, low rates made borrowing so easy and sovereign default so rare, that many governments dared to live beyond their means. Now, as borrowing costs and default rates rise, change is being imposed, starting with the least-developed countries that are most vulnerable to foreign creditors.

One is Egypt, which is ruled by Abdel Fattah el-Sisi. As markets pressured Egypt to devalue its currency and reduce its twin deficits in order to secure IMF aid, national authorities stalled for months. When they finally relented, the depreciation was massive—more than 20 percent. Ghana, too, protested the terms of the IMF assistance and financial discipline as an affront to this "proud nation". But as markets battered Ghana's cedi, fueling President Nana Akufo-Addo to resign, he relented and asked the IMF for help.

From Pakistan to Hungary, markets have forced central banks that can get away with lower real rates to return to economic conservatism, and start raising rates. Hungary imposed an emergency rate hike and allies of right-wing Prime Minister Viktor Orban, who built his base on defying Europe, promised spending cuts and tax hikes to qualify for EU financial aid.

The market will reward discipline. Among those penalized by them in the 2010s, Argentina and Turkey stuck to unorthodox policies, and still face punitively high borrowing costs. Greece pursued conservative reforms and is once again in good global standing.

Only now, discipline has a harsher meaning. Whether it's the US running up trillions in debt for Medicare and Social Security or Europe slashing energy subsidies, even superpowers are advised to borrow as if the money were still free. In the new era of tight money, the market can quickly turn against free spenders, no matter how affluent.

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MACROECONOMIC INDICATORS (DECEMBER 1ST TO 28TH)

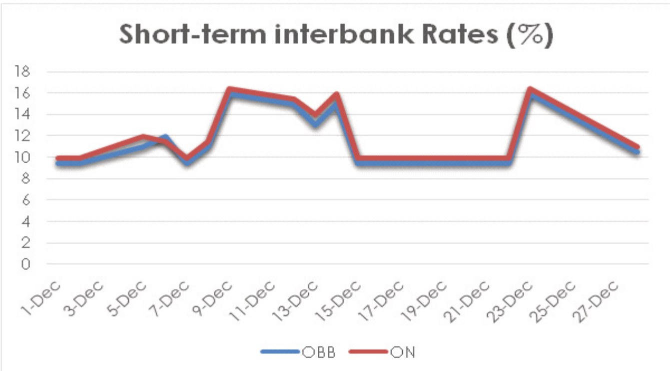
MONEY MARKET

Banks' opening position averaged N255.95bn within the review period in December (1st -28th). This is an increase of 32.77% from the average opening position of N192.77bn in the same period in November (1st-28th). The increase in liquidity can be partly linked to the payment of FAAC which increased by 22.84% to N902.05bn in November from N736.78bn in December. Banks' position opened with no negative balance within the review period compared to five periods of opening negative balance in November. During the review period, OMO repayment was N5bn with no OMO bill sold. Short-term interbank rates averaged 11.65%p.a, an increase of 18bps from the average of 11.47%p.a in the same period in November.

During the review period, there were two primary market auctions for treasury bills. A total sum of N382.46bn was sold, while N33.97bn was repaid, leading to a net outflow N348.49bn. Total sales in December was 26.94% lower than N523.55bn sold in November. Despite the hike in MPR by the central bank of Nigeria in November, the Treasury bill rates moved further away from the MPR. Yields fell by an average of 367bps across the three maturities at the primary market. On the other hand, rates at the secondary market were flat.

Outlook and implication

Short-term interest rates are expected to remain elevated in response to CBN's monetary policy tightening. High interest rate will boost net interest margin for financial institutions, while lowering profit margins for firms as borrowing cost stay elevated. This could also increase the risk of a loan default as firms and industries find it difficult to repay.



Source: FDC Think Tank

Tenor	Primary market (November 23rd 2022) (%)	Primary market (December 24th 2022) (%)	Secondary market (November 28th 2022) (%)	Secondary market (December 28th 2022) (%)
91-day	6.5	2.75 ▼	6.62	6.62 ↔
182-day	8.05	7.15 ▼	7.33	7.33 ↔
364-day	14.84	8.49 ▼	8.26	8.26 ↔

