Unity Bank Digest

July 19th, 2023

Finance | Economic News | Lifestyle

Business activities in Nigeria's private sector expand in June

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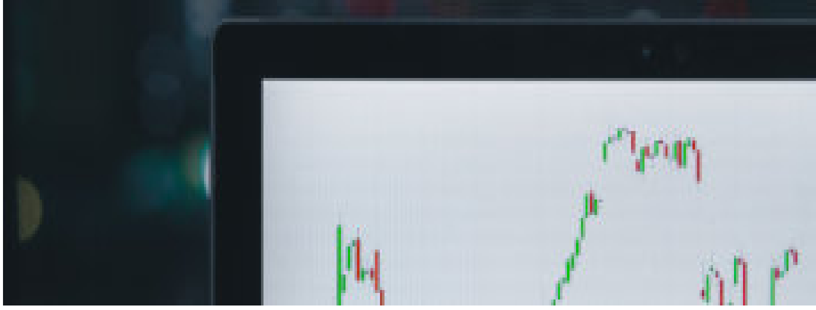

The Macro

Nigeria's headline inflation climbs to 22.79% in June

Nigeria's headline inflation rose by 0.38% to 22.79% in June from 22.41% in May 2023, partly due to the spike in food prices. According to the NBS, prices of both food and non-food items rose during the review period owing to the planting season effect and economic disruptions brought on by the various reform policies carried out in June. This uptick in prices has now caused the country's inflation level to rise to a new 18-year high and marks its sixth consecutive increase since its decline in December 2022.

Similarly, month-on-month inflation (which measures current price movements) rose by 0.19% to 2.13% as festive demand supported food prices. Annual food inflation climbed 0.40% to 25.25% in June, supported by the rain-induced shortage of major staple commodities such as tomatoes and maize. The domestic price of tomatoes has spiked by 14.29% to ₦80,000 (50kg) in July from ₦70,000 in June. Also, core inflation inched higher by 0.21% to 20.27% after previously declining by 0.1% in May.

It is important to note that the impact of the change in policy is still not completely reflected in the June inflation figures since consumers continued to resist price increases and firms opted to adjust their marketing and production strategies rather than pass costs along to customers. However, the impact of the policy changes will become evident as inventory levels begin to drop and consumers get accustomed to the new costs. On the other hand, as the inflation rate remains above interest rates, the negative real return on investment widens. Sadly, this raises the possibility of divestiture and slow development, which will lower consumer standards of living.

FG to begin taxing the informal sector

On July 3rd, 2023, the FG announced a new Value Added Tax (VAT) directive, which aims to include the informal sector in the tax bracket. This means that players in the informal sector like market traders will now pay VAT on the goods they produce and sell. The FIRS has partnered with the Market traders association to implement this directive. The collaboration between the FIRS and MATAN is expected to increase knowledge about VAT collection and remittance in the informal and market sectors while streamlining VAT payment and remittance for these sectors using a specially designed digital platform. The platform will provide each member with a Tax Identification Number to adequately track their turnover and take record of their VAT payments.

More significantly, the FIRS and MATAN have noted the existing informal taxation in the informal sector and how this new VAT directive may provide issues for informed sector players. This is because not only will it compound their taxes, but it also makes it become regressive. The reason for this is that informal sector players are already heavily taxed by touts and self-imposed tax collectors. Thankfully, the VAT Direct initiative intends to slightly ease the tax burden on consumers by dealing with the problems of double taxation and illegitimate taxation.

The introduction of VAT in the informal sector will significantly widen the government's revenue base, as the informal sector houses over 80% of the working population in the country. In Q1'23, VAT revenue amounted to ₦709.59 billion (bn), and we expect to see this value rise in the next quarter. However, for consumers, the new development will only worsen their current cost of living as the cost burden will mostly be passed on to them in form of higher prices. Unfortunately, income levels remain stagnant.

