



Unity Bank Digest

January 3rd, 2023

Finance

Economic News

Lifestyle

Rising food prices squeezing consumer income

Unity Bank Towers

Plot 42, AHmed Onibudo Street
Victoria Island, Lagos, Nigeria

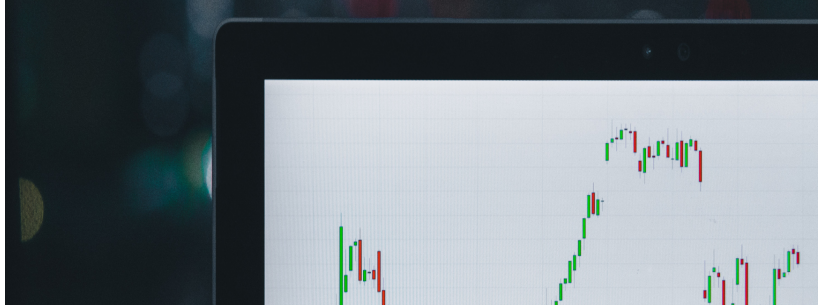
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The Macro



Domestic wheat price spikes 50% as imports dip

The domestic price of wheat increased by 50% due to a decline in the importation of the commodity into the country. One hundred kilograms of durum wheat that was sold between N27,000 and N28,000 at the beginning of 2022 now goes for N41,000-N42,000. Meanwhile, wheat importation fell by 16.09% to N753.59 billion (bn) in the first three quarters of the year, from N898.19bn in the corresponding period last year. This is due to the global scarcity of wheat caused by the Russian-Ukraine war and persistent forex scarcity in Nigeria. The fall in wheat importation, which the nation is heavily dependent on, has translated to higher prices of wheat-related products such as bread, flour, and spaghetti. The price of bread has already increased to N800 from N350 at the beginning of the year due to the rising price of wheat.

It is noteworthy that the fall in wheat imports does not translate to a high level of self-sufficiency in the country and is one of the reasons why the domestic price of wheat has increased this year. Therefore, the sustained reduction in the importation of wheat without a corresponding increase in local production will continue to raise its price. This will also filter into domestic prices of products made from wheat, further squeezing consumers already wilted disposable income.



Weakening Naira, rising food prices: A double burden affecting Nigerians – UN

The United Nations Conference on Trade and Development reported that soaring food prices as well as currency depreciation are negatively affecting the standard of living of individuals in Nigeria. The report revealed that the country's economic situation is forcing many people to make difficult decisions in order to make ends meet, such as skipping meals or pulling a child out of school; while a number of people are unable to afford the basic necessities of life. According to the Global Crisis Response Group, prices of food have surged to record highs in 2022 due to the impact of the pandemic and the Russia-Ukraine war. This has remained a challenge,

particularly for food-importing developing countries.

Developing countries including Nigeria, that are import-dependent, risk worsening fiscal challenges as import costs stay elevated due to soaring global food prices and a weak Naira. The Naira at the parallel market has depreciated by 30.74% to 740 YTD and is expected to dip further, on the back of forex shortages. Persistent currency pressure is expected to keep the cost of importation high in the coming months. This will heighten the cost of production for companies that depends on imported raw materials. As a result, the domestic prices of commodities are likely to spike further, fueling inflation. Worse still, income/wages remain stagnant and are constantly being eroded by skyrocketing food prices.

Flight disruptions loom as fuel scarcity resurfaces in Nigeria

The Airline Operations of Nigeria (AON) released a statement saying that consumers should expect flight disruptions and rescheduling in the country due to the ongoing aviation fuel scarcity, also known as JetA1 (Aviation fuel). The price of the product has risen from about N300 per liter at the beginning of the year to the current price of over N700 per liter due to higher global oil prices, worsened by the persistent scarcity of the commodity in Nigeria. Nigeria imports 100% of JetA1 used by airlines in its flight operations and it is subject to international price changes. Therefore, an astronomical increase in aviation fuel due to global disruptions could impede airlines' services.



Meanwhile, persistent fuel scarcity could prompt airlines to cease operations due to their inability to cover up their operating expenses. This means more people are likely to become unemployed, resulting in a decline in the aviation sector contribution to the Nigerian economy. Meanwhile, passengers will experience frequent flight delays or cancellations. This development, coming at a time when the festive season is at its peak, will force passengers to either cancel travel plans or seek other alternative forms of transport, which could be dangerous, considering the

alarming rise in insecurity in the country.