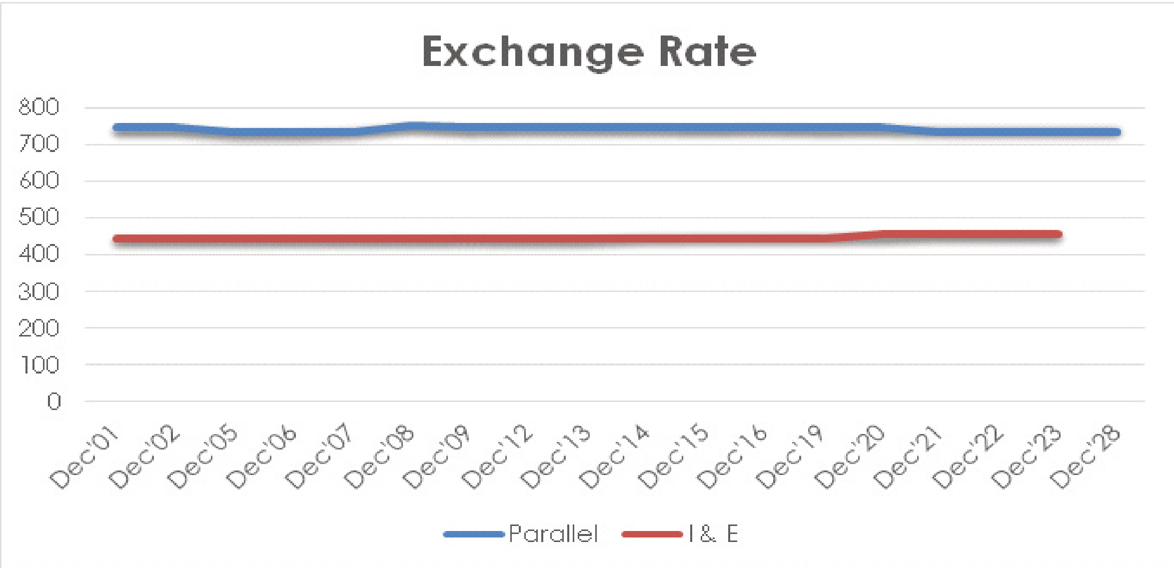
Source: FMDQ, FDC Think Tank

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 naira traded within the band of N445.33/$ - N461.3/$ in December (1st-28th) at the I&E window. It averaged N450.06/$, 0.96% depreciation from the average of N445.80/$ in the same period in November. On the other hand, the naira at the parallel market touched a low of N752/$ in the month of December compared to the low of N875/$ in November. On the average, naira appreciated by 6.90% to N743.89/$ in December (1st – 28th) from the average of N799.05/$ in the same period in November. The appreciation of the naira at the parallel market is partly due to naira tightness and improved forex supply.



Source: FDC Think Tank

Outlook

The CBN is likely to allow for gradual adjustment on the I&E window rate. It is expected to trade within the band of N461.50/$-N467.50/$ in the short-term. At the parallel market, the naira is likely to be stable in the short term due to improved supply, naira tightness, and the increase in Nigeria's oil production. It could trade within the band of N740/$- N755/$.

[17]Source: FDC Think Tank

UBA
United Bank for Africa

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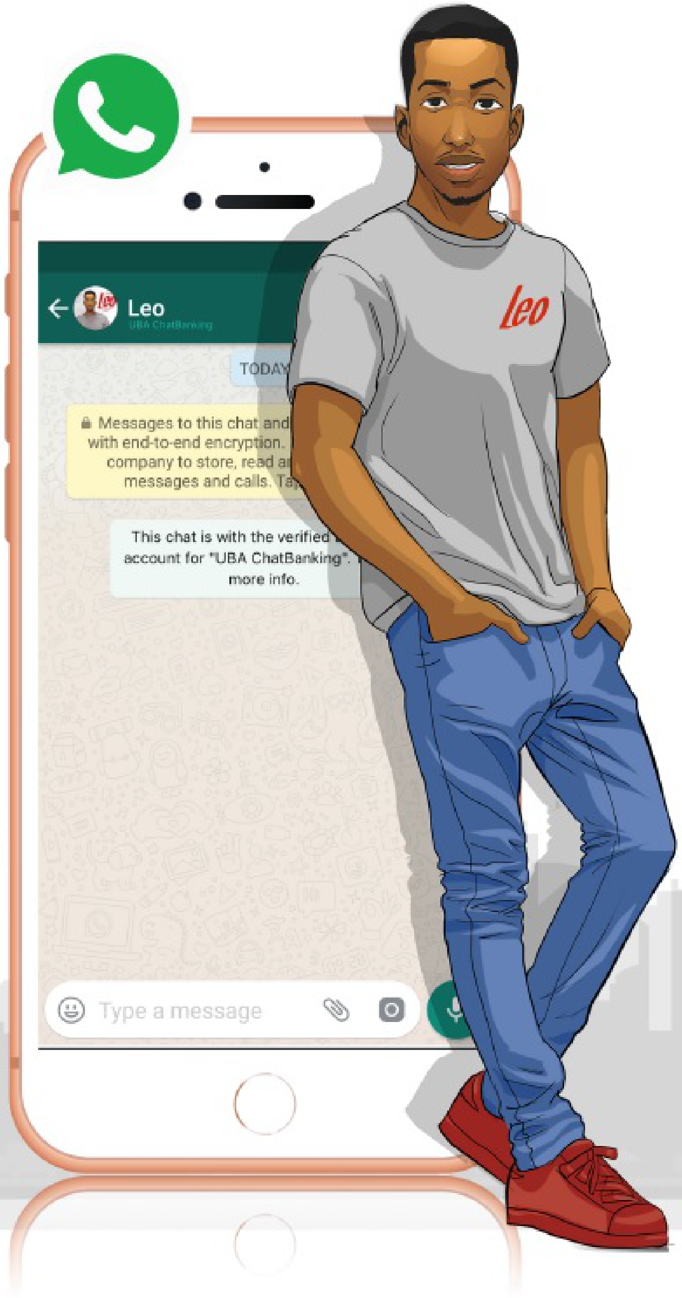

