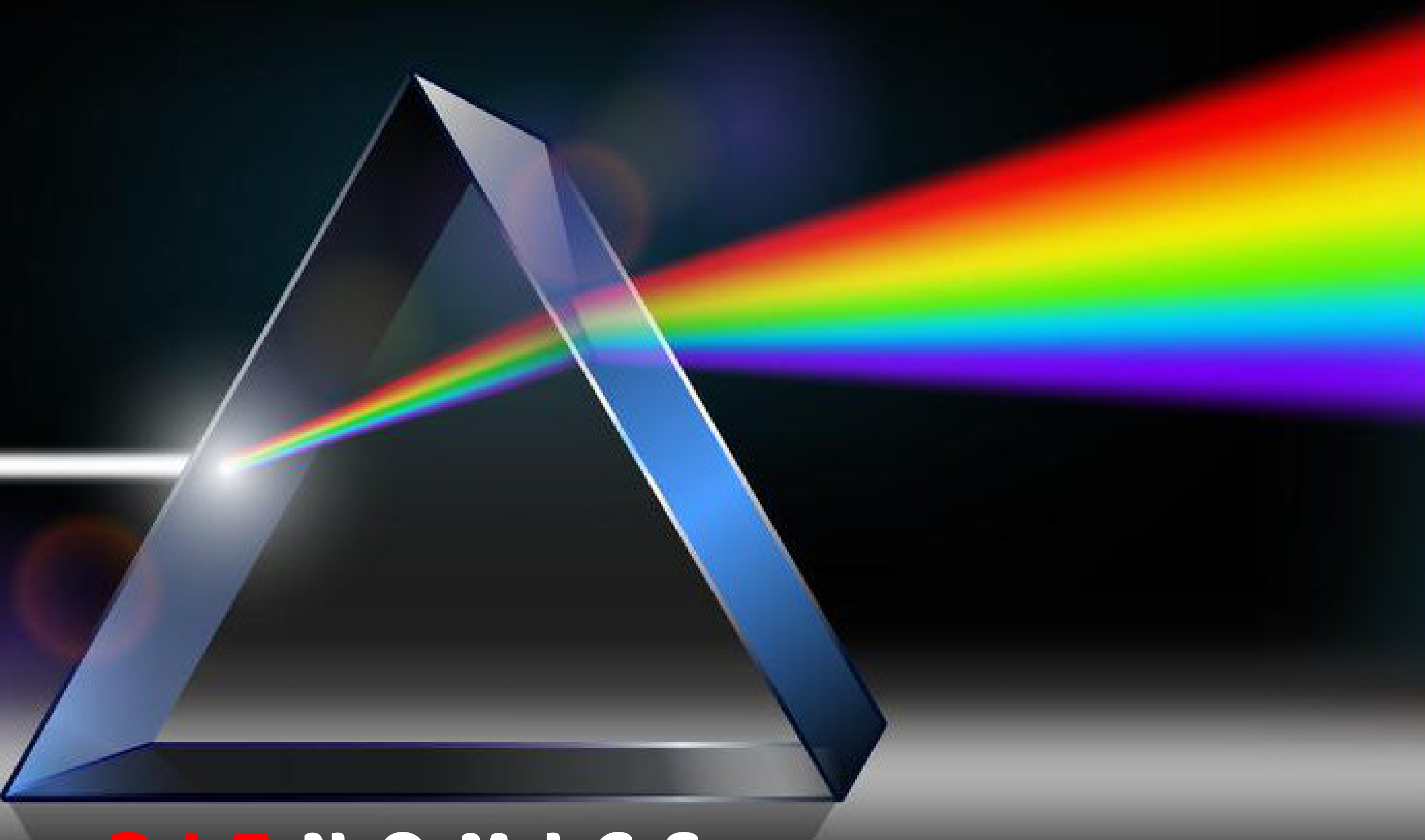
AUGUST 24, 2023

PRISM



BIZNOMICS

CONTENTS

What is the Fair Value of the Naira?

The naira is trading today at N915/$ and has been oscillating like a yoyo for some time. Finding the true fair value of the naira in the forex market has become an enigma to most investors, analysts and speculators.

Based on fundamental analysis ranging from its purchasing power parity (PPP) deduction to a more basic hamburger value, there seems to be no consensus on the fair value of the naira. The trading range of N870/$-N915/$ in one month seems too wide to make any meaningful deduction.

