Unity Bank Digest

March 30th, 2023

Finance | Economic News | Lifestyle

Interest rate hike to drive up cost of borrowing

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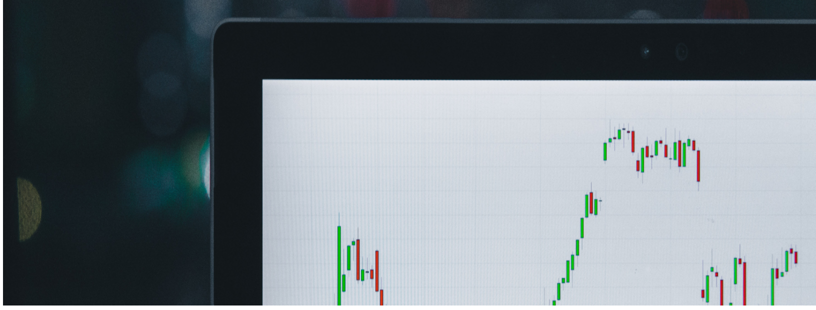

MPC maintained its tightening stance and hiked MPR by 50bps in March

The monetary policy committee (MPC), in its March meeting, raised rates by 50 basis points (bps) to 18% per annum (pa)—the highest rate since the MPC began in 2006. Since May 2022, this is the sixth rate hike, totalling 650bps.

The critical considerations during the meeting include the global financial tremor (caused by a series of bank failures such as Silicon Valley Bank, Credit Suisse and Signature Bank),inflation, the unintended consequences of the cash crunch, GDP growth, and exchange rate pressures. More importantly, the increase in interest rates was a precautionary move to anchor inflation expectations ahead of the fuel subsidy removal in H2'23.

Ultimately, the committee's decision to raise rates is consistent with the global trend (US Fed and ECB raised interest rates by 25bps and 50% to 4.75-5% and 3.5% respectively at their March meetings) and it demonstrates its commitment to taming inflation and relieving pressure on the naira. In February, headline inflation increased by 0.1% to 21.9%, owing to higher food prices and high transportation costs.

Meanwhile, higher interest rates will weigh negatively on economic growth as borrowing costs rise and business activity slows. The purchasing managers index fell by 16% in February, to 44.7 points from 53.5 points in January. As a result, we expect real GDP to fall to 1.25% in Q1'23.

It is worth noting that, despite the CBN adjusting the MPR, there are lingering concerns about the weak monetary policy transmission mechanism in Nigeria . The current yields on 364-day treasury bills and 10-year federal government bonds are 9.5% and 12.5%, respectively. These yields indicate negative real rates of return on investment of -12.4% and -9.4%, which may compel investors to factor in the risk of declining yields in government securities and rebalance their portfolio in favour of equities.

Private sector PMI hits a two-year low on cash scarcity

The Nigerian private sector witnessed a decline in its monthly purchasing managers' index (PMI) by 16.45% to 44.7 points in February. This indicates a huge drop in business activities within the sector. The report released by Stanbic IBTC also stated that the fall in the private sector's PMI was due to contractions in the industry's demand and supply sides.

Specifically, it stated that orders received and output produced significantly dropped within the period due to the ongoing naira cash scarcity, which caused some firms to reduce costs by lowering output levels. At the same time, consumers' ability to spend fell.

The sharp decline in the private sector's PMI is the second-largest drop since the survey first began in 2014. The sharpest drop occurred during 2020 as a result of the COVID pandemic. The PMI drop comes after two successive years of expansion in business activities in the private sector. Given that the private sector accounts for 11.2% of Nigeria's GDP annually, a decline in the PMI for the private sector below 50 points indicates a likely fall in the country's GDP in the upcoming quarter.

Currency-in-circulation drops 29%, while POS transactions climb 9% in February

Currency-in-circulation, defined by the CBN as legal tender currency in the hands of the public and the vaults of deposit money banks, has declined by 29% in the last month. The CBN's recently released data report showed that currency-in-circulation in the Nigerian economy now stands at ₦982 billion (bn), a level last reached in November 2008. The decline is due to the CBN's effort to mop up currency in circulation through the naira swap policy. The policy was introduced in October 2022 but took effect in December 2022. It aimed to curb inflation, reduce counterfeiting and hoarding, stop vote buying and reduce kidnapping activities.