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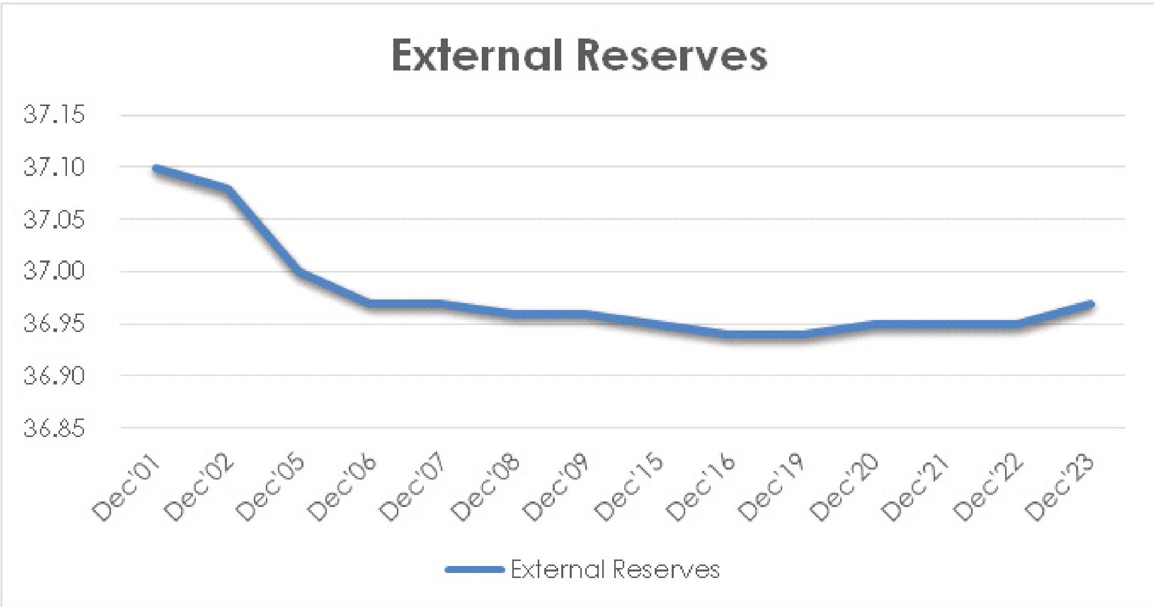
EXTERNAL RESERVES

The foreign exchange reserves fell by 0.40% ($150mn) to close December 23rd at $36.97bn from $37.12bn in November 28th. The decline was due to lower oil prices, sub-optimal oil production and the CBN's effort to support the currency.



Source: CBN, FDC Think Tank

Outlook

The external reserve is unlikely to increase in the short-term due to the country's inability to benefit from high oil price due to oil theft as well as CBN's effort to stabilize the naira.

Implication

This could support rationing and restrictions in the foreign exchange market by the central bank. This could further widen the gap between the official exchange rate and the parallel market rate as demand pressure rises.

