

Unity Bank Digest

June 1st, 2023

Finance

Economic News

Lifestyle

Fuel subsidy
removal to
worsen cost
of living
crisis

Unity Bank Towers

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Victoria Island, Lagos, Nigeria

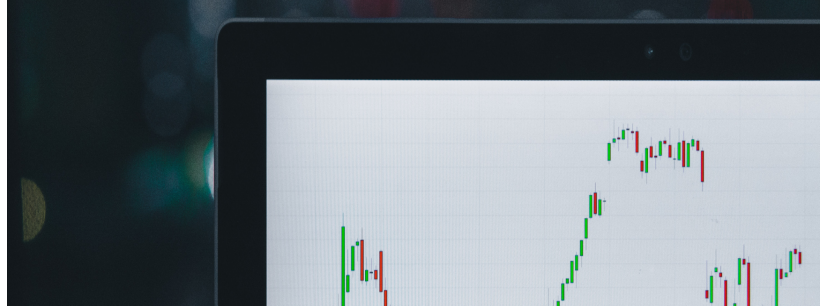
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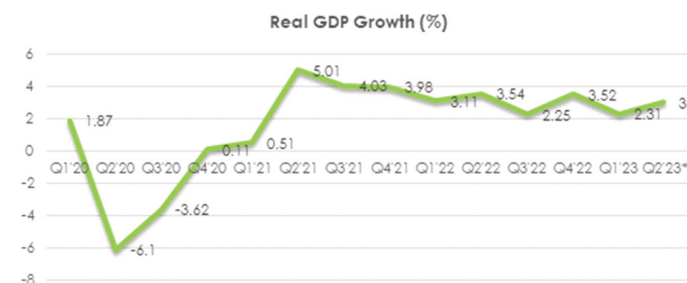
unity
bank

The Macro



Nigeria's Q1'23 GDP slows to 2.31%

In line with analysts' expectations, Nigeria's Q1'23 GDP fell to 2.31% from 3.52% in Q4'22. The non-oil sector, which had steadily grown since the third quarter of 2022, experienced its first slowdown to 2.77% in Q1'23 from 3.30% in the previous quarter. Meanwhile, the oil sector contracted by 4.21%, an improvement from the -13.38% growth recorded in the last quarter of 2022. The higher growth level in the oil sector was attributed to the increase in the country's average domestic oil production, which rose to 1.51 million barrels per day (mbpd) from 1.34 mbpd in Q4'22, owing to the government's increased efforts to curb oil theft and vandalism.



SOURCE: FDC Think Tank , NBS

Although the first quarter of the year is usually characterised by a decline in business activities, the slowdown in Q1'23 growth was mainly driven by the crippling effect of the naira redesign policy, which began in Q4'22. A positive news, however, is the 4.35% growth in the service industry, which helped to sustain the country's positive GDP growth rate.

Of the 46 activities tracked by the NBS, only 12 sectors expanded during the review period, compared to the 17 sectors recorded in Q4'22 and the 25 sectors in Q1'22. Some of these sectors include financial institutions (24.96%), telecommunication (11.71%), road transport (8.02%), and air transport (19.45%).

On the other hand, the contracting and slowing sectors accounted for 73.91% of total business activities in Q1'23 and were mostly those affected by the naira cash scarcity which hindered their ability to hire more employees. Some of which include crop production (1.93%), livestock (-30.57%), rail transport (-49.08%), and insurance (-8.01%). Notably, the agriculture sector contracted for the first time in the last ten years by 0.9% from 2.05% in Q4'22 with the manufacturing and trade sectors slowing to 1.61% and 1.31% respectively.

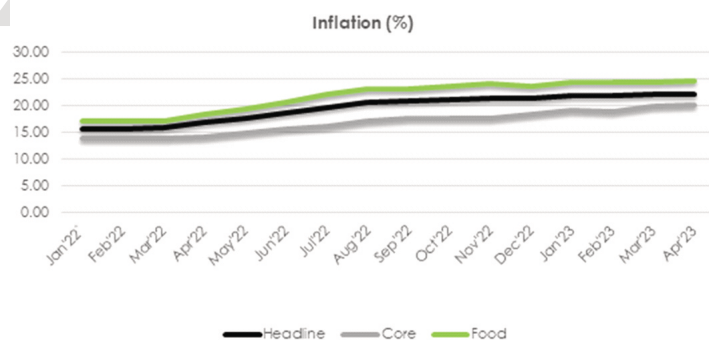
The main sectors affected by the naira cash scarcity were the real sectors due to the fact that most trade and even agricultural activities in these sectors are informal and rely heavily on cash. These sectors jointly employ about 60% of the country's workforce and the contraction in their activities

was able to drag down GDP growth. Although traders in these sectors began using e-payment systems in the latter stages of the cash crisis, it was still insufficient to increase the PMI above the 50-points expansion benchmark (42.3 points) in March.