The cash swap policy successfully mopped up ₦2.33 trillion (trn) from the total currency-in-circulation as of October ((₦3.29trn), which contributed to the fall in monthly inflation by 0.16% to 1.71% in February. However, it resulted in a cash scarcity, while queues surfaced at cash points across the country, and ATM and POS operators had a field day charging ridiculous transaction prices. More noteworthy is the surge in transactions through the e-payment channels, particularly POS. In February, the value of POS transactions rose by 9.45% to ₦883.45bn from ₦807.16bn in the previous month. Nonetheless, it is not surprising because of the internet issues and transaction delays experienced by bank customers during the month.

The increased adoption of the digital payment method indicates that the CBN's cashless policy is underway. However, the poor implementation was more detrimental to the economy than beneficial. Productivity dropped due to the double whammy of cash scarcity and fuel shortage. Businesses also saw a decline in their sales and profit levels as weak consumer demand forced them to cut prices and reduce output.

The good news is that the CBN has instructed banks to adhere to the Supreme Court's order to extend the validity of old naira notes. To this end, we expect the cash in circulation to increase in the coming months.. However, integrating the new and old notes amid currency pressures is likely to boost liquidity and stoke inflationary pressures.

Telecom services excluded from 5% excise duty

The Finance Bill of 2022 provided the legal avenue for all services provided in Nigeria to be subject to excise duty at rates to be specified via a Presidential Order. However, on March 22, the federal government announced an exemption from the 5% excise duty for telecom services (the digital economy). The three arguments supporting this exemption stated that the telecoms industry is already riddled with 41 different taxes and other levies. Despite this, the industry still contributes immensely to the country's GDP while keeping its service costs relatively stable. Excluding the telecoms industry from the 5% excise duty could help improve efficiency in the market as it reduces the potential operational cost of telecoms. This will aid network providers such as MTN, GLO, Airtel and 9mobile to maintain their present call rate while improving services. The high level of market competition is another factor responsible for the stable service charges, which could attract more subscribers to the total telecoms customer base. The effect of this will be higher productivity levels which will spill into overall economic growth.

CBN spends ₦12.65bn on the agricultural sector in the first two months of 2023

The CBN governor announced that the bank spent ₦12.65bn on agricultural projects under the Anchor Borrowers Program (ABP) within the first two months of the year. This brings the cumulative expenditure by the CBN, through this flagship intervention scheme, to ₦1.09trn since 2015, when it was officially established. However, the agricultural sector is not the only sector in the Nigerian economy to benefit from CBN expenditures. The bank recently shed more light on its disbursements to the real sector facility, which amounted to ₦1trn as it created eight new agriculture, manufacturing, and services projects in 2023.

Over time, the number of smallholder farmers benefiting from the anchor borrowers program has grown to over 4.6 million (mn), up from 3.8mn in 2021. These farmers cultivate 21 different commodities, many of which are exported. The more farmers the program can cater to, the less reliance there will be on imported agricultural products (which in the past five years have gulped a total sum of ₦6.7trn out of government revenue). The empowerment of local farmers as well as improved fund monitoring and accountability, will aid the CBN in achieving the goals of the Anchor Borrower Program. Furthermore, subsequent contractions in the country's oil sector will place more emphasis on the country's agricultural sector, which, with CBN's support, will not only help boost agricultural output but also have a significant positive impact on the economy as export earnings increase and the naira stabilizes in the forex market.

24 million Nigerians risk falling into severe crisis

The recent Cadre Harmonise analysis has projected that about 24.8mn Nigerians will face severe crisis due to the naira cash and petrol scarcity. The report, which was published on March 16, considers 26 states in the country, including the FCT. According to current estimates, the redesign of the naira has already put roughly 17.7mn Nigerians in a precarious situation, as removing the old notes from circulation severely restricted households' access to cash and food supplies. The elevated petrol price is another factor affecting consumer spending, as higher transport costs have caused individual prices of most commodities (particularly the price-inelastic commodities) to surge. On average, petrol prices are up 54.76% to N263.76 and intercity transport costs (bus journey) have climbed by 26.07% in the last year.

Higher food and petrol prices will further stoke inflationary pressures in the country and raise the inflation rate, which is currently at a new 17-year high (21.91%). Consequently, consumer purchasing power will remain eroded, and the cost of living crisis will worsen. However, to mitigate the effects of these challenges, the report has advised that the government and other developmental organizations should continue to provide life-saving measures like food assistance and social welfare packages to those in the lower income brackets in the listed regions, as this will help to raise consumers' disposable income as well as their standard of living.