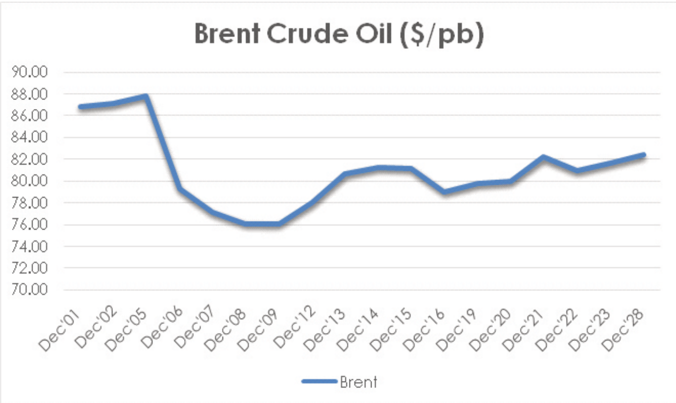
COMMODITIES

EXPORTS

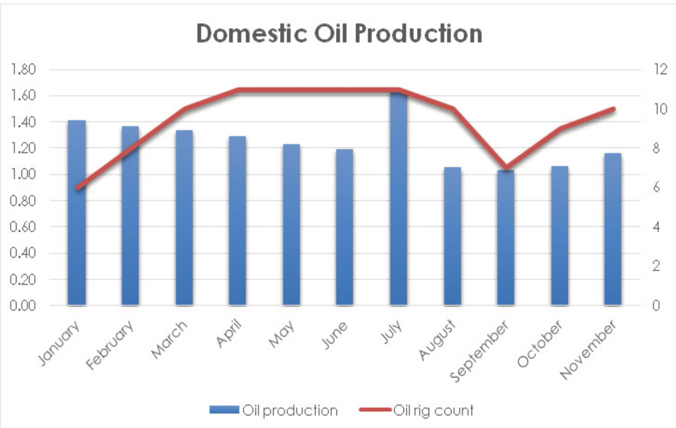
.Nigeria's main export commodities are crude oil, LNG, accounting for about 70% and 10% respectively, while cocoa is its top non-oil export commodity.

OIL PRICES

Oil prices traded below $90pb during the review period. It reached a high of $87.87pb during the first week of the month due to reduced demand concerns as China relaxes its zero-covid policy. However, this increase was temporary as oil prices plunged by 13.39% to $76.10pb, its lowest in the review period, on demand concerns and global recession fears. On an average, Brent price declined by 11.58% to $81.00pb in the review period from $91.61pb in the corresponding period in November.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

OIL PRODUCTION

OPEC average oil production fell by 2.58% in November to 28.83mbpd from 29.57mpbd in October. Oil production declined majorly in Saudi-Arabia, UAE, Kuwait and Iraq primarily due to supply cuts agreed by OPEC+. On the other hand, oil production increased mainly in Nigeria and Angola, who originally do not meet their production quotas. Nigeria's oil production increased by 8.63% to 1.16mbpd from 1.07mbpd in October due to the re-opening of the Niger delta pipeline which transports about 180,000bpd. Furthermore, its oil rig count rose to 10points in November from 9points in October.

Outlook

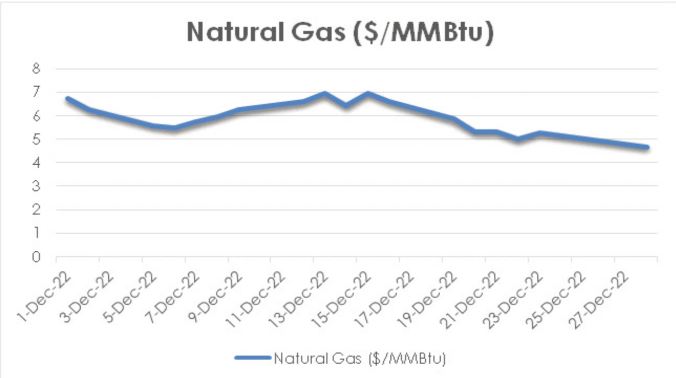
Oil prices will remain elevated in the short term as oil supplies tightens further. The Russian president has signed a decree to place a ban on sale of crude oil starting from Feb 1st to foreign entities that directly or indirectly imposes the western price cap on its crude oil exports. Oil price increase will be further supported by the ease in zero-covid policy in China (top oil importer) which is expected to support demand. However, downside risks exist from escalation of covid cases in China as it relaxes its policy, and fears of recession as central banks maintains hawkish stance.

Impact

Higher oil prices are expected to buoy the country's balance of trade and could aid the CBN's efforts to stabilize the currency as external earnings increase. However, the country's sub-optimal oil production could pose a drawback.

NATURAL GAS

Gas price reached its 9-months low despite tight market supplies, as a result of a warmer than expected weather in Europe which reduced demand. LNG price fell on an average by 7.76% to $5.94/mmbtu in the review period from $6.44/mmbtu in the corresponding period of November. The decline in gas price was supported by EU's agreement on a price cap and increased supply from Qatar.