GDP growth in Q2'23 will be slightly higher than in Q1 due to an increase in cash in circulation of more than 100% between February and April. The increase in cash availability will support business activities and even consumer demand which would sustain the country's PMI in the expansion territory in the coming month. However, the continuous rise in the MPR will keep borrowing costs high, stifling business expansion plans and possibly output levels. On the demand side, rabid inflation will keep eroding consumer disposable income, and tapering aggregate demand.

Nigeria's headline inflation soars to 22.22% in April

In April 2023, Nigeria's headline inflation increased by 0.18% to an 18-year high of 22.22%, up from 22.04% in March 2023. The increase was attributed to a jump in food costs as the country's planting season commenced. Commodities, such as tomatoes witnessed the highest increase with its price per basket climbing by 100% to ₦70,000 in April from ₦35,000 in March. Similarly, month-on-month inflation rose marginally by 0.05% to 1.91%, indicating that inflation risks are still elevated.



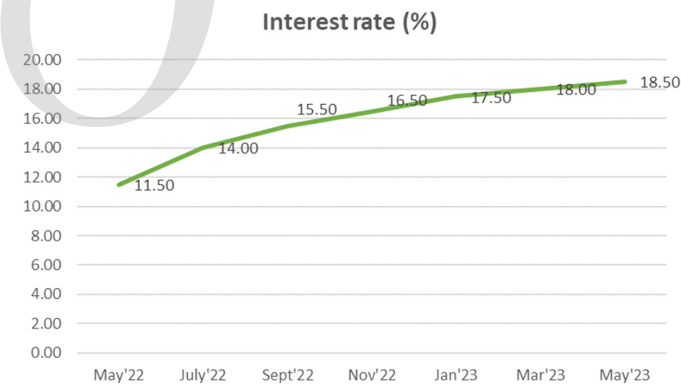
SOURCE: FDC Think Tank , NBS

The breakdown revealed that all sub-indices rose in tandem with headline inflation. Annual food inflation climbed 0.16% to 24.61% in April as food prices remained elevated. In addition, core inflation increased by 0.28% to 20.14%.

Headline inflation is expected to climb further in the coming month as the planting season continues to support food prices. This will strain consumer disposable income while increasing the cost of production for businesses. Additionally, as inflation continues to surpass interest rates, the negative real return on investment will keep rising, hindering economic growth.

The Monetary Policy Committee holds its 291st meeting in May 2023

Above the expectation of a 25 basis points (bps) hike, the monetary policy committee (MPC) raised the benchmark interest rate by 50 bps to 18.5% in its recent meeting from 18% in March. This is the third consecutive rate hike in 2023, bringing the cumulative rate hike 700 bps since May 2022. The MPC's decision to raise rates shows the committee's commitment to taming inflation, which rose to 22.22% in April despite previous rate hikes.



SOURCE: FDC Think Tank , CBN

The CBN encouraged fiscal authorities to address cost-push inflation factors so it could support their rate hikes to curb inflation. The bank mentioned that inflation would have been 30.48% without continuous rate hikes.

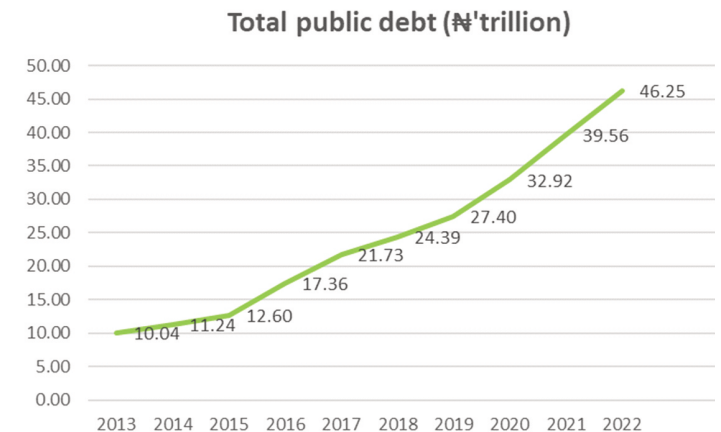
While this is true as Nigeria's inflation is primarily driven by structural factors like insecurity, the increase in the MPR has not been so effective in cooling inflation because the monetary policy transmission mechanism is weak. For instance, while the MPR has risen by a total of 700bps, the 364-day t/bill rate has only risen by 547bps and the 10-year FGN bond rate 400bps. This weak transmission has not translated to an increase in demand for government-backed securities that should effectively mop up the money supply. Since the start of the rate hikes by the MPC, the broad money supply (M3) has risen by 15.5% to ₦56.01trillion from ₦48.5 trillion.