In addition, the scarcity of aviation fuel will trigger a further hike in the price of flight tickets. Already, the average price of a one-way ticket is as high as N80,000 while the price of a return ticket is between N140,000–N160,000. According to the National Bureau of Statistics, this represents a year-on-year increase by 97%. This, coupled with the worsening economic condition will affect the living standards of the average Nigerian. The high cost of plane tickets would discourage people from taking flights, reduce profits generated, and have an adverse effect on domestic airlines' business operations. However, the airline operators have pleaded for the cooperation and understanding of the public while the situation is being managed to the best of their ability.

World Bank highlights risk of 80 million Nigerians job loss in 2030

In a recent report by the World Bank, the total unemployed population in Nigeria is likely to reach 80 million while 23 million more people could fall below the poverty line by 2030 due to deteriorating living standards. According to the Bank, the majority of those who are living below the poverty line have places of employment but are either underemployed or are working in the agricultural sector. Nigeria is one of the least developed countries in the world, holding a position of 160 out of 188 on the 2021 Human Development Index¹. Despite this, we still have an increasing population rate of 2.58%, which has resulted in a total of 3.5 million Nigerians entering the labor market each year (41% of total new entrants in West Africa).



THE WORLD BANK

Higher levels of unemployment and poverty in the country will stoke social unrest, resulting from an increased crime rate and the loss of lives and properties. In the coming years, unemployment levels in Nigeria are likely to intensify if conscious efforts are not made by the government to solve the lingering issues surrounding unemployment like corruption, inflation, and poor quality education. These could cause more people to fall below the poverty line. Since the private sector is at the center of development and has played a crucial role in every success story of sustained growth around the world, attracting private investment would help the country produce more and better-quality jobs over time

FG records a deficit of N6.2 trillion in H1'22 amid revenue shortfall

In the first half of the fiscal year 2022, the Nigerian government recorded an overall deficit of N6,233.60 billion (bn) due to a shortfall in revenue, according to the Financial Stability Report for June 2022 published by the Central Bank of Nigeria². The report further stated that retained revenue of N2,134.47bn fell 60.30% short of the budget benchmark. The provisional aggregate expenditure for the first half of the year, N8,368.06bn, was 2.30% less than the prorated budget due to a deficit in capital spending. This resulted in an overall deficit in the federal government's fiscal operations.

Additionally, it was disclosed that as of the end of March 2022, total domestic debt stood at N24,986.87bn, an increase of 1.16% from N23,700.80bn at the end of December 2021. The increase was mostly driven by the issuance of Nigerian Treasury Bills, FGN Savings Bonds, and FGN Bonds. Also, external reserves for the first half of the year decreased by 2.66% to US\$39.16bn, from US\$40.23bn at the end of December 2021. The total inflow to the external reserves decreased by 36.95% in the first half of 2022 to US\$16.40bn from US\$26.01bn in the second half of 2021, owing to a reduction in the bank's intervention in the foreign exchange market.

Nigeria's lack of diversification led to a drop in revenue. Oil theft from oil-producing states is causing a continuous drop in oil production, which is affecting the country's revenue. Dwindling revenue will prompt the government to borrow more to boost the nation's economic activity and cover budgetary expenses. At a time when global interest rates are on the rise, debt service costs will continue to soar. As a result, the government will continue to spend a chunk of its revenue on debt servicing rather than on capital projects.

Dangote refinery completion threatened by oil output challenges and rising fuel subsidy

The Dangote refinery will be commissioned in the first quarter of 2023 by President Muhammadu Buhari before he leaves office on May 29, 2023. The Nigerian National Petroleum Company Limited owns 20% of the refinery on behalf of the federation. The refinery has a processing capacity of 650,000 barrels per day, and the majority of the crude oil needed for its operations will be sourced from Nigeria.

The refinery is expected to help meet the demand for refined petroleum products, cut imports, improve savings, and strengthen the country's external reserves. However, oil theft and pipeline vandalism could pose a threat to the company's operation as inputs will remain limited, while the poor road network and extortion by police and security personnel may jeopardize freight movement across Nigeria. Additionally, the government's decision to keep petroleum subsidies until June next year will affect the profit generated by the refinery.