Nigeria's Q1'23 capital importation rose to $1.13billion

In the first quarter of 2023, Nigeria's capital importation rose by 6.78% to $1.13 billion from $1.06 billion in Q4'22. However, when compared to its value in the corresponding period in 2022 ($1.57 billion), capital importation to Nigeria dropped 28%.

As usual, Lagos remained the top destination for capital inflows, accounting for 62.23% ($704.87 million) of total capital investment, up from 56.62% in Q4'22. It was followed by FCT, which accounted for 36.22% ($410.27 million) of total capital imports. Meanwhile, the top source of capital importation to Nigeria remained the United Kingdom (42.92%), followed by the United Arab Emirates (9.56%) and the United States (8.42%).

More specifically, foreign portfolio investments made up the largest portion of overall capital investment in the first quarter of 2023 (57.32%). The successful 2023 elections and clear policies appear to have wooed investors as they bid for a comeback to the stock market. Other investments and Foreign direct investments (FDIs), which made contributions of 38.31% and 4.20%, respectively, came next. Additionally, the banking and production sectors recorded the biggest inflows ($304.56 million and $256.12 million, respectively) from these investments.

The increase in Nigerian capital imports indicates that the economy is becoming more favorable to foreign investors. It is expected that the policies including the exchange rate unification, put in place by the president will bolster foreign investment in Q2'23. Capital importation in the country contributes to the country's supply of foreign exchange. A sustained increase in capital importation would improve the forex supply in the country, increasing the CBN's ability to support the naira. However, lingering domestic issues including insecurity will pose a threat to foreign investment flows.

Nigeria's debt increased by N3.6trn in Q1'23

Nigeria's total public debt climbed by 7.78% to ₦49.85 trillion (trn) ($108.30bn) in Q1'23 from ₦46.25trn ($103.31bn) in Q4'22. This excludes the CBN's advances of ₦22.71trn in ways and means that will be included in the federal government's Domestic Debt Stock from June 2023. Similarly, debt servicing costs have spiked by 55.71% to ₦1.24trn in the first quarter of the year from ₦550.51bn in the last quarter of 2022.

A further breakdown of the data revealed that Nigeria spent ₦874.13bn on domestic debt servicing in Q1'23, while spending ₦368.87bn ($801.36 million) on external debt servicing. The IMF expects the federal government to spend 82% of its revenue on payments of interest during the year, with external debt (including that of the private sector) rising to $121.6bn and external reserves climbing to $37.5bn within the period. Currently, Nigeria's total domestic debt stock is ₦30.21trn ($65.62bn), which is 60.60% of the total debt stock, while the external debt stock is ₦19.64trn ($42.67bn).

Despite the country's high debt levels, Nigeria was still able to pay its eurobond maturity of $500 million on its due date of July 12, 2023. The country had previously redeemed three Eurobonds totaling $500,000 in July 2018, $500,000 in January 2021, and $300,000,000 in June 2022. These, along with the $500 million Eurobond redeemed recently, increased the total amount of securities redeemed by the country in the International Capital Market (ICM) to $1.8 billion.

In understanding debt sustainability, the federal government's debt service to revenue ratio has risen to 73.5%, bringing the debt-to-GDP ratio above the country's self-imposed 40% limit and the 55% limit recommended by the World Bank and the IMF. The high ratio of debt servicing to revenue raises the possibility of a debt default by the government as finances become inadequate to meet its recurrent and capital expenditures. High levels of debt also increase the likelihood of a downgrade of sovereign credit ratings and a loss of access to global capital markets, which, among other consequences, will hinder economic growth and development.However, Nigeria's ability in redeeming its Eurobonds and Diaspora Bonds in the ICM during the last six (6) years indicates the efficacy of its debt management procedures.

Private sector PMI remains above the 50-point threshold

The Nigerian private sector witnessed a decline in its monthly purchasing managers' Stanbic index (PMI) by 1.48% to 53.2 points in June from a five-month high of 54 points in May. This was as a result of heightened inflationary pressures in the country, which encouraged producers to increase inventories in the interim to fully maximize higher prices in the future. Similarly, business confidence dropped to a record low during the period owing to the removal of the fuel subsidy and elevated production costs.