Furthermore, without a corresponding increase in business-enhancing policies and solutions to cost-push inflation-stoking factors, inflation will remain a big problem. Meanwhile, continuous rate hikes could now cause the economy to overheat because businesses are constrained, leading to lower output levels. As a result, Nigeria could fall deep into stagflation, and consumers' standard of living could decline.

World Bank warns Nigeria against fuel subsidy regime

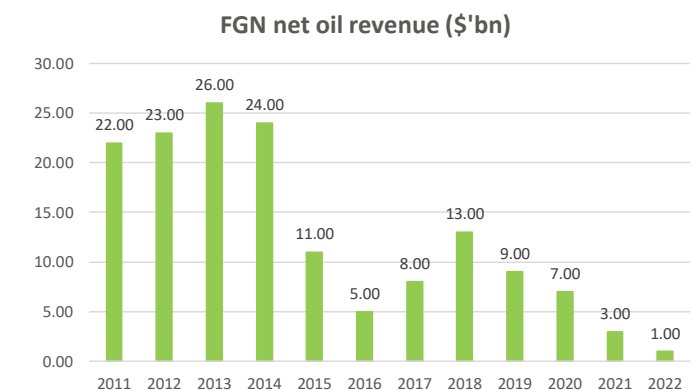
Nigeria has spent over ₦13 trillion subsidising premium motor spirit between 2005 and 2021, with a monthly expenditure of over ₦400 billion (\$865.8 million) on petroleum subsidies in 2022. This has prompted the World Bank to caution against the use of this policy after noting the high debt profiles of states and the country's low revenue

generation. Currently, Lagos is the state with the highest debt profile (i.e., the external and domestic debt combined) with a debt profile of ₦1.96 trillion. Overall, Nigeria's total public debt has ballooned to ₦46.25 trillion in 2022 from ₦10.04 million a decade ago.



SOURCE: FDC Think Tank , DMO

Unfortunately, Nigeria's main source of revenue (oil) has consistently declined in the last 4 years. More recently, OPEC+ began its planned supply cut, which has worsened global supply concerns and could bolster oil prices in the coming weeks. The bad news for Nigeria is that this will increase subsidy payments until the subsidy removal is effected.



SOURCE: FDC Think Tank , CBN, Budget office, NBS,

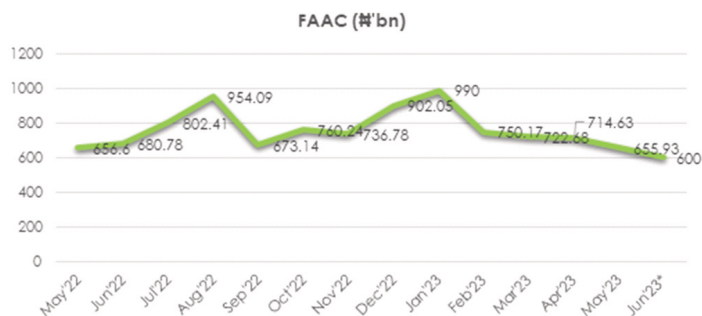
Since a year ago, when oil prices soared above \$100pb and fuel subsidy payments climbed, the NNPC has remitted nothing to the federation account, keeping the average FAAC disbursement at ₦769.19 billion. Furthermore, with the recent announcement by the new Nigerian President, Bola Tinubu, we expect the Federation Account Allocation Committee (FAAC) to increase its disbursement as the fiscal strain on NNPC reduces. States benefiting from the FAAC allocations will now begin to experience an increase in their revenues, which will improve their ability to pay outstanding employee salaries and have a positive impact on the country's overall economic growth. However, because states rely on FAAC disbursements, which include oil revenues, variations in oil revenues will have a significant impact on state revenues. As of 2021, 92% (33 states) of the 36 states in

Nigeria still depend on the monthly FAAC disbursements to run their state.