¹Bailey. (2022). Nigeria's ranking in UN Human Development unchanged in 2021.<https://businessday.ng/news/article/nigerias-ranking-in-un-human-development-unchanged-in-2021/>

²CBN. (2022). Financial Stability Report for June 2022.<https://www.cbn.gov.ng/Out/2022/FPRD/FSR%20JUNE%202022%20-%20%20COMPLETED.pdf>

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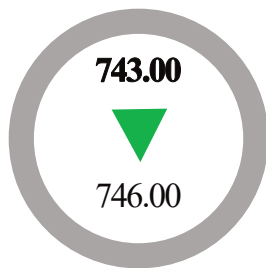
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The Business Environment

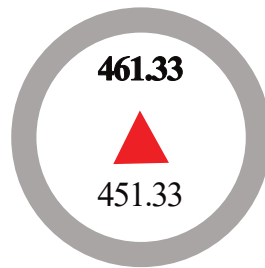
(December 16th- 28th, 2022)



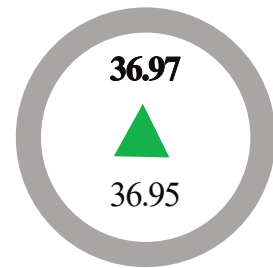
Forex Market



Forex:Parallel (N/\$)



Forex:IEFX (N/\$)



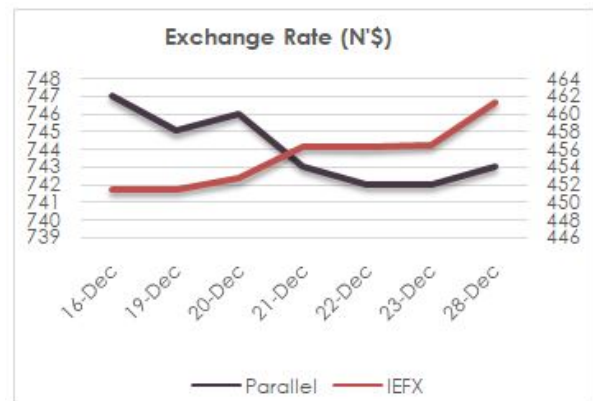
External Reserves (\$/bn)

The Naira at the parallel market traded within a tight band of N742-747/\$ in the last half of December. It however appreciated by 0.40% to close the review period at N743/\$ from N746/\$ at the end of the first half of December. The slight appreciation was supported by increased forex supply as well as increased diaspora remittances during the festive period. Meanwhile, at the I & E window, the Naira depreciated by 2.22% to close the review period at N461.33/\$ from the previous period's close of N451.33/\$. This narrowed the premium to N286.5/\$ from N295.67/\$.

Meanwhile, gross external reserves maintained steady depletion in the review period. For the first time since August 30 this year, it gained slightly by 0.03% to \$36.95bn from \$36.94bn the previous day partly due to the increase in oil earnings. The current level of external reserves can only cover 8.39 months.

Outlook and Implications

We expect the pressure on the Naira to ease further due to the expected diaspora inflows from visiting friends and families. This will further be supported by the CBN's efforts to stabilize the Naira through increased forex supply. However, this is likely to dent the external reserves.

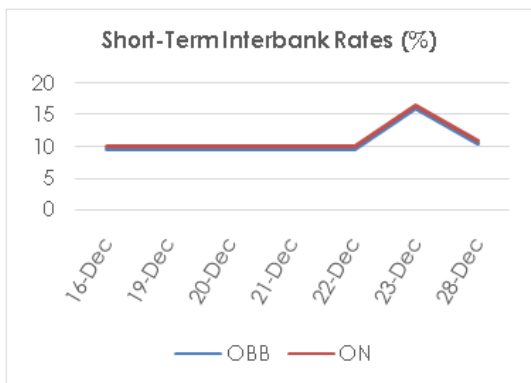


SOURCE: FDCThinkTank, FMDQ



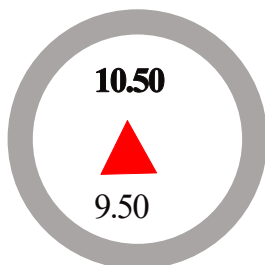
SOURCE: FDCThinkTank, CBN

Money Market

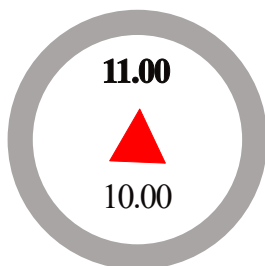


SOURCE: FDCThinkTank, FMDQ

Banks average opening position rose by 90.96% to N385.78bn in the last half of December from N202.02bn in the first half of December. The increase in market liquidity led to the sharp decline in the average short term interbank rates (NIBOR) by 136 basis points (bps) to 10.82%p.a. in the review period from 12.18%p.a. in the previous period. On the other hand, the OBB and ON rates rose by 100bps and 100bps to 10.5%p.a. and 11%p.a. respectively.