According to the report, the increase in businesses' selling price accelerated quickly to its highest value since June 2022. These additional costs were passed on by the businesses to their customers. Similarly, the increase in purchase prices grew at the fastest rate since August 2022.

The private sector PMI still remains above the expansion benchmark of 50 points, signalling growth in this sector, albeit slowly. This will support output levels in the economy, as the private sector accounts for about 13% of the country's GDP. Also, as output increases, so will the standard of living in the country, increasing the attractiveness of the Nigerian economy to foreign investors.

Mobile subscriptions in Nigeria fall by 2.19% in five months

Since the start of the year, Nigeria's telecom industry has lost 4.95 million mobile subscribers to close at 220.93 million in May. This is a decline of 2.19% from the total number of mobile subscribers in January (225.88 million). Some telco companies attributed this decline to domestic macroeconomic factors, such as inflation, and cash shortages, which curtailed consumer demand for telecom services. In April, mobile subscriptions also dropped to 223.34 million from 226.84 million in February, making the recent drop in mobile subscriptions its third consecutive decline.

Among the telecom companies in Nigeria, MTN Nigeria experienced the biggest decline in mobile subscriptions, going from 91.95 million subscribers in January to 85.59 million subscribers in May. Airtel's customer base also decreased slightly to 60.53 million subscribers from 60.56 million subscribers within the same period. On the other hand, Globacom and 9Mobile performed somewhat better, increasing their respective customer bases to 61.15 million subscribers from 60.34 million subscribers and 13.66 million subscribers from 13.03 million subscribers in January. Additionally, teledensity—the ratio of active telephone connections per 100 residents—fell to 115.91% in May from 118.51% in January.

The suspension of the 5% excise tax on telecom services will encourage further investment in the sector as the business environment improves and profit levels remain relatively favourable. Currently, investment in the country's telecom industry has totalled $75.6 billion in 2021, with about 60,000 5G subscriptions across 12 states in the country. Increasing investment in the sector will not only increase revenue for telecom companies but also improve consumers' standards of living as output levels rise.

The average price of air tickets rose by 34.06% to ₦74,948.78 in May

Transportation costs in the country continue to rise, with the average price of air tickets climbing by 34.06% to ₦74,948.78 in the past year. Similarly, on a month-on-month basis, the average price of air tickets for single journeys and specified routes rose marginally by 0.002% from ₦74,947.30 in April. Prices for business class tickets, which are subject to the airline and the time of purchase, now range from ₦4 million to ₦6 million, while the cost of an economy ticket has increased from ₦400,000 to almost ₦1.2 million.

Additionally, the average price for water transport surged by 1.39% to ₦1,045.15 in May from ₦1,030.83 in April, while the average fare paid by commuters for bus journeys within the city per drop increased by 0.23% to ₦649.59 from ₦648.12 in the same period.

Transport fares are expected to rise in the next review period as the recent fuel subsidy removal keeps a floor on their prices. Specifically, the exchange rate adjustment by the International Air Transport Association to ₦803.9/$ will raise airfares in the coming months, reducing the demand for travel allowances and closing profit margins for airlines. Furthermore, the rise in fares will not only impact daily commuters but also businesses that heavily rely on transportation for their operations.


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The Business Environment

(July 3rd - 12th, 2023)

Forex Market

810.00

775.00

Forex:Parallel (N/$)

803.00

840.00

Forex:IEFX (N/$)

34.08

34.12

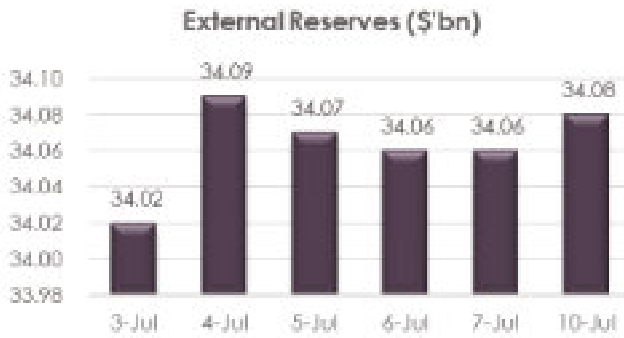
External Reserves ($/bn)