FAAC revenue drops further in April to ₦655.93bn

The total amount disbursed to the three tiers of government by the FAAC in May fell by 8.21% to its lowest level since January (₦655.93 billion) from ₦714.63bn shared in the previous month. The decline was mainly due to the significant drop in the petroleum profit tax, corporate income tax, oil and gas royalties, import and excise duties, and value-added tax in the month. Only the electronic money transfer levy increased slightly during the period.

The total distributable revenue for April is composed of gross statutory revenue (₦364.65bn), value-added tax (₦202.76bn) and electronic money transfer levy (₦14.52bn). From the total distributable revenue, the federal government received ₦248.81bn, the state governments received ₦218.31bn, and the local government councils received ₦160.60bn. Similarly, the federal government received ₦12.64bn of the ₦24bn in non-mineral revenue, with the state governments and local government councils receiving ₦6.41bn and ₦4.94bn respectively.



SOURCE: FDC Think Tank , NBS

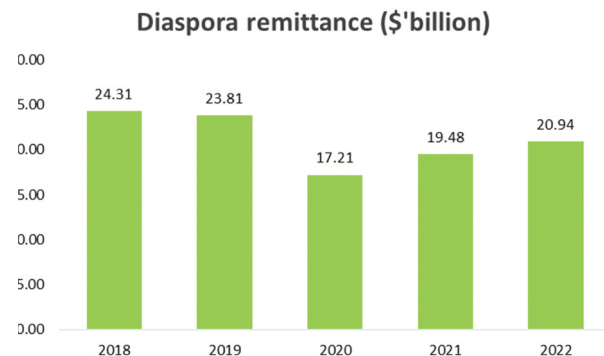
Reduced FAAC revenue for state governments will worsen their fiscal challenges and discourage production as outstanding salary payments rise and workers' motivation to work plunges. The drop in output will then negatively impact manufacturers' profits, reduce the general standard of living in the region, and threaten the overall growth level in the country.

Nigeria's diaspora remittances rose to \$20.94bn in 2022

Diaspora remittances into Nigeria rose by 7.49% to \$20.94bn in 2022 from \$19.48bn in 2021, despite being extremely volatile in the past five years. In line with the previous trend, the majority of these remittances originated from the UK and the US, which house over five million Nigerians and account for about 60% of total diaspora remittances.

Foreign direct investment, however, has declined, signifying the unattractive macroeconomic environment in Nigeria and the dwindling risk appetite of investors. This, in the long run, could have a significant impact on the value of the naira as foreign reserves depletes and exchange rate fluctuations

increase. Most manufacturers, who are already burdened with elevated production costs, would receive the short end of this stick, passing the burden of the additional costs to consumers.



SOURCE: FDC Think Tank , World Bank

In the coming months, diaspora remittances in Nigeria could experience a downturn due to recessionary fears in the global market and the persistent rise in interest rates, which has considerably squeezed the disposable income of Nigerians living abroad. Also, business activities in the UK, the top residential destination for Nigerians, have been slowing for five consecutive months, though they remain slightly above the 50-point threshold (53.3 points). This will further limit the ability of Nigerians in the diaspora to remit funds back to the country and consequently reduce the standard of living in Nigeria.

Upward Review of Savings Rate

	New rate	Old rate
Savings Rate	5.40%	5.25%
<i>*All rates are per annum</i>		

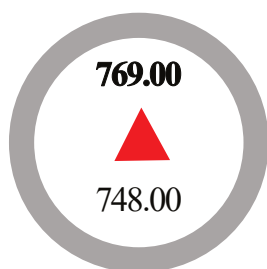


The Business Environment

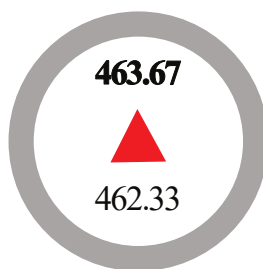
(May 16th - 26th, 2023)



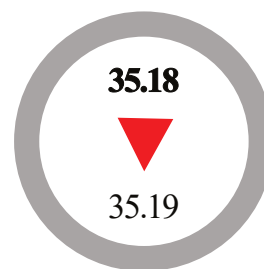
Forex Market



Forex:Parallel (N/\$)



Forex:IEFX (N/\$)



External Reserves (\$/bn)