One thing that pops out from the market trend is that policymakers seem unclear as to what the real strategy of currency management in Nigeria should be. There's a lot of knee-jerk reactions to market gyrations and no proactive thinking. For example, it would have been pretty obvious to even an intern that the revelation of the $3.7bn net external reserves position, which was sharply lower than the published gross reserves moving average of $37bn was going to be met with market scepticism and a backlash. Therefore, why was that disclosure so badly bungled?

The naira exchange rate is a critical economic indicator which has profound political and social consequences. The emergency loan of $3bn from the AFREXIM bank to support the naira is probably too little in magnitude and is a bit late.

Also lurking in the dark is the possibility of a ruling against Nigeria on the P & ID case with a potential liability of approximately $11bn. Therefore, the policymakers have to come to terms with coming clean on the issue of data integrity. The market must be told where the bodies are buried.

The naira exchange rate is a critical economic indicator which has profound political and social consequences. The emergency loan of $3bn from the AFREXIM bank to support the naira is probably too little in magnitude and is

a bit late. The leaked letter from the CBN chastising Wema Bank for lending naira against dollar deposits smacks more of regulatory panic rather than strategic positioning of the naira in a volatile currency and commodity market.

What are the fundamentals?

- The naira is 10% undervalued based on a crude PPP value analysis.
- Nigeria's terms of trade declined by 0.11% to 100.88 points in Mar'23 from 100.99 points in Jan'23.
- The volume of oil production has dropped by 3.08% to 1.26mbpd (July), constrained by OPEC quota and force majeure in Escravos.
- Pipeline vandalism has continued because the security system seems compromised.
- The other leading export, LNG has witnessed a slight price recovery after falling sharply earlier in the quarter.
- Investment flows and invisible Diaspora payments have shrunk and are coming into the market through surreptitious routes, leading to massive transaction costs at the expense of the economy.
- The continued retention of the 43 items that are not valid for official forex transactions is making a segmented market more inefficient with multiple exchange rates persisting.
- The CBN has been unclear as to its policy in the settling of forward forex transactions. The markets are concerned about the commitment of the CBN to meet its obligations on a timely basis.
- The licensing of more BDCs and changing the market structure without a corresponding increase in forex supply into the market is sending mixed signals to market participants.

What Next?

- The CBN needs to remove the artificial floor of N799/$ and allow the currency to float in both directions as part of a price discovery mechanism.
- The policy attitude towards using foreign currency deposits and guarantees must be changed so that money is fungible and moves freely across markets.
- The CBN must increase forex supply into the market and set out a clear path on how to clear its FX backlogs.
- Apart from the invisible flows which will increase if the "invisible hand" is allowed in the FX market (efficient market), boosting forex supply via increased non-oil exports is also crucial.
- Move effective interest rates closer to the rate of inflation.
- FX restrictions on the 43 items must be removed to enhance market efficiency

The Prism Overview: Global & Domestic

Key economic events have shaped the global and domestic economy in the past four weeks. Topping the list of global happenings are the BRICS summit, China's economic throes, rising commodity prices (especially food and crude oil) and slowing quantitative tightening measures.

We assessed the BRICS summit later on in the report, touching on the wider implications of the top emerging market economies and global shakers meeting to discuss the expansion of the economic bloc to include more countries and reduced reliance on the US dollar.

However, China, which is the bloc's most powerful nation, is currently facing economic headwinds (deflation, slow growth, weak demand, and its property crisis). The global perspective of this maiden edition of the Prism, speaks to the fundamentals of China's deflation problem and its wider implications for the world.

While the global economy is in a merry-go-round, the domestic economy has been a bit more dramatic, taking wild roller coaster rides. From the CBN releasing its seven-year truckload of financial statements to dumbfounding revelations by JP Morgan on Nigeria's net foreign exchange reserves, putting it at $3.7 billion, which can barely cover one month of imports.

Not only did the news rattle the financial markets, but it also exerted pressure on the currency, causing the naira to depreciate to a new low of N915/$ after it recently gained 11.05% to N860/$ at the parallel market on the news of the NNPCL's emergency crude-repayment loan of $3 billion from AFREXIM Bank. The first article in the report speaks to what the fair value of the naira is and what the CBN must do to arrest the naira's free fall.