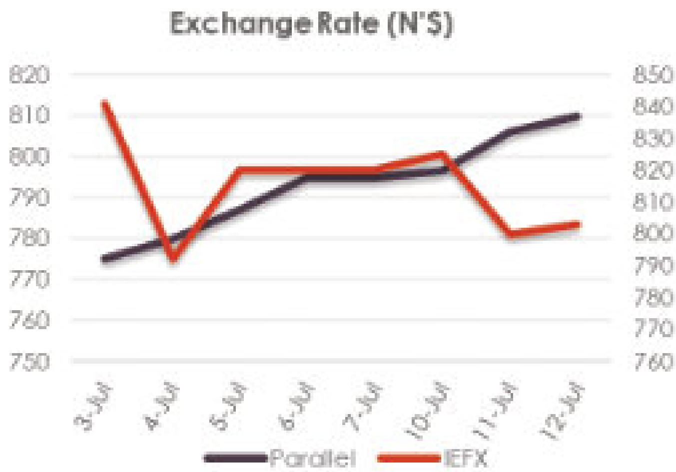
During the review period, the naira traded within a band of ₦792/$-₦841/$ at the I & E window. It gained 4.61% to close at ₦803/$ at the end of the review period from ₦840/$ on June 30 as market forces continue to play a major role in determining exchange rates. However, in the parallel market, the naira depreciated by 4.32% to close the review period at ₦810/$ from ₦775/$ on the last day in June as forex supply remains limited. This is evidenced in the decline in the average daily turnover by 65.64% to $90.52mn on July 12 from $263.45mn on June 30.

The gross external reserves level dropped further in the first two weeks of July, losing 0.12% ($4mn) to close the review period at $34.08bn (June 10) from $34.12bn on June 30. The current level of external reserves is sufficient to cover 7.73 months of imports.

Outlook and Implications

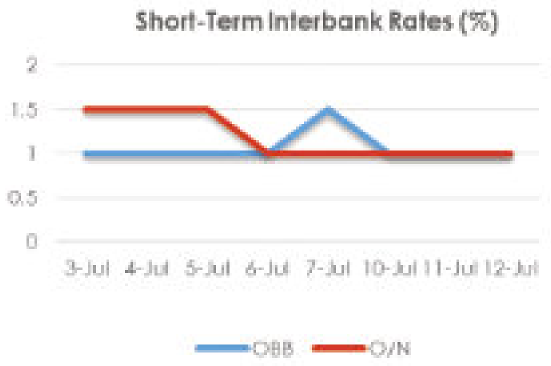
We expect the foreign exchange market to remain volatile in the short term as the market adjusts further to the "'willing buyer, willing seller" model. On the other hand, Nigeria's external reserves could gain some ground as oil prices begin to uptick and oil production level improves further.





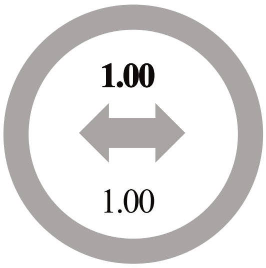
SOURCE: FDC Think Tank , CBN

Money Market



SOURCE: FDC Think Tank, FMDQ

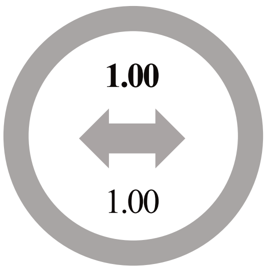
The average banks' opening in the first half of July fell by 6.51% to ₦825.30bn from ₦882.79bn in the last two weeks of June as the CBN maintains efforts to reduce money supply. In May, money supply fell by 0.43% (y-o-y) to ₦55.80trn from ₦56.04trn in April. Despite the decline in liquidity, the average short-term interbank rates (NIBOR) plunged by 623 basis points (bps) to 1.13%p.a from 7.36%p.a. in the last half of June. In the same period, the OBB and ON remained constant at 1% and 1% from their value on June 30. There was no OMO repayment or OMO sales during the review period.