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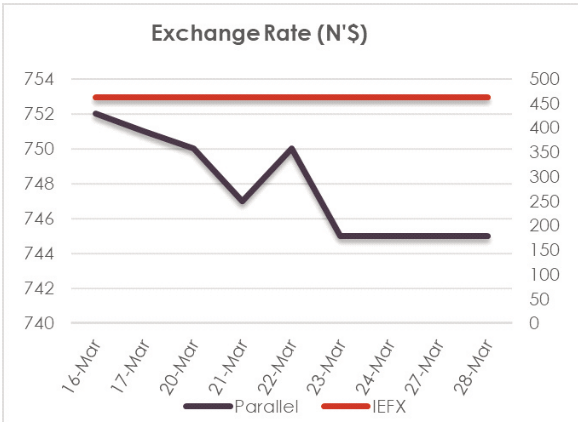
The Business Environment
(March 16th- 28th, 2023)

Forex Market

Forex:Parallel (N/$)	Forex:IEFX (N/$)	External Reserves ($/bn)
745.00	462.00	35.74
752.00	462.00	36.08

The naira at the parallel market maintained a steady appreciation during the review period, depreciating only on March 22 to ₦750/$. Compared to ₦752/$ at the end of the first half of March, the naira appreciated by 0.93% to close at ₦745/$. The appreciation was supported by subdued demand for dollar as the naira cash scarcity slowly fades out. Meanwhile, the naira remained flat in the I & E window at ₦462/$ throughout the review period.

Gross external reserves depleted steadily throughout the review period, falling below the benchmark of $37bn. It lost 0.94% to close at $35.74bn on March 24 compared to its value of $36.08bn on March 15. The decline was attributable to the drop in oil prices to a 15-month low ($70.63pb) during the period. Currently, the level of external reserves can only cover 8.11 months.



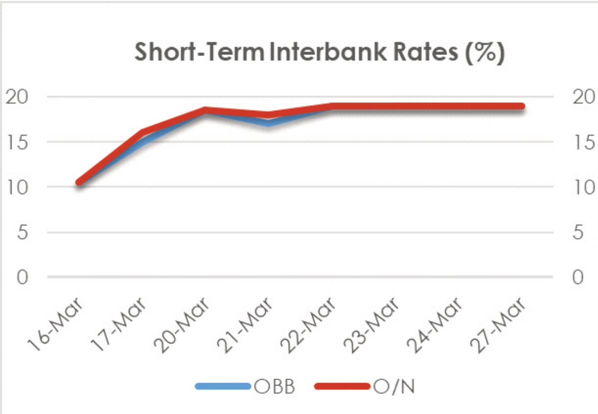
SOURCE: FDCThinkTank, FMDQ

Outlook and Implications

The sustained intervention in the forex market will strengthen the naira at the parallel market. However, this means a further depletion of the foreign exchange reserves.

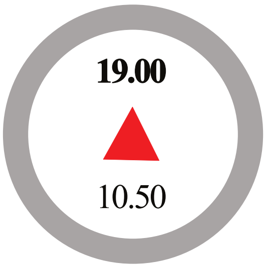
SOURCE: FDCThinkTank , CBN

Money Market



SOURCE: FDCThinkTank, FMDQ

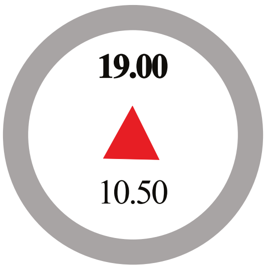
In the last two weeks of March, average banks' opening position plunged 111.07% to ₦56.10bn from ₦506.70bn in the first two weeks. In line with this, the average short-term interbank rates (NIBOR) soared by 649 basis points (bps) to 17.29%p.a from 10.80p.a. in the previous review period. Similarly, OBB and ON rates rose sharply by 850bps and 850bps to close at 19%p.a. and 19%p.a respectively on March 27. There was an OMO repayment of N40bn within the review period with no corresponding OMO sales.