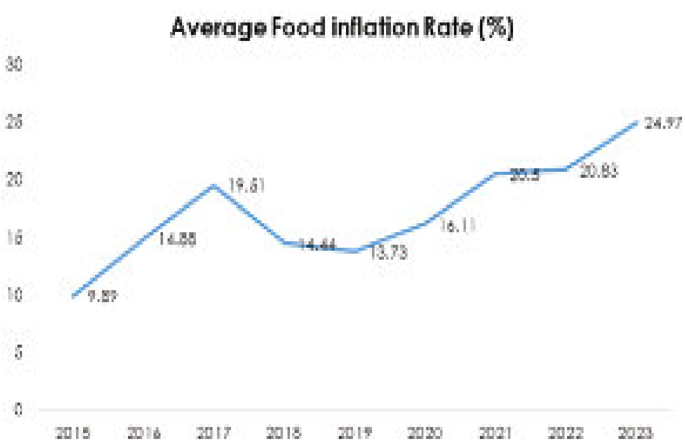
The ailing naira is not the only battle Nigerian policymakers are contending with, inflation is still hydra-headed, fuelling food insecurity. According to the Global Food Insecurity Index for 2022 by the Economist, Nigeria ranked 107 amongst 113 countries, with insecurity problems primarily isolated in food availability and affordability. We provide proven measures the government can take to solve this food problem, including a corporate focus on a leading consumer goods company—Cadbury, and an economic outlook for the next month.

Overcoming Food Insecurity Challenges in Nigeria

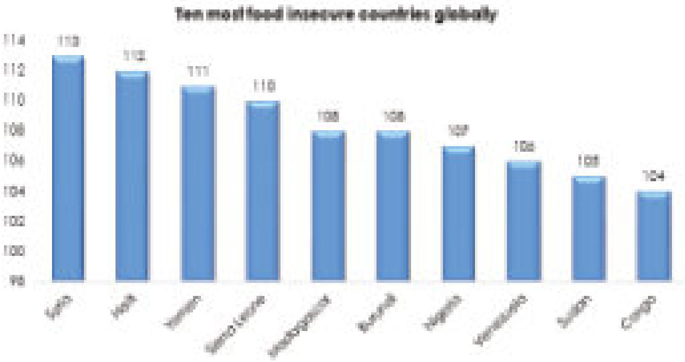
On July 27th 2023, the president declared a state of emergency on Nigeria's food supply and security. In the last year, food inflation has increased by 4.96% to 26.98% (July 2023) from 22.02% (July 2022) due to lingering food shortages, further deepening Nigeria's food insecurity woes. On average, food inflation has increased to 24.97% (so far in 2023), up from 20.83% in 2022.

According to the United Nations Food and Agriculture Organization, 25 million Nigerians are at risk of food insecurity, double the 12 million two years ago. As defined by the World Health Organization (WHO), food insecurity is a situation where people lack secure access to sufficient amounts of safe and nutritious food for normal growth and development and an active and healthy life. Food

According to the Global Food Security Index by the Economist, Nigeria is the 7th most food insecure country out of 113 countries tracked on the index.A further breakdown shows that Nigeria ranks last position on affordability and 108th on availability, meaning that not only is food supply a struggle, but people are also unable to buy the limited available commodities due to soaring prices.



Source: NBS, FDC



Overall ranking from Global Food Security Index (GSFI) by the Economist

Source: The Economist (GFSI), FDC

insecurity is measured by affordability, availability, utilization and stability.

Why is Nigeria food insecure?

Food insecurity in Nigeria is caused by several factors including poverty, low agricultural productivity, climate change and environmental degradation, poor infrastructure and high population growth.

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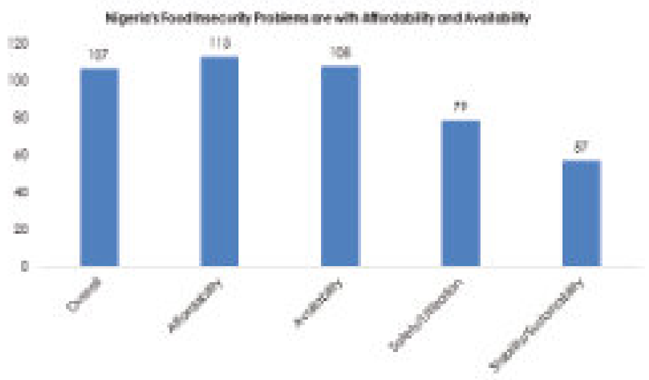

Source: The Economist (GFSI), FDC

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Food insecurity in Nigeria, particularly from the availability standpoint, is significantly affected by heightened insecurity in the food belt, poor crop yields, limited access to modern farming technologies and poor storage facilities, which has significantly increased post-harvest losses to 50% from 30%.