Source: Bloomberg, FDC Think Tank

Outlook

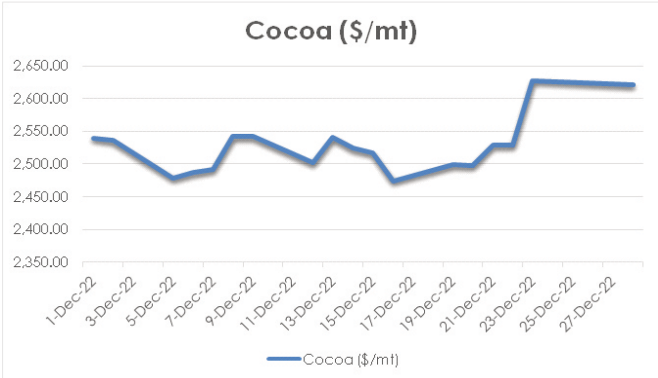
Gas prices are expected to remain low in the short term due to the warm weather in Europe, who is majorly exposed to Russia gas cuts. The warm weather condition in Europe is expected to support less depletion on its gas inventory.

Implication

Gas accounts for approximately 13% of total exports. Lower gas price could lead to a decrease in the country's trade surplus. This could lead to reduced earnings while increasing forex rationing and restrictions.

COCOA

Cocoa price fluctuated during the period of review, recording choppy movements as a result of adverse weather conditions in the cocoa growing areas of West Africa and increasing supply from Ivory Coast. It reached a high of $2,542.00/mt on December 9th as supply concerns grew due to the start of the dry season in cocoa producing regions in West Africa. It then declined by 0.51% to close the review period at $2,529.00/mt. The price of cocoa averaged $2,513.53/mt in the first 28 days of December, up 5.89% from the average price of $2,465.00/mt in the corresponding period in November. The upswing in global price was due to lower yield from Nigeria and Ghana following the spread of the Black Pod disease. Cocoa price in Nigeria rose in majority of the southwestern states as a result of the constant devaluation of the naira and reduced supply.



Source: Bloomberg, FDC Think Tank

Outlook

Cocoa price is expected to increase in the near future to dry weather conditions in West Africa. Furthermore, the continuous spread of the black pod disease could lower supply while pushing up cocoa price in Nigeria.

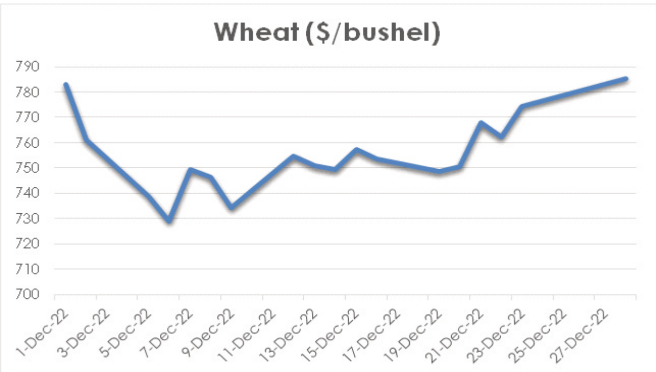
Implication

The increase in cocoa price is expected to buoy the country's external earnings and aid CBN's effort to stabilize the naira. It could also raise income for cocoa farmers.

COMMODITIES
IMPORTS

WHEAT

The price of wheat traded within the band of $729.00/bushel - $785.50/bushel during the review period. Wheat price stood at $783.00/bushel at the beginning of the review period (Dec 1st) before increasing by 6.49% to close the review period (Dec 28th) at $785.50/bushel. This was due to increasing supply concerns as the ongoing war between Russia and Ukraine continued to push prices higher and cold temperatures pose risks to the yields on crops. On an average, wheat price dropped by 8.80% to $755.36/bushel in the first 28 days of December from $828.35/bushel in the same period in November due to increased exports from the Black sea ports and demand concerns as recession looms.



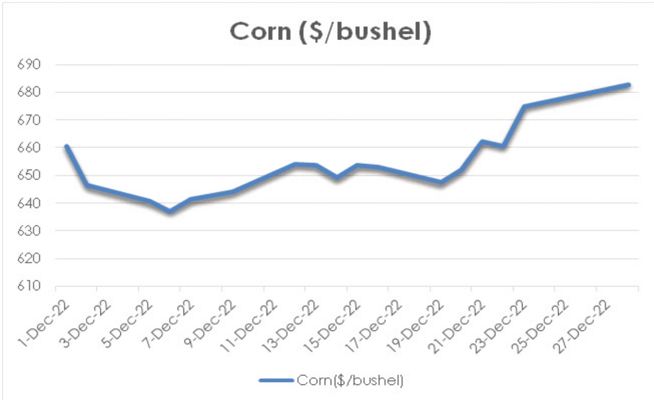
Source: Bloomberg, FDC Think Tank

Outlook

The price of wheat is likely to remain elevated as the war in Ukraine lingers. This could be escalated by tight supplies from top producers (US and Argentina) due to adverse weather conditions.