NIBOR: OBB(%p.a)

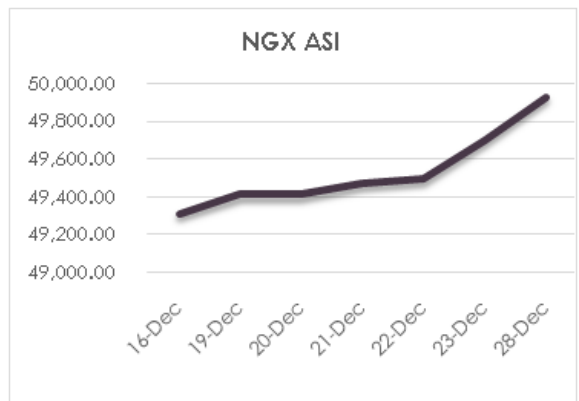


NIBOR: O/N(%p.a)

Outlook and Implications

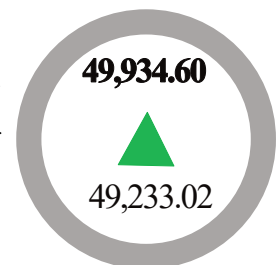
We expect the short-term interbank rates to remain elevated as the CBN strives to mop up excess liquidity in the economy.

Stock Market

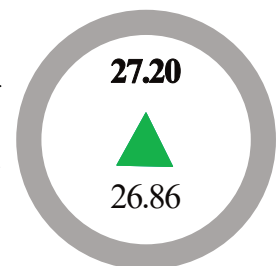


SOURCE: FDCThinkTank, NGX

The NGX maintained a positive performance throughout the review period. It gained 1.43% to close at 49,934.60points from 49,233.02points at the end of the preceding period despite the elevated interest rates. The improvement in the stock market performance was due to positive investors' sentiment in the stock market, supported by the appreciation of the Naira at the parallel market during the period. Similarly, the stock market capitalization rose by 1.27% to close at N27.2trn from N26.86trn at the end of the previous month. As of December 28, the 52 weeks and YTD return stood at 28.95% and 16.9% respectively.



NGX ASI



Market Cap. (N'trn)

Outlook and Implications

In the coming weeks, we expect the stock market performance to be influenced by the MPC's decision in their next meeting scheduled for January. A higher-than expected hike in interest rates will weigh on stock market performance as investors shift their interest towards fixed income securities.

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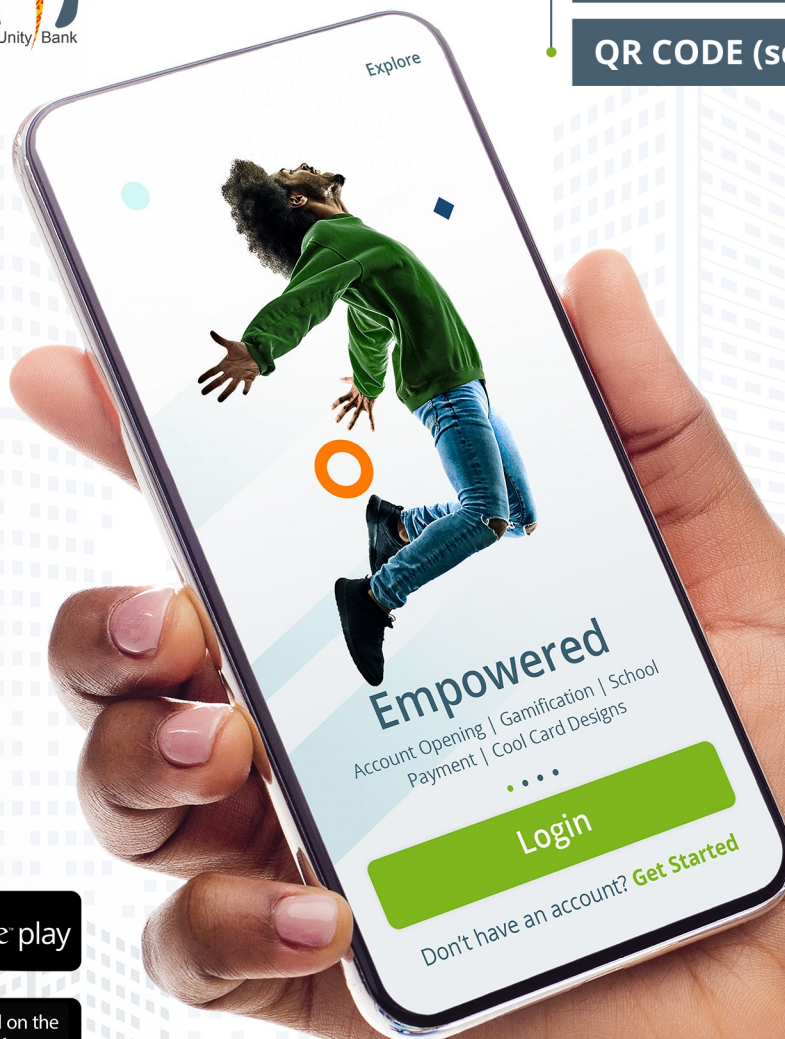
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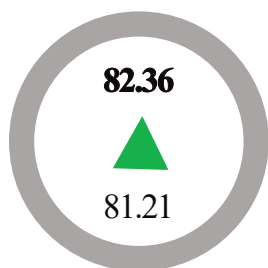
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Commodities