NIBOR: OBB(%p.a)

Outlook and Implications

We expect short-term interbank rates to remain at current levels pending any significant inflows or outflows.

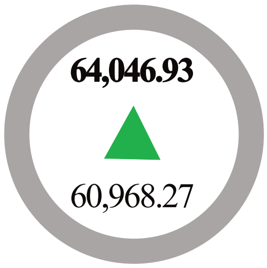


NIBOR: O/N(%p.a)

Stock Market

SOURCE: FDC Think Tank, NGX

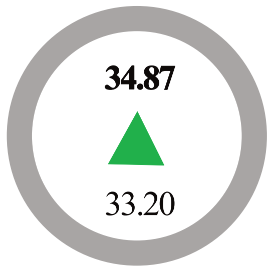
The NGX ASI gained 5.05% to close the review period at 64,046.93 points from 60,968.27 points at the end of the previous period. The positive stock market performance was due to bargain hunting activities within the period. Similarly, the stock market capitalization gained 5.03% to close at ₦34.87trn from ₦33.20trn at the end of the second half of June. Of the 8 trading days, the market gained in 6 days and lost in 2 days. As of July 12, the 52 weeks and YTD returns stood at 65.40% and 24.97% respectively.



NGX ASI

Outlook and Implications

The stock market could perform negatively in the next week due to increased investors' tentativeness ahead of the release of the inflation numbers on June 15.



Market Cap. (₦'trn)

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Commodities

Brent prices($/b)

80.11

74.38

Outlook and Implications

In this review period, Brent price crossed the $80pb threshold. It close at $80.11pb, 6.23% higher than the price on June 30 ($75.41pb). The rise in oil prices was due to deepening supply uncertainties in the oil market as Russia and Saudi Arabia commit to additional output cuts in August. Similarly, the average price of Brent rose to $76.94pb in the first two weeks in July from $75.29b in the previous period. However, investors are still awaiting the US Fed's decision on rates. A rise in the interest rates would have heighten recession risks, which could weigh on oil prices. Lower oil prices coupled with the sub -optimal level of oil production in Nigeria will dent the country's oil revenue.

Natural gas($/mmbtw)

2.63

2.67

Outlook and Implications

LNG prices were volatile in the first two weeks of July due to staffing shortages in North America and rising demand from Asian countries. LNG prices will begin to rise in the near term owing to stronger demand in Europe as summer begins. Higher LNG prices will increase Nigeria's gas export earnings and aid in external reserves accretion.

Corn($/bushel)

483.75

531.50

Outlook and Implications

Corn prices were elevated during the review period as severe drought in the US damaged corn crops and reduced supply. Corn prices, however, will begin to ease in the second half of the month on expectations of rainfall in the US Midwest, improving supply prospects. This will reduce Nigeria's import bill and in turn taper the prices of corn-related products.

Wheat($/bushel)

632.75

672.50

Outlook and Implications

The global price of wheat rose slightly in the first two weeks of the month driven by deepening uncertainties regarding Black Sea supply. However, in the near future, wheat prices would begin to taper as crop yields in Russia improve. Nigeria stands to gain from this as its import bill reduces. However, the domestic price of the commodity is likely to stay elevated reflecting the adjustment of the exchange rate used to compute the import duty.

Sugar($/pound)

23.91

22.38

Outlook and Implications

Sugar prices maintained relatively high owing to concerns about the El nino weather pattern in Europe. In the coming weeks, sugar prices are expected to decline as production in Brazil increases. This will reduce Nigeria's import bill as well as the domestic prices of confectionaries.