CORN

The price of corn traded within the range of $637.25/bushel - $682.75/bushel. On the average, corn price fell by 2.45% to $653.04/bushel during the review period (Dec 1st-28th) compared to $669.41/bushel in the same period in November. The decline in corn price was due to forecasts of increased supply and growing demand fears fueled by looming recession risks.



Source: Bloomberg, FDC Think Tank

Outlook

China is a top consumer of corn after the US. The relaxation of its zero-covid policy is expected to increase demand. This could help push up corn price given the limited supply of corn fueled by adverse weather condition in top producing countries, and the elongated war in Ukraine.

Implication

Nigeria is a major importer of grains, especially wheat. It spent about $3.14bn on wheat imports in 2021. Higher grain prices will push up its import bill and could lead to a trade deficit on its balance of trade. This could also stoke production costs for food processing firms and can pass increased costs to consumers in form of higher prices. This will in turn fuel inflationary pressures.

SUGAR

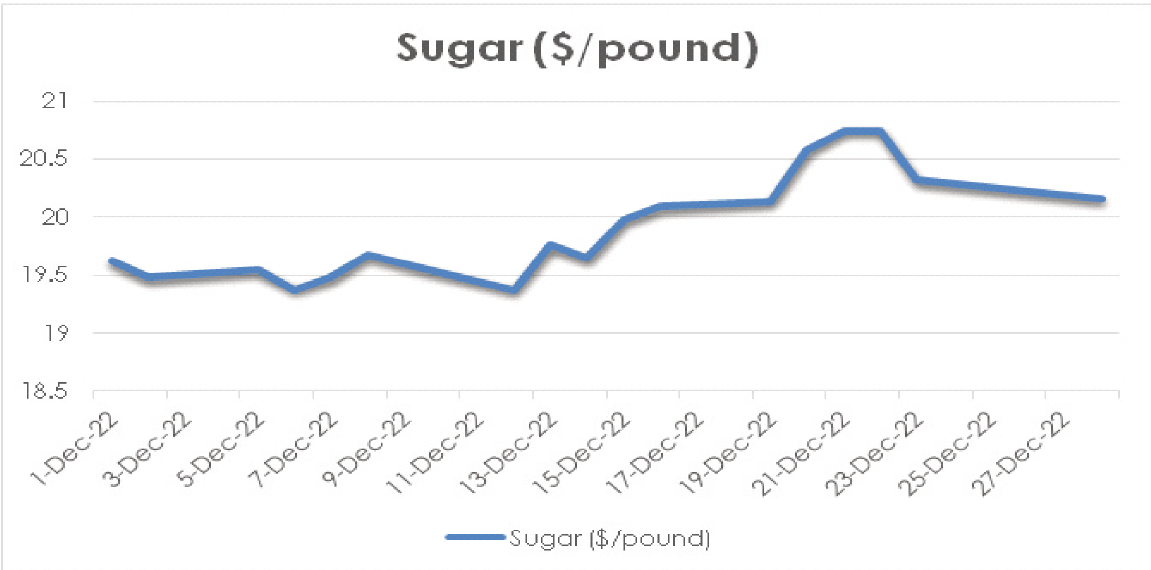
Sugar price rose steadily during the review period and traded between $19.38/pound -$20.75/pound. It touched a high of $20.75/pound towards the end of the review period from a low of $19.38/pound. On an average, sugar price fell by 4.28% to $19.91/pound in the first 28 days of December from $20.80/pound in the corresponding period in November. This was due to the increase in sugar output from Brazil, a top producer of the commodity.

Outlook

Sugar price is expected to rise in the near term as the sugar harvest season comes to an end as well as adverse weather conditions in Brazil and Argentina, which could reduce yields. Also, higher oil price could discourage the production of sugar. This is because sugar canes will be diverted to the production of ethanol while lowering sugar output, which will in turn push up the price of sugar.

Implication

Nigeria remains a net importer of sugar. An increase in the price of sugar could increase its import bill. This could also fuel production costs for confectioners.