The shortages in food supply coupled with skyrocketing logistics costs exert pressure on food prices, reducing purchasing power (affordability) and pushing more people into extreme poverty. According to the National Bureau of Statistics (NBS), household consumption expenditure contracted by 4.07% in 2022 compared to a growth of 25.65% in 2021. Nigeria's poor food storage facility and depleting food reserve are also undermining food availability.

The deterioration in all the dimensions of food security calls for urgent attention at this crucial time when Nigeria has undertaken tough reforms capable of keeping food prices high. The Vice President recently met with the Russian President, discussing the latter's commitment to provide 50,000 tons of grain to African countries, including Nigeria.[1] This is likely to alleviate food insecurity and foster stronger ties. While this is likely to provide temporary relief, addressing rising insecurity in the food-producing states is crucial to achieving food security in Nigeria.

How can Nigeria address food insecurity?

Nigeria can draw lessons from successful approaches to combating food insecurity in various countries. Vietnam's "Doi Moi" strategy exemplifies this, focusing on agricultural modernization, efficient irrigation systems, and high-yield rice varieties. This approach transformed Vietnam into a significant rice exporter, bolstering domestic food supply and

1 The Nation (2023, June 28). 25 Million Nigerians at Risk of Hunger. Retrieved August 14, 2023, from https://thenationonlineng.net/russia-to-supply-grains-to-african-countries/#google_vignette

driving economic growth through foreign exchange.

The Vietnamese government promoted the expansion of rice farming into suitable areas and offered technical assistance, agricultural loans, and subsidies to improve rice farmers' productivity and lower their costs of production. The government invested in post-harvest storage facilities, road networks, and bridges in rural areas. These improvements allowed for an extended shelf life for produce, reduced food waste, improved access to markets, reduced transportation costs, and minimised post-harvest losses.[2]

The strategy also included special programmes placed to give smallholder farmers financial assistance and subsidized agricultural inputs, enabling them to invest in their farms and increase productivity. The farmers received technical training, and extension services, and were offered the opportunity to learn about better farming practices, pest control, and sustainable agricultural practices. These efforts were supported by the Food and Agriculture Organisation and the World Food Programme.[3]

Lastly, the Vietnamese government established social safety nets, guaranteeing access to sufficient food for the vulnerable population. These programmes included food subsidies for low-income households, especially during economic hardships or food price fluctuations.[4] The Vietnamese government used these methods to reduce food insecurity and increase the standard of living for their citizens.

In Brazil, the government introduced a strategy "Zero Hunger" in 2003 to battle its food insecurity. The main goal of this strategy was to eradicate hunger, reduce poverty, and ensure food security for its vulnerable population. Three of the primary programmes were: the Bolsa Família which aimed to empower low-income families; the Food Acquisition Programme (PAA), which aimed to support local agriculture and nutrition; and the Support for Family Farming programme which cultivated rural prosperity.[5]

The Bolsa Família programme (2003 – Present) provides financial assistance to low-income families through conditional cash transfers. The programme aims to empower families by providing them with the ability to secure essential needs, including food. Bolsa Família has become a lifeline for countless households, providing a much-needed safety net against hunger and poverty.[6] As a result of the programme, Brazil has more than halved its extreme poverty rate – from 9.7% to 4.3% of the population.[7] Impressively, and in contrast to other countries, income inequality also fell, to a Gini coefficient of 0.527 a 15% decrease.[8]

The PAA (2003 – ongoing) on the other hand, recognises the importance of supporting small-scale farmers and local food production. The PAA allows the government to buy food at reasonable prices directly from cooperatives and small-scale farmers. This is then distributed to social assistance organisations, educational

2 Elizbeth Petersen. 2017. "Vietnam Food security Policy Review." Australian Centre for International Agricultural Research https://www.aciar.gov.au/sites/default/files/legacy/vietnam_food_security_policy_web.pdf#:~:text=FOOD%20SECURITY%20POLICIES,a%20political%20one..