NIBOR: OBB(%p.a)

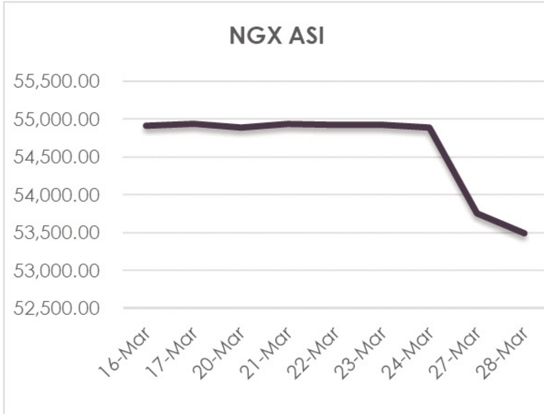
Outlook and Implications

Interbank rates will remain elevated due to the 50bps hike in rates by the MPC.



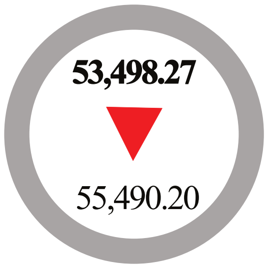
NIBOR: O/N(%p.a)

Stock Market



SOURCE: FDCThinkTank, NGX

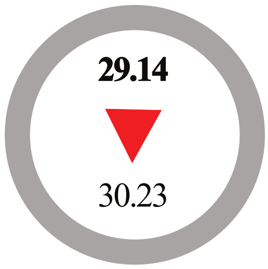
In the second half of March, the stock market recorded a cumulative loss of 3.59%. The negative stock market performance within the review period was due to the rise in the MPR from 17.5% to 18% and the lingering political uncertainties. It closed the review at 53,498.27 points from 55,490.20 points on March 15. Similarly, the stock market capitalization fell by 3.61% to close at ₦29.14trn from ₦30.23trn at the end of the previous period. Of the 9 trading days, the market gained in 3 days and lost in 6 days. As of March 28, the 52 weeks and YTD returns stood at 38.16% and 7.17% respectively.



NGX ASI

Outlook and Implications

The elevated rates in the fixed-income market will cause the stock market to suffer losses in the coming weeks as investors become more willing to sell their high liquidity stocks.



Market Cap. (N'trn)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Commodities

Brent prices($/b)

78.22

73.69

Outlook and Implications

Brent prices rose 6.15% in the second half of March after touching 15-month low of $70.63 per barrel (pb) on March 20. The drop in its price was due to the collapse of Silicon Valley Bank which spurred fears of a global banking crisis, as well as the 25bps hike in Fed rates. On average, the price of Brent also fell 8.64% to $74.83pb from $81.91pb on growing recessionary fears. Oil prices are however likely to adopt a bullish trend in the coming weeks as demand prospects in China improve and Russia maintains its supply cuts. The organization of petroleum exporting countries (OPEC) is expected to meet on April 3rd, with the market anticipating sustained output cuts. This will increase oil prices and encourage domestic production, which already is on a free ride upwards as the FG intensifies efforts to curb oil theft. The rise in oil prices and domestic production will bolster oil earnings in the country and reduce fiscal deficits.

Natural gas($/mmbtw)

2.08

2.51

Outlook and Implications

LNG prices fell 15% during the review period as a milder winter persisted in Europe. In the near term, we expect LNG prices to gain more ground as supply concerns grow in the region. This will help bolster Nigeria's export earnings and increase fiscal revenue.

Corn($/bushel)

649.00

620.00

Outlook and Implications

Corn prices are expected to rise as the strong demand in China outweighs additional Black Sea supplies. Higher corn prices will heighten the risk of imported inflation and threaten the value of the naira in the parallel market.

Wheat($/bushel)

702.50

695.25

Outlook and Implications

Wheat prices were highly volatile during the review period owing to uncertainties in global market. However, the recent decline in Ukraine's grain exports will cause wheat prices to begin to rise in the coming weeks, resulting in negative outcomes for the Nigerian economy such as higher import costs and wheat-based commodity prices.

Sugar($/pound)

21.07

20.45

Outlook and Implications

The global sugar scarcity due to limited supply in top producers like India and Thailand will continue to support sugar prices in the near term. This will worsen Nigeria's trade balance and hike production costs for confectioners.

Cocoa($/mt)

2,901.00

2,641.00

Outlook and Implications

The swollen-shoot virus in top producer Ivory Coast has further limited global supply, causing cocoa prices to hit a 2-year high within the review period. However, increased rainfall in the region could improve cocoa production and taper prices in the near term This will bolster Nigeria's export earnings and increase farmers' income.