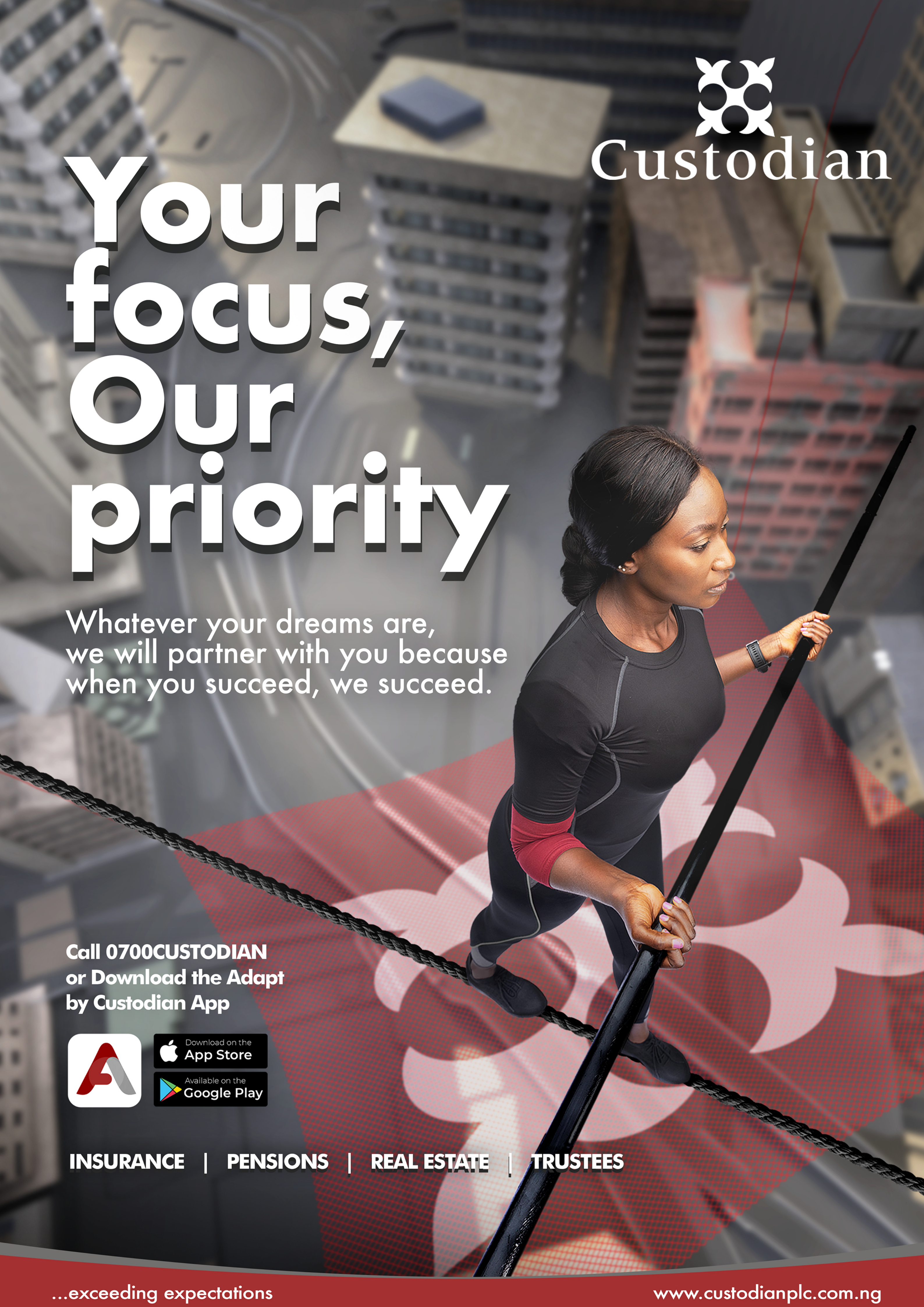


Source: Bloomberg, FDC Think Tank

Terms of Trade

The increase in the price of the country's imports relative to its exports will lead to a negative terms of trade.

[25]Source: Bloomberg, FDC Think Tank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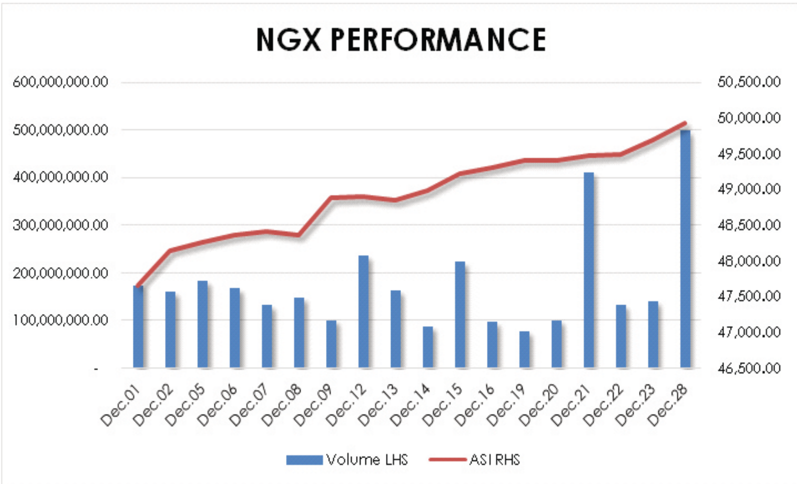
STOCK MARKET REVIEW DEC 1ST - 28TH

Trading activities on the NGX closed on a positive note from December 1st – 28th. It gained 4.77% to close at 49,934.60 points on December 28th, up from 47,660.04 points on November 30th. Also, the market capitalization increased by 4.78% to N27.20 trillion (trn) relative to its close of N25.96trn on November 30th. The market YTD return increased to 16.9% from 11.57% in the review period. The market breadth was positive at 2.19x as 59 stocks gained, 71 stocks remained unchanged, and 27 lost.