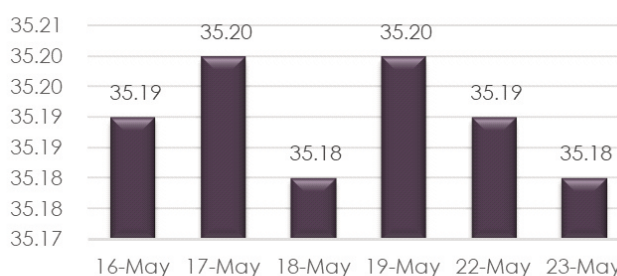
The naira halted the gains at the parallel market in the last two week of May. It lost 2.81% to close the review period at ₦769/\$ compared to ₦748/\$ at the end of the first two weeks of May. The depreciation was largely due to forex shortages as forex demand outpaced supply. This is evident in the decline of the average daily turnover by 4% to \$157.56mn on May 25 from \$164.12mn on May 11. Similarly, the rate at the official window depreciated by 0.29% to ₦463.67/\$ from ₦462.33/\$ at the end of the previous period.

The gross external reserves remained below the \$36bn threshold. It lost 0.03% to close the review period at \$35.18bn from \$35.19bn on May 15. The decline was largely due to lower oil earnings as oil prices fell during the period and oil production remained low (1.18mbpd). It is, however, still sufficient to cover 7.98months of imports.

Outlook and Implications

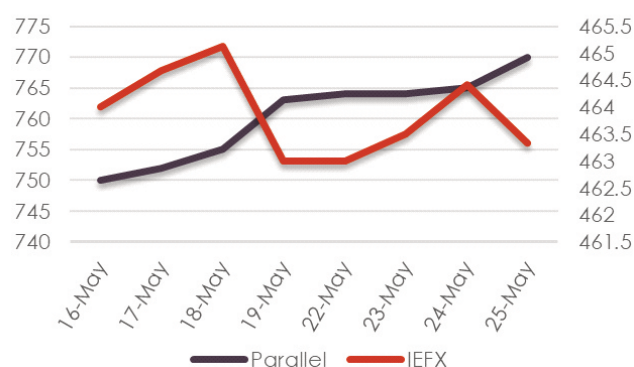
The naira at the parallel market is likely to depreciate further in the coming months as forex demand improves amid tight supply. Meanwhile, lower oil prices will fuel the depletion of the external reserves.

External Reserves (\$'bn)



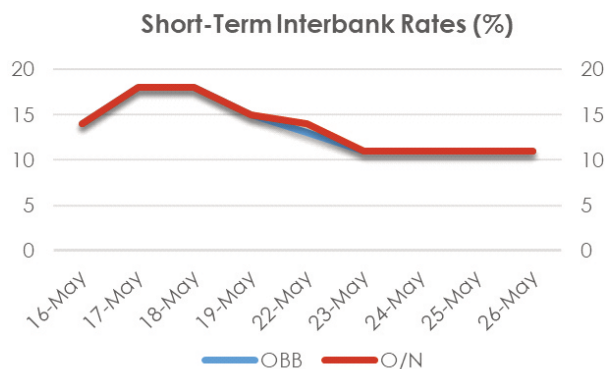
SOURCE: FDC Think Tank, FMDQ

Exchange Rate (₦/\$)



SOURCE: FDC Think Tank, CBN

Money Market

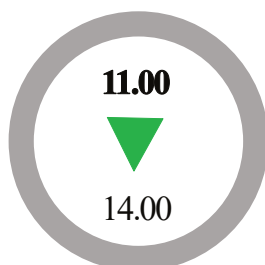


SOURCE: FDC Think Tank, FMDQ

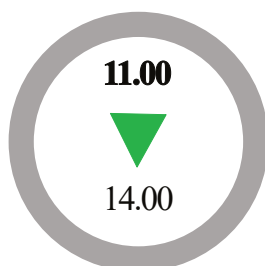
Average banks' opening position dipped by 57.17% to ₦201.37bn from ₦470.17bn in the first two weeks of May due to increased efforts by the CBN to reduce money supply. The decline in market liquidity led to the rise in the average short-term interbank rates (NIBOR) by 201 basis points (bps) to 13.61%p.a from 11.60%p.a. in the first half of May. In the same period, the OBB fell by 400bps to 11% and the ON rates closed at 11%p.a from 14% on May 15. During the review period, there was an OMO repayment of ₦10bn without a corresponding OMO sale.

Outlook and Implications

The 50pbs hike in the policy rate and CRR debit will result in a corresponding rise in interbank rates.