Social Story

Burna Boy to perform at the 2023 UEFA champions league final kick-off show

- The Grammy-award winner, Burna Boy, has once again made the headlines.
- The global success of his songs "Last Last" and "It's Plenty" has brought him to this moment of co-starring at the 2023 UEFA Champions League kick-off show by Pepsi in June.
- The annual event, which began seven years ago, is scheduled to take place at the Atatürk Olympic Stadium in Turkey later in the year.
- Burna Boy's highly anticipated performance at the UEFA Champions League final was announced by the organisation via their Twitter page while keeping the artist's co-performer a mystery.
- The 31-year-old music star quickly replied to the tweet, adding that he, as a football fan and a music lover, could not have been happier to secure this deal with Pepsi.
- He has promised his audience that his performance at the event will be vibe-filled and is more than ready to bring the 'Naija' magic to Istanbul.
- Burna Boy and two other Nigerian artists (Tems and Rema) previously wowed the global audience during their performances in February at the NBA all-star game in Salt Lake City.

5 Exercise Motivation Tips to Help You Stick to a Workout Routine

Culled from Self[1]

Figuring out how to stick to a workout routine is tough. Let's face it: It's much easier to make fitness resolutions than to find the sustained exercise motivation to keep them. We all have the best intentions on January 1, and then as the year rolls on, we lose steam, confidence, and motivation. What seemed so feasible just days or weeks ago—going to the gym five days a week/running a half marathon/enter a resolution here—can somehow morph into something impossible. And while it's easy to blame our loss of focus on life happening, perhaps the biggest threat to a realistic resolution is the narrative that plays in our heads.

Well, what if this year was different? Here, exercise experts share the mental techniques they use to help clients stick to a workout routine and meet their fitness goals when feeling overwhelmed, discouraged, and/or otherwise unmotivated.

Start with something easy

Another trick that helps when you're struggling with motivation is to lessen the intimidation factor by telling yourself that you'll start easy. Do a longer warm-up, suggests DiSalvo, then slowly build from there. If you want to run on the treadmill for 20 minutes, for example, tell yourself you'll just do 1 minute to start, and then after completing that quick goal, reassess how you're feeling. If you're up for it, try another

Break your workout into smaller chunks

Instead of focusing on the total time of your workout or the intimidatingly high number of reps you're hoping to accomplish (30 push-ups?! Eek!), redirect your attention to getting through the next 30 seconds, says Zadeh. "You can get strong 30 seconds at a time," she says, and this division will reduce your workout into more mentally manageable chunks so that you can stay present, focused, and motivated.

[1]Jenny McCoy.2020. 13 Exercise Motivation Tips to Help You Stick to a Workout Routine. https://www.self.com/story/mental-strategies-to-stick-with-exercise-routine

minute. From there, reassess again and try for another minute. Continue this pattern to build confidence in your abilities and ease yourself into a workout.

Embrace the small wins

Maybe your goal is to hold a plank for two minutes, and two weeks into your new workout routine, you've improved your ability from 20 seconds to 30 seconds. Even though you haven't yet achieved your goal (and perhaps your goal still feels a long way off), take pride in reaching this mini milestone along the way. Acknowledging the passing of these goalposts can provide the important confidence boost you need to keep pushing toward the bigger goal. Remember, "you get a little stronger each time [you work out]," says Zadeh. That's something worth celebrating over and over again.

Create a reward system for yourself

On days when your motivation wanes, incentivise yourself with a mini reward system, suggests Mansour. Think of small ways to reward yourself—get a 10-minute neck massage, for example, or watch an episode of your favorite Netflix show—and cash in on those rewards if and only if you stick with your daily routine. These small incentives can boost you to get your butt out the door even when your bed feels extra cozy.

Try not to compare yourself to other people

Don't compare yourself to other gym-goers, says DiSalvo. Why? It's easy to watch someone bust out a set of single-leg deadlifts with ease, for example, and then feel resentful, intimidated, and/or discouraged over the fact that you can't yet do one. But you're likely not because they, too, were new to single-leg deadlifts at one point and probably put in a lot of hard work to get to their current fitness level. Plus, so many other factors can constitute a person's fitness level that it's never productive to make assumptions. So, rather than stacking yourself up against your fellow gym-goers or classmates, shift your mindset to one that sees everyone working together and striving toward the same goal: health and fitness, however, each of us defines that.

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