3 Tran Thi Que; To Xuan Phuc. "The DOI MOI Policy and the Impact on the poor." Centre for Gender, Environment and Sustainable Development Studies. https://www.socialwatch.org/node/10854#:~:text=InDecember%201986%2C%20the,encouraging%20theprivate%20sector

4 The World Bank (2010, March 11). Vietnam: Strengthening the social safety net to address new poverty and vulnerability challenges. Retrieved August 14, 2023, from https://openknowledge.worldbank.org/server/api/core/bitstreams/b4b6c428-9f21-5e6b-a023-22f6a060ed0c/content

5 Centre for public impact (2019, February 9). Bolsa Família in Brazil. Centreforpublicimpact.org. Retrieved August 14, 2023, from https://www.centreforpublicimpact.org/case-study/bolsa-familia-in-brazil

6 BMC Public Health (n.d.). Impact of the Bolsa Família program on food availability of low-income Brazilian families: A quasi experimental study. Https://Bmcpublichealth.Biomedcentral.com/. https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-016-3486-y

7 Deborah Wetzel. 2013. "Bolsa Família: Brazil's Quiet Revolution." https://www.worldbank.org/en/news/opinion/2013/11/04/bolsa-familia-Brazil-quiet-revolution#:~:text=Ten%20years%20after%20BF%20has%20been%20key%20to,coefficient%20of%200.527%20an%20impressive%2015%20%25%20decrease

8 Deborah Wetzel. 2013. "Bolsa Família: Brazil's Quiet Revolution." https://www.worldbank.org/en/news/opinion/2013/11/04/bolsa-familia-Brazil-quiet-revolution#:

institutions, and vulnerable communities. This novel strategy addresses food insecurity by supporting local agriculture and ensuring that those in need have access to wholesome food.[9]

Lastly, the Support for Family Farming programme (2003 – 2012) supported small-scale producers and family farmers. Technical support, credit options, and market access enabled farmers to boost their output and income, helping to improve food distribution and production in rural areas. The programme succeeded in removing Brazil from the world hunger map, reducing the population suffering from malnutrition by 82% between 2003 and 2012. Consequently, poverty rates also fell from 24% of the total population in 2003 to 8.5% in 2012.[10]

The valuable lessons Nigeria can draw from Vietnam and Brazil are supporting smallholder farmers, food acquisition and distribution. Like Brazil's "Fomento" programme Nigeria could invest in assisting smallholder farmers by providing them with markets, technical support, and credit. Empowering small-scale farmers in rural areas could improve agricultural productivity, food production, and food security, considering that smallholder farmers account for over 80% of Nigeria's agricultural production.

Additionally, the implementation of a food acquisition programme, modelled after Brazil's PAA, could promote regional agriculture and address current food insecurity. The programme would entail buying food directly from small-scale farmers and cooperatives and distributing it to disadvantaged groups and organisations.

By combining these measures and aligning them with local constraints, the country can make significant strides in addressing its food insecurity issues.

9 Social Protection (2019, February 9). World Without Poverty. Www.Socialprotection.org. Retrieved August 14, 2023, from https://socialprotection.org/sites/default/files/publications_files/03.%20PAA%20-%20What%20it%20is%2C%20Goals%2C%20Target%20Audience%20and%20Coverage.pdf

10 South-South Galaxy (n.d.). Reducing extreme poverty and widespread hunger through an interconnected effort. South-Southgalaxy.org. https://my.southsouth-galaxy.org/en/solutions/detail/brazils-zero-hunger-programme

15th BRICS summit – Is de-dollarization of global trade imminent?

The leaders of BRICS (Brazil, Russia, India, China, and South Africa) met in Johannesburg for a three-day summit (August 22-24). The meeting, which also had several leaders across developing economies (including Nigeria) in attendance, was the first physical meeting since the COVID-19 pandemic. BRICS typically hold their summit every year.

Of the current five member countries, only the Russian President attended virtually because of the international criminal court warrant for his arrest due to the invasion of Ukraine. The Russia-Ukraine war, which started in February 2022 has lasted for 547 days, far beyond global expectations.

Of the current five member countries, only the Russian President attended virtually because of the international criminal court warrant for his arrest due to the invasion of Ukraine. The Russia-Ukraine war, which started in February 2022 has lasted for 547 days, far beyond global expectations.