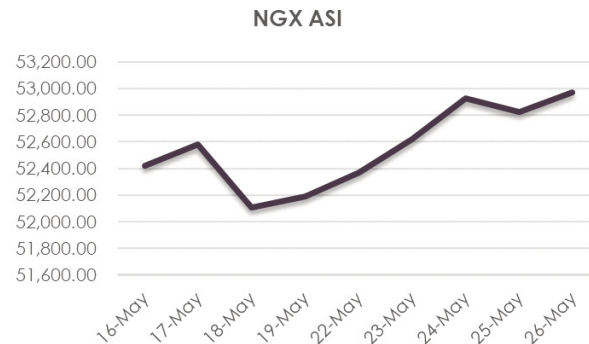


NIBOR: OBB(%p.a)



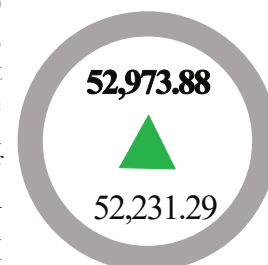
NIBOR: O/N(%p.a)

Stock Market



SOURCE: FDC Think Tank, NGX

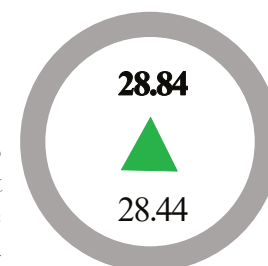
The NGX ASI gained 1.42% to close the review period at 52,973.88 points from 52,231.29 points at the end of the previous period. The positive stock market performance was despite the hike in MPR by 50bps to 18.5% and heightened uncertainties ahead of the handover. Similarly, the stock market capitalization gained marginally by 1.41% to close at ₦28.84trn from ₦28.44trn at the end of the previous period. Of the 9 trading days, the market gained in 7 days and lost in 2 days. As of May 26, the 52 weeks and YTD returns stood at 36.8% and 3.36% respectively.



NGX ASI

Outlook and Implications


We expect the interest rate hike to weigh on the stock market performance as investors reshuffle their portfolio in favor of fixed income assets.



Market Cap. (₦trn)


My Levels Don
Change With


Yanga
Account

 **Savings & Investment**

 **Capacity Building**

 **Agency Banking**

 **Dedicated Agent**

 **Medical Insurance**

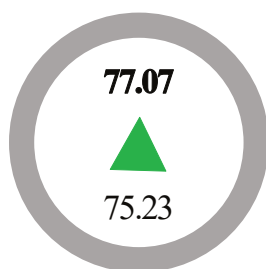
 **Micro Loans**



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Commodities

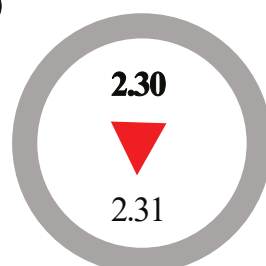
Brent prices(\$/b)



Outlook and Implications

In the second half of May, Brent crude traded between \$74-\$78 per barrel (pb). It however rose by 2.45% to close the review period at \$77.07pb from \$75.23pb at the end of the first half of May. The increase was due to fading risks of US debt default and lingering supply concerns as the Saudi energy minister warnings raised the prospect of further OPEC+ output cuts. Meanwhile, Nigeria's oil production fell by 12.59% to 1.18 million barrels per day in April from a revised figure of 1.35mbpd in March due to the closure of oil platforms and the declaration of force majeure by ExxonMobil in Nigeria in mid-April. In the coming weeks, we expect oil prices to rise due to growing supply concerns and decline in US crude inventories. This will help sustain the Nigeria's favorable trade balance and bolster oil earning in the country.

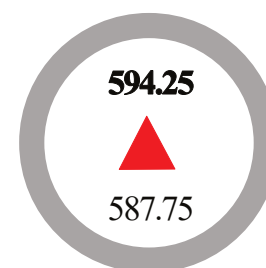
Natural gas(\$/mmbtw)



Outlook and Implications

LNG prices soared to a three-month high of \$2.61/mmbtu but still remained below \$3/mmbtu throughout the month due to ample gas supplies in the Europe and increasing gas inventories ahead of the next winter. However, we can expect a slight rise in its price on expectations of a rebound in China's demand. A rise in LNG price would boost export earnings and aid in external reserves accretion.

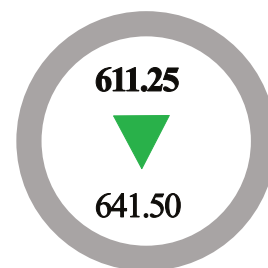
Corn(\$/bushel)



Outlook and Implications

Corn prices rose slightly during the review period after plunging to its lowest level since December 2021 due to the extension of the Black Sea grain deal and expectation of record high harvest from the US. These factors will however continue to influence corn prices in the coming weeks, reducing Nigeria's import costs and alleviating inflationary pressure in the county.