The market activity level was negative in the review period. The average volume traded declined by 11.08% to 179.44million (mn) units from 201.81mn. Meanwhile, the average value of trades rose by 24.29% to N3.07bn from N2.47bn in the review period.

The performance of sectors was positive in the review period, as all five sectors gained. The industrial sector recorded the highest gain (12.29%). This was followed by the banking sector (8.05%), the consumer goods sector (4.74%), the insurance sector (3.63%) and the oil and gas sector (1.92%).

Thomas Wyatt Nig. Plc topped the gainers' list with a 122.50% increase in its share price. This was followed by Royal Exchange Plc (69.84%), Champion Brew. Plc (47.71%), Ardova Plc (35.25%) and Learn Africa Plc (33.33%).

TOP 5 GAINERS

Company	Nov-30 (N)	Dec- 28 (N)	Absolute Change	Change (%)
THOMASWY	0.4	0.89	0.49	122.50
ROYALEX	0.63	1.07	0.44	69.84
CHAMPION	3.5	5.17	1.67	47.71
ARDOVA	13.9	18.8	4.90	35.25
LEARNAFRCA	1.65	2.2	0.55	33.33

The laggards were led by SCOA Nig. Plc (-13.21%), Unity Bank Plc (-12.28%), Nigerian Brew. Plc. (-10.48%), Capital Hotel Plc (-9.80%) and Multiverse Mining and Exploration Plc (-9.55%).

TOP 5 LOSERS

Company	Nov-30 (N)	Dec-28 (N)	Absolute Change	Change (%)
SCOA	1.06	0.92	-0.14	-13.21
UNITYBNK	0.57	0.5	-0.07	-12.28
NB	42	37.6	-4.40	-10.48
CAPHOTEL (BLS)	3.06	2.76	-0.30	-9.80
MULTIVERSE	4.4	3.98	-0.42	-9.55

Outlook

Market sentiment remained positive this month, with the NGX closing the year on a bullish note after the country's high interest rate environment weighed on market performance mid-year. Given the naira's stability in the forex market, as well as the prospect of slower monetary policy tightening next year, which is boosting investor sentiment, we expect market performance to remain positive in the near term.

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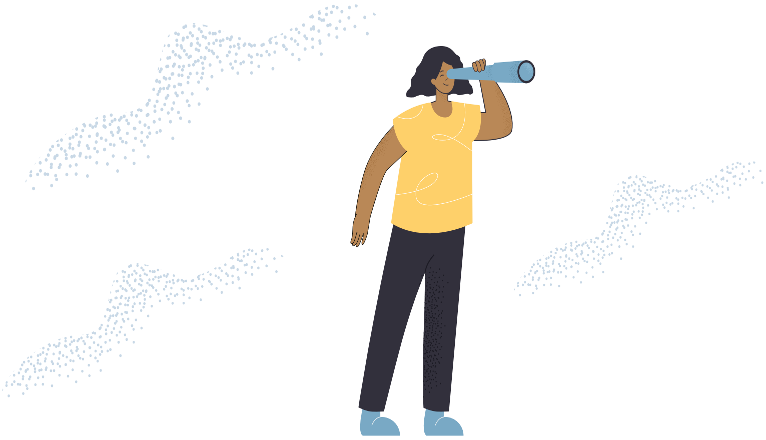
OUTLOOK FOR NEXT MONTH



Outlook

We expect the fall in consumers' purchasing power to persist in the coming month because of the festive season effect. Short-term interest rates are likely to remain elevated in the near to medium term as the CBN tightens monetary policy. The pressure on the naira is expected to persist in the parallel market, while it is anticipated that the CBN will maintain a crawling peg currency management approach at the official market. The CBN's intervention in the forex market will see external reserves depleted further. However, an increase in the oil price will likely buffer reserves. Hence, the external reserve depletion is expected to moderate. The crude oil price is likely to remain high next month. The rise in crude oil prices will be driven by China's "zero-covid" policy ease, the EU's price cap on Russian energy, and the OPEC+'s outcome on its consideration of whether to maintain oil production cuts.

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