Brent prices(\$/b)

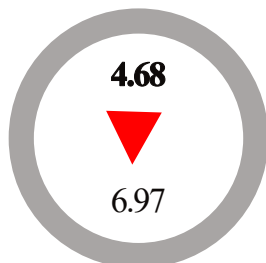


Outlook and Implications

The Brent price remained volatile during the review period, trading between \$83 and \$79 per barrel (pb). The swing in oil prices was influenced by a larger-than-expected drop in US oil inventories, demand recovery from China as COVID-19 restrictions ease and lingering global recession fears. On average, the price of Brent rose by 0.32% to \$80.86pb during the review period, compared to an average of \$80.61pb in the first half of December.

We expect oil prices to remain volatile in the near term on the prospect of a further increase in demand from China as well as Russia plans to discontinue its oil sales to countries that impose the G7 price cap. Meanwhile, oil production is likely to rise further in the coming month and into 2023 as the government remains relentless in the fight against oil theft and pipeline vandalism. Sustained improvement in Nigeria's oil production in addition to the possible increase in oil prices will bolster the federal government revenue and aid reserves accretion.

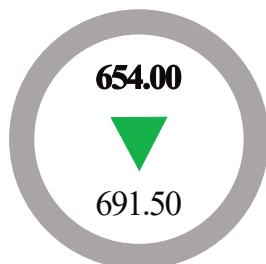
Natural gas(\$/mmbtw)



Outlook and Implications

The expectations of sustained warmer-than-expected temperatures in both the US and Europe will likely result in a fall in gas demand. This will further taper gas prices in the coming weeks. LNG contributes 12.76% to Nigeria's total exports, therefore, lower gas prices would reduce the country's export earnings.

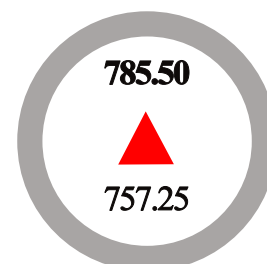
Corn(\$/bushel)



Outlook and Implications

Supply tightness due to harsh weather condition in one of the major corn producers, Argentina, will bolster corn prices in the coming weeks. Higher corn prices will increase Nigeria's corn import bill and cause the domestic prices of corn related products to rise.

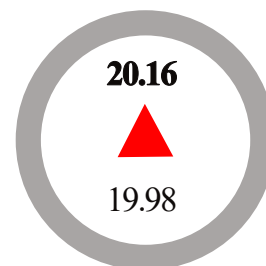
Wheat(\$/bushel)



Outlook and Implications

Wheat prices will rise further in the near future as cold temperatures in the United States continue to damage wheat crops. This will be supported by harvest delays in some top wheat-producing countries such as Argentina and Ukraine. Nigeria import about 70% of wheat therefore, higher wheat prices will increase the country's import bill as well as imported inflation.

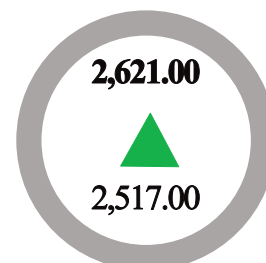
Sugar(\$/pound)



Outlook and Implications

In the coming weeks, sugar prices are likely to stay elevated due to harsh weather conditions in Brazil and the end of its harvest season. Higher sugar prices will reduce the nation's foreign reserves as the import bill rises. This will in turn increase the cost of production for confectionaries.