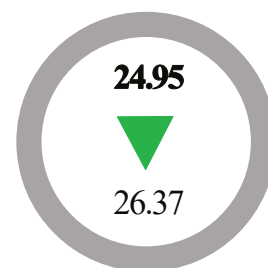
Wheat(\$/bushel)



Outlook and Implications

In the second half of the month, the Black Sea grain deal was extended by involved parties which eased supply concerns globally. This resulted in a 6.7% plunge in wheat prices during the period and strengthened expectations of further decline in wheat prices in the coming month. This will reduce Nigeria's import bill and lessen inflationary pressures in the country.

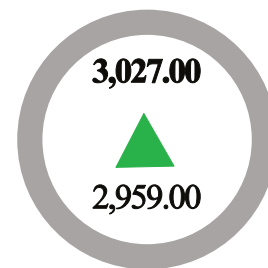
Sugar(\$/pound)



Outlook and Implications

Sugar prices in the global market have remained elevated in the second half of May due to lower crop yield in top-producing countries. Recently, the US Department of Agriculture reduced its forecast for sugar production in the 2023/2024 harvest season to 14.3 million tonnes from 14.5 million tonnes in the previous harvest season. This will further support sugar prices in the coming weeks and increase the domestic cost of production for confectionaries.

Cocoa(\$/mt)



Outlook and Implications

Cocoa prices climbed to a six-and-a-half-year high of \$3,034/mt during the period on supply shortages from Ivory Coast due to below-average rainfall in the region. This is expected to be sustained in the coming weeks and bolster cocoa prices further. Higher cocoa prices will increase Nigeria's export earnings and improve domestic production which is estimated between 250,000 - 280,000 tonnes.

Social Story

Hilda Bassey attempts to break the Guinness world record for the longest cooking time

The Akwa Ibom chef, Hilda Effiong Bassey, has once again made Nigerians proud after completing the challenge of cooking for 100 hours straight.

Although this is the biggest record Hilda has broken, she has previously been recognized on the global stage for winning the Jollof Face-Off competition in 2021.

This year, on April 2, she took to her Instagram page to publicly announce her interest in breaking the world record of the longest cooking hours (87 hours 40 minutes) by an individual, which was set in 2019 by an Indian chef, Lata Tondon.

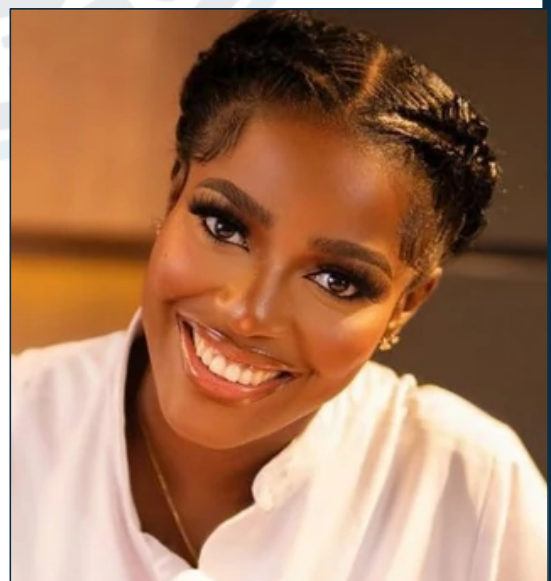
Hilda Effiong Bassey, popularly known by her Instagram handle 'Hilda Baci' began cooking on Thursday, May 11, and ceremoniously turned off her cooker on Monday, May 15.

During this period, she received massive support from Nigerians all over the world and became the main subject on most social media platforms.

Prominent Nigerian celebrities and politicians such as Eni Adeoluwa, Charles Okocha, Sydney Talker, Tiwa Savage, Banky-W, and Lagos State Governor, Babajide Sanwo-Olu were present to witness the event and offer their support.

Her determination to break this Guinness World Record has not only put Nigerian delicacies on the global map but inspired many to pursue their own goals.

The Guinness World Records committee, however, is yet to formally declare Hilda Bassey as the new record holder since they are currently studying evidence to confirm she met all the requirements.



Lifestyle

6 Habits Linked to a Long Life (Backed by Science)

Culled from healthline¹



Eating a nutritious diet and exercising regularly may increase your life expectancy. Other factors, like overeating and drinking more than a moderate level of alcohol, may reduce your risk of certain diseases. Many people think that life expectancy is largely determined by genetics. However, genes play a much smaller role than originally believed. It turns out that environmental factors like diet and lifestyle are key.