One of the front-burner issues at this year's BRICS summit was the expansion of the bloc beyond the five member countries. This is in a bid to strengthen the bloc and possibly aid the pushback against a world order that is perceived to be unfairly dominated by the West. Six new countries have been invited to join the bloc from 2024, including Argentina, Ethiopia, Iran, Saudi Arabia, Egypt and UAE.

Another major discussion at the summit was the increased use of member countries' local currencies for the settlement of transactions. Simply, the bloc intends to facilitate trade and major financial market transactions in local currency, essentially reducing the reliance on the US dollar. The US dollar has long been the world's reserve currency and the dominant currency in international trade, thus exposing countries to exogenous shocks. In the last six weeks, the US dollar has gained 4.19% due to multiple interest rate hikes by the US Fed, exerting more pressure on global commodity prices.

Implications

The expansion of the BRICS bloc and talks of de-dollarization have significant implications for the global economy, particularly developing countries that are commodity-dependent and heavily reliant on foreign investments from the dominant members of the bloc (Russia and China). According to the UNCTAD World Investment Report 2022, China's FDI stock in Africa was $43bn in 2020 (5th highest), up from $40bn in 2016.

On a positive note, the bloc will expand in terms of market and GDP size. Currently, BRICS accounts for 40% of the global population and almost 25% of the global GDP. Meanwhile, the de-dollarization will make member countries less vulnerable to exogenous shocks.

However, the bloc would risk retaliation from the US with a possible decline in trade, investment and capital flows. More so, the desire to become a global political and economic player could be limited by the bloc's internal divisions, macroeconomic distortions and a lack of coherent vision.

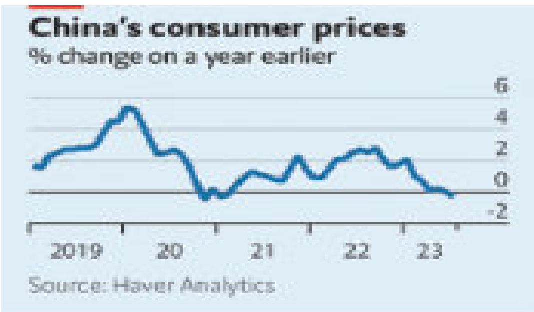
Today, China is grappling with an economic slowdown (0.8% in Q2'23), deflation (-0.3% in Jul'23), a property sector crisis and lingering rivalry with the US, while South Africa is facing power issues that have led to daily blackouts and lower output. Load shedding has increased to 11,970GWh as of May 2023 from 11,759GWh in 2022 and the purchasing managers index in South Africa contracted for the 6th consecutive month to 47.29 points, indicating a further slowdown in GDP growth from 0.2% in Q1'23. More importantly, Russia still battles Western sanctions as it tightens its grip on the war, while India and China are locked in a border conflict.

GLOBAL PERSPECTIVE - Can China Escape Deflation?

Culled from the economist

For the past two years, policymakers in most of the world's biggest economies have faced an excruciating stagflationary dilemma. They have wrestled simultaneously with high inflation, which demands steep interest rates, and fears of a recession, which would normally call for policy easing.

The exception is China. It is now struggling with both slowing growth and dangerously low inflation: stagnation, not stagflation. New figures show that consumer prices fell by 0.3% in July, compared with a year earlier. Officials were quick to blame volatile food prices. But the deflationary pressure is more widespread. The prices charged by exporters and other producers are tumbling. A property developer's missed bond payment on August 6th was a stark reminder of China's ongoing housing slump. And the economy's "nominal" growth rate (which does not strip out the effects of inflation) has dropped below its real, inflation-adjusted rate. This implies that many prices across the economy are falling.



This combination of slow growth and deflationary peril is troubling. But it is not a dilemma. The textbook response to both problems is stimulus, which should revive spending, lift growth and dispel deflation. Scylla and Charybdis are on the same side of the strait.

China's government is seeking to put things right by cutting red tape and setting consumer-friendly regulations, but it has neglected two obvious policy instruments: interest rates and central-government spending. The central bank has cut rates by only 0.1 percentage points. Given falling inflation, the real cost of borrowing is growing. And although the finance ministry wants local governments to issue bonds, it is loth to do more itself. The burden is falling on the most stressed part of China's fiscal machinery—its local governments and their financing vehicles.