Cocoa($/mt)

3,339.00

3,286.00

Outlook and Implications

Cocoa prices soared during the review period as tight supply remains prominent in the global cocoa market. Heavy rainfall in top producer, Ivory Coast heightened the risk of cocoa disease and spurred supply concerns. This is expected to further influence cocoa prices in the next review period. Higher cocoa prices will improve Nigeria's trade balance and increase farmers' income.

Social Story

Meta launches Threads app

- The trending app, Threads, was officially launched on July 5th by Meta in over a hundred countries.
- Barely 12 hours after its launch, the app recorded a total of 30 million users with celebrities such as Oprah, Shakira and chef Gordon Ramsay joining shortly.
- According to Mark Zuckerberg, the CEO of Meta, the app is set to provide "a new, separate space for real-time updates and public conversations."
- Meta's Threads is said to rival the popular social media app, Twitter which is currently owned by Elon Musk who acquired it last year for $44 billion.
- There have been various speculations regarding the legal battle between Meta and Twitter; however, many Twitter users are more than open to switching apps due to the unfavorable 'new' rules on the Twitter platform.

4 Secret Ingredients to Boost Your Focus: A Neuropsychological Perspective

Culled from Medium[1]

In the fast-paced culinary world of our minds, focus is the elusive main ingredient we are all scrambling to find. So, put on your metaphorical chef's hat and let's unveil the secret recipe for a Michelin-star worthy focus.

Introduction:

How many times have you found yourself scrolling through endless meme-infested Twitter threads or watched the third season of your favorite Netflix series when you should be working? Let's be real here, it's a rhetoric we are all too familiar with — the eternal struggle with our focus.

Perhaps the culprit is our hyper-digitalized world, or maybe it's that fresh batch of memes, hotter than a Kardashian scandal. Or could it be that we've just been looking at focus through the wrong lens?

The Unveiling:

Rather than treating focus as a binary state — "I'm focused" or "I'm not focused" — consider it as a Michelin-star chef would a complex dish. We require multiple ingredients, each contributing to the overall flavor. And today, we're serving up four secret ingredients, fresh from the neuroscience kitchen, to whip your focus into gourmet shape.

Ingredient One — The Power of Novelty:

Research from the Journal of Neuroscience shows that novelty enhances memory and attention. So, spice up your routine! Add a dash of unpredictability to your daily grind, whether it's switching up your study spot or trying out a new method of brainstorming.

Ingredient Two — Emotional Engagement:

[1] https://medium.com/@M4t1SS3/4-secret-ingredients-to-boost-your-focus-a-neuropsychological-perspective-82931c9c6988

We're more likely to remember emotionally charged events, says psychology professor Dr. Christine Harris. So, when it comes to your tasks, add some personal zest. Find a way to connect emotionally to your tasks. How do they align with your dreams, passions, or values?

Ingredient Three — Mindfulness:

In a world of multitasking mayhem, mindfulness is the unassuming hero. Studies have shown that mindfulness meditation increases gray matter in the prefrontal cortex and hippocampus, areas crucial for focus and memory. So, consider adding a sprinkle of mindfulness into your routine.

Ingredient Four — The Pomodoro Technique:

If focus is a Michelin-star dish, then time is the chef's best friend. The Pomodoro Technique, created by Francesco Cirillo, is your timer. It involves breaking work into 25-minute chunks, separated by short breaks. The ticking timer creates a sense of urgency and keeps distractions at bay.

The Recipe for Focus:

- Spice up your daily routine to add a dash of novelty.
- Emotionally engage with your tasks.
- Incorporate mindfulness meditation into your daily schedule.
- Use the Pomodoro Technique to manage your time effectively.

In Conclusion:

Let's remember, focus isn't about emptying your mind or chaining it to a single idea. It's about understanding the mental ingredients that cook up the perfect environment for focus. So, wear your chef's hat with pride, and start experimenting with your secret ingredients today!

We've all been there — struggling with focus, battling distractions. What are your unique techniques to boost focus? Share your experiences in the comments below. And if you found this 'recipe' helpful, don't forget to follow for more insights from the world of neuropsychology. Remember, the path to focus is a journey, not a destination. Let's explore it together.

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