Here are 13 habits linked to a long life.

1. Avoid overeating

The link between calorie intake and longevity currently generates a lot of interest. Animal studies suggest that a 10–50% reduction in normal calorie intake may increase maximum lifespan. Studies of human populations renowned for longevity also observe links between low calorie intake, an extended lifespan, and a lower likelihood of disease. What's more, calorie restriction may help reduce excess body weight and belly fat, both of which are associated with shorter lifespans. That said, long-term calorie restriction is often unsustainable and can include negative side effects, such as increased hunger, low body temperature, and a diminished sex drive. Whether calorie restriction slows ageing or

extends your lifespan is not yet fully understood.

2. Stay physically active

It should come as no surprise that staying physically active can keep you healthy and add years to your life. As few as 15 minutes of exercise per day may help you achieve benefits, which could include an additional 3 years of life. Furthermore, your risk of premature death may decrease by 4% for each additional 15 minutes of daily physical activity. A recent review observed a 22% lower risk of early death in individuals who exercised — even though they worked out less than the recommended 150 minutes per week. People who hit the 150-minute recommendation were 28% less likely to die early. What's more, that number was 35% for those who exercised beyond this guidance. Finally, some research links vigorous activity to a 5% greater reduction in risk compared to low- or moderate-intensity activities.

3. Moderate your alcohol intake

Heavy alcohol consumption is linked to liver, heart, and pancreatic disease, as well as an overall increased risk of early death. However, moderate consumption is associated with a

¹. <https://www.healthline.com/nutrition/13-habits-linked-to-a-long-life>

reduced likelihood of several diseases, as well as a 17-18% decrease in your risk of premature death. Wine is considered particularly beneficial due to its high content of polyphenol antioxidants. Results from a 29-year study showed that men who preferred wine were 34% less likely to die early than those who preferred beer or spirits. In addition, one review observed wine to be especially protective against heart disease, diabetes, neurological disorders, and metabolic syndrome. To keep consumption moderate, it is recommended that women aim for 1-2 units or less per day and a maximum of 7 per week. Men should keep their daily intake to less than 3 units, with a maximum of 14 per week. It's important to note that no strong research indicates that the benefits of moderate drinking are greater than those of abstaining from alcohol. In other words, there is no need to start drinking if you don't usually consume alcohol.

4. Avoid chronic stress and anxiety

Anxiety and stress may significantly decrease your lifespan. For instance, women suffering from stress or anxiety are reportedly up to two times more likely to die from heart disease, stroke, or lung cancer. Similarly, the risk of premature death is up to three times higher for anxious or stressed men compared to their more relaxed counterparts. If you're feeling stressed, laughter and optimism could be two key components of the solution. Studies show that pessimistic individuals have a 42% higher risk of early death than more optimistic people. However, both laughter and a positive outlook on life can reduce stress, potentially prolonging your life.

5. Nurture your social circle

Researchers report that maintaining healthy social networks can help you live up to 50% longer. In fact, having just 3 social ties may decrease your risk of early death by more than 200%. Studies also link healthy social networks to positive changes in heart, brain, hormonal, and immune function, which may decrease your risk of chronic diseases. A strong social circle

might also help you react less negatively to stress, perhaps further explaining the positive effect on lifespan. Finally, one study reports that providing support to others may be more beneficial than receiving it. In addition to accepting care from your friends and family, make sure to return the favor.

6. Develop a good sleeping pattern

Sleep is crucial for regulating cell function and helping your body heal. A recent study reports that longevity is likely linked to regular sleeping patterns, such as going to bed and waking up around the same time each day. Sleep duration also seems to be a factor, with both too little and too much being harmful. For instance, sleeping less than 5-7 hours per night is linked to a 12% greater risk of early death, while sleeping more than 8-9 hours per night could also decrease your lifespan by up to 38%. Too little sleep may also promote inflammation and increase your risk of diabetes, heart disease, and obesity. These are all linked to a shortened lifespan.

On the other hand, excessive sleep could be linked to depression, low physical activity, and undiagnosed health conditions, all of which may negatively affect your lifespan.

The bottom line, longevity may seem beyond your control, but many healthy habits may lead you to a ripe, old age. These include drinking coffee or tea, exercising, getting enough sleep, and limiting your alcohol intake.

Taken together, these habits can boost your health and put you on the path to a long life.



Contact

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