Cocoa(\$/mt)



Outlook and Implications

We expect the price of cocoa to edge higher in the coming weeks due to low soil moisture in Ivory Coast and the continuous spread of the Black Pod disease in Nigeria. These factors will continue to weigh on cocoa supply and thus, increase cocoa prices. Elevated cocoa prices will bolster the country's foreign exchange earnings as well as farmers' income.

Social Story

TWITTER BANS USERS FROM PROMOTING ACCOUNTS ON OTHER MAJOR SOCIAL MEDIA SITES

Elon Musk, Twitter's CEO, banned the promotion of other social media accounts after many users, looking for an exit strategy, began posting links to their profiles on other platforms.

Some users were quick to switch to other social media channels due to the mass layoff, suspension of journalists and the reinstatement of far-right accounts instructed by Elon Musk after his appointment as the new CEO of Twitter.

However, hours after this ban was put in place, it was retracted due to the high level of criticism it received. Some users spoke about how contradictory the ban is as Elon Musk had vowed previously that he is and would continue to be a “free speech absolutist”

Due to these criticisms, Musk conducted a poll on whether or not he should step down as CEO of the organization and assured the public that he would obey the results.

On the December 20, the results were released to show that majority of the Twitter users had voted for his resignation, and as promised, he has agreed to step down as soon as he finds someone to take his place.



A YEAR END REFLECTION: HOW TO DO ONE

(Culled from balancing the Books of Life)

A year-end reflection can be done following these steps:

Release negative experiences

Many of us have negative experiences every year, but especially this year. It is important to try to move forward without carrying the negativity with us. I learned about this from a coach of mine, and I felt a lot better after I tried it.

Try this method she taught me: Close your eyes and put your hand over your heart, and imagine yourself watching your life over the past year. You are completely separate from it, watching it like a movie. Let some of the hardest situations you experienced come up. Recognize the thoughts and emotions that come up. Allow yourself to feel and process them. Then imagine a cord runs from you to the life you are watching. Take a pair of scissors and cut the cord. Cut yourself from those experiences and let them go. In your mind, as you watch, turn around and walk away.

Realize this: You are not walking away from your experiences. They are yours and yours to keep. You acknowledged and processed the thoughts, emotions and feelings that you associated with them. You are merely letting them be in their place, in the past, and you moving forward to your future, and not letting them come with you.

Reflect on your emotions

As you think back over the last year, what are the prominent main emotions you felt? Some of the most examples of emotions are happy, sad, love, determined, excited, frustrated, angry, confused, energized, and stressed. afraid,



Evaluate these emotions and think about what thoughts were generated to cause these emotions. Are these the emotions you want to feel more of in the coming year, or less of? Are there different emotions you would rather feel moving forward? Our emotions will drive our actions, and our thoughts drive our emotions, so getting your thoughts right, can transform your results.

Evaluate your choices

Next, cycle through all the decisions and choices you made in the past year. Would you make them again, in this moment? For example, if you took a job in the last year (even if you didn't), would you take that job again today? Would you move into your house again today? Would you start that relationship over?

If we don't ask these questions, we set ourselves up to repeat more of the past (staying in a job or living in a house don't love) instead of creating a new future. If the answer is no, that is an indication that you should looking into creating a change in your future. The reason for the decision doesn't matter, as long as it's not because you did it in the past. The goal is to make sure your current decisions are serving your future self in the best way possible.

What didn't go well?

What didn't go well, or as expected, in the past year? Was there something you hoped to accomplish, but didn't? Were there goals you did not quite make? What obstacles did you face? What lessons can you learn from what didn't go as planned? As you go through this, make a list, journal about it (here's one I recommend), or do whatever feels most right for you to evaluate what didn't go as expected this past year.

What did go well?

What did go well this past year? What positive results did you create? What are you most proud of? Again, make a list of all the things that went well, good things that happened to or for you, and what you are most proud of. What lessons can you learn from what did go well?

What are you grateful for?

Lastly, it's important to remember and recognize all the things you are grateful for from the last year. Whether it's someone, or something that happened to you, or something you created and are proud of, what are you grateful for from the last year? Acknowledging and expressing gratitude can not only improve your mood and make you happier but it is also linked to lower rates of stress and depression; therefore, it is always important to recognize what you are grateful for.

As you finish reflecting on this past year, think about what you want your next year to look like. It can be anything. It can be exactly like last year, or completely opposite. All that matters is that it is what YOU want. Allow yourself to let go of the negative, understand the lessons, bring them with you into the future, and be brave enough to go after your dreams.

Contact

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