Several unhelpful beliefs may be inhibiting the central government. First is the view that stimulus is futile. Some economists argue that firms and households will not borrow because they are already saddled with debt and fear for China's economic future. Yet that only strengthens the case for more forceful fiscal easing, which would stabilise employment, improve the incomes of private borrowers, and thereby relieve feelings of economic insecurity. Moreover, it seems strange to argue that monetary easing cannot work before it has really been tried.

Some of China's officials also seem to have fallen for the fallacy that you have to reflate a tyre through the puncture hole. Aware that consumer confidence is low, they have zeroed in on such things as extending amusement parks' hours and making it easier to trade in old appliances. In fact, the best way to bolster confidence and spending is to create jobs and lift wages. And the best way to do that is macro easing, not micro fiddling.

China's government may also believe that economic stimulus is at odds with longer-term economic reform. Xi Jinping, its leader, is understandably eager to promote "high-quality" growth—innovative, well-paid, green and resilient—rather than "low-quality" growth, such as spending on redundant infrastructure, cheap manufacturing or speculative homebuilding. China's policymakers know that past stimulus sprees have left behind unoccupied flats and lightly used roads.

Yet reform and stimulus need not conflict. Further public investment in green infrastructure—or flood prevention—would both boost demand and help China adapt to a changing environment. Further easing of China's hukou restrictions, which were tweaked on August 3rd but still deny some

urban public services to migrants from the countryside, would let labour move more freely, and increase consumption. If policymakers do not do more to dispel deflation, China's growth, of high or low quality, will be needlessly slow.

CORPORATE FOCUS
Cadbury Nigeria Plc

Market Capitalization	Share Price	Industry
N28.7 billion	N15.30	Consumer Goods

Company Overview

Cadbury Nigeria Plc, a subsidiary of Mondelez International, was incorporated in Nigeria in January 1965 and subsequently listed on the Nigeria Stock Exchange (NSE) in 1976. Prior to listing on the NSE, Cadbury Nigeria mostly repackaged imported bulk products, but after listing, it quickly expanded into a full-fledged producer. The company has evolved organically to become one of Nigeria's largest consumer goods manufacturers, with a growing profile in the Europe, Middle East, and Africa (EMEA) Region.

Currently, Cadbury Nigeria produces and markets branded fast-moving consumer goods like dairy milk, bournvita, 3-in-1 hot chocolate drink, tom-tom and buttermilk sweets. It also exports intermediate cocoa products and confectionaries to Europe and the rest of Africa. Major multinational competitors are Nestlé and Unilever while other prominent domestic players are Sweetco Foods, UACN, and Promasidor.

Analyst's Note

In the first half of 2023, Cadbury Nigeria Plc recorded growth in revenue, gross profit, and operating profit. However, the company posted a pre-tax loss (operating profit less finance cost) of N14.54 billion, marking a 534% decline from H1'22 due to the impact of the forex market de-segmentation on dollar-related loans. Consequently, Cadbury's earnings per share (EPS) fell to a negative value of N9.58, representing the lowest EPS recorded in the last five quarters. The company's positive result from operating activities during the period was dampened by foreign exchange losses.

High Exchange Rate losses depressed bottom-line performance

Cadbury Nigeria Plc recorded a whopping net loss of N14.54 billion, 721% down from the N2.34 billion profit in H1 2022. This negative financial position was driven by its net finance income, which dipped by 4,246% to -N20.61 billion from its N497 million finance profit in H1'22 as a result of exchange differences. The company incurred a finance loss of N20.6 billion owing to the impact of the forex unification on its forex-related loans with dollar-denominated interest rate components. Hence, the losses were triggered by the effective depreciation of the naira by 41.77% (from about N460 to about N790) on unsettled open financial positions.

Upsurge in revenue bolstered by intermediate cocoa products

During the period under review, Cadbury Nigeria Plc revenue remained strong at N35.60 billion, 27.7% higher compared to H1''22 (N27.87 billion). The company's turnover was mainly supported by domestic sales, which increased by 29.34% to N34.89 billion, whereas export sales decreased by 20.5% to N714 million. The three pre-existing segments' (refreshment beverages, confectionaries and intermediate cocoa products) income grew remarkably, with intermediate cocoa products having the highest growth (119%), followed by refreshment beverages (24.13%), and confectionaries (18.9%).

The revenue contributed by these segments was N1.35 billion, N24.91 billion, and N8.55 billion, respectively. The newly introduced biscuit segment started on a positive note with a contribution of N798 million to revenue. The resilient performance of the business segments can be attributed to customers' preferences and loyalty to the brand over the years.

An Uptick in Operating Profit

Despite the huge pre-tax loss reported, Cadbury Nigeria Plc recorded an operating profit of N6.07 billion, 113% above the N2.84 billion recorded in H1'2022. Essentially, operating expenses surged by 113% to N6.07 billion from N2.8 billion in H1'22. However, due to Cadbury's strong revenue of N35.6 billion (27.73% higher than N27.87 billion in H1'2022), the company still recorded an operating profit.

A further breakdown showed that the company's cost of sales also moved in tandem with top-line growth, increasing by 15.23% to N25.37 billion from N22.02 billion. Selling, distribution and administrative expenses rose by 37.61% and 36.49% to N3.4 billion and N800 million, respectively. Moreso, Cadbury was vulnerable to exchange rate volatility, which culminated in a foreign transaction loss of N20.6 billion.

Industry Overview

Cadbury's Performance in H1'2023 reflects Nigeria's current macroeconomic state. Spiralling inflation, declining consumer demand, surging costs of raw materials, and currency pressures owing to forex shortages exerted upward pressure on the operating costs of companies, weighing on the overall consumer goods sector performance. The sector was largely affected by exchange rate volatility from the forex market de-segmentation, and epileptic power supply amid surging energy prices following the subsidy removal.

With consumers experiencing weaker purchasing power on rising inflation a recovery in consumer income is unlikely in the near term. The erosion of consumers' income and rising poverty levels will increase sensitivity to higher prices, weighing on the industry's profitability. Therefore, FMCG firms may face increased pressure in the coming quarters.

Risk and Outlook

While major economic headwinds persist and weigh on profit margins through increased finance costs, Cadbury Nigeria faces the risk of currency devaluation due to its significant exposure to foreign debt as well as the risk of inflated interest expenses, particularly as interest rates have been on the rise. However, its improving business segments would help sustain Cadbury's performance in the fast-moving consumer goods sector.

BULLS SAY

- A dominant player in the food and beverage industry in Nigeria
- Superior and recognizable brand value
- Strategic alliance and support from the parent company
- Innovative initiatives to improve appeal and customer satisfaction

BEARS SAY

- Intense competition from other leading players such as Unilever and Nestlé
- Weak consumers' purchasing power
- Persistent macroeconomic headwinds could dampen consumer demand
- The shift of market preference to low-priced products

A PRISM OUTLOOK - SEP'2023

Global

- Over the next month, the global economy will remain distraught with food price pressures stemming from the black sea grain deal conundrums and rising food protectionist measures from exporting countries like India and Indonesia.

- The tussle between oil-producing countries (Russia and Saudi Arabia) and consuming countries (US and Ukraine) is expected to keep oil prices hovering between $80 per barrel and $85 per barrel.

- Higher global food prices together with rising oil prices will keep inflationary pressures strong, strengthening the likelihood of central banks keeping interest rates high. Essentially, monetary policy authorities will remain steadfast in their fight against inflation.

Domestic

- For Nigeria, global price pressures will filter into the economy through higher import costs, particularly for commodities like motor spirit, gas oil and durum wheat that gulped 39.82% of the country's import expenses in Q1'23.

- The CBN is expected to continue its intervention in the forex market to retract the naira's free fall fuelled by the dollar shortage amid heightened demand and rising FX backlogs. Meanwhile, forex supply at the official market could inch up temporarily on the NNPCL's $3 billion crude-repayment loan fund.

- Additionally, higher oil prices and expectations of improved oil production in Nigeria in subsequent months could further support net external reserves accretion that JP Morgan estimates to be $3.7 billion, far below the reported gross external reserves of $37bn (as of December 31, 2022), possibly aiding forex intervention efforts. JP Morgan announced that Nigeria's net foreign exchange reserves are much lower due to bloated currency swaps and forex forward contracts.

- However, a major risk is that oil revenues are not sufficient to significantly provide all the dollars Nigeria needs to defend the naira post-FX reform and also meet domestic infrastructural obligations. The government needs to attract foreign investment inflows, which could be at risk following JP Morgan's report on Nigeria's net external reserves.

- The good news though is that there might be temporary relief for households as President Tinubu and the NNPCL assured of no further fuel price increase.