WHISPERS

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WHEN WE SPEAK, THE WORLD UNDERSTANDS

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01.

DOLLARIZATION AND ITS EFFECT ON TRANSITIONAL ECONOMIES

Over

30

Countries in the world are fully or partially dollarized[3]

Dollarization has gained traction in recent years, particularly in developing countries and transitional economies. It is the process by which a country or region adopts the US dollar (USD) as its official currency or uses it alongside its national currency for daily transactions. Most developing countries and transitional economies have some degree of unofficial dollarization, where residents of these countries hold foreign currency or forex-denominated deposits in domestic banks. Statistics show that over 30 countries in the world are fully or partially dollarized.

What drives countries to adopt dollarization?

Political and economic instability have played a significant role in pushing certain countries towards this monetary arrangement. Lebanon, for instance, underwent a lengthy civil war from 1975 to 1990, creating a period of deep economic uncertainty. In Zimbabwe, widespread economic mismanagement, and political instability in the early 2000s eroded confidence in the national currency. As a result, both Lebanon and Zimbabwe sought stability by adopting the USD as a reliable alternative. Similarly, Nigeria has experienced several coups and political upheavals since gaining independence from Britain in 1960, leading to economic instability, inflation, and a decline in consumer, businesses and investor confidence in the naira.

Inflationary pressures also contribute to the adoption of dollarization. It erodes confidence in the domestic financial system, leading people to seek ways to protect their wealth from

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value loss and rising prices. During the 1980s and early 1990s, Lebanon faced a staggering spike in inflation from 6.6% in 1983 to 120% in 1992 due to the effects of the Lebanese Civil War. Similar patterns can be observed in other countries like Ecuador and Bolivia, which experienced hyperinflation in the early 2000s at 96.1% and in the1980s at 60,000% respectively. Nigeria, too, has struggled with persistent inflationary pressures. During the the civil war, inflation peaked at 1995 at 72.8% before falling to 22.8% in June 2023—an 18-year high.

Dollarization is bittersweet. On the one hand, some view it as a sweet deal for struggling economies, offering stability, attracting foreign investment, and boosting confidence in monetary transactions.

For instance, in Ecuador, dollarization brought a significant decline in the inflation rate from 96% in 2000 to 7.9% in 2003. El Salvador also witnessed the same drop in inflation from 28% in 1990 to 0.5% in 2009. In fact, Panama stands out for its consistently low average inflation rate, reflecting a stable economy and monetary policy, creating a favourable business environment and maintaining the purchasing power of the USD currency. GDP per capita in Panama has spiked by 3541.96% to $17,357.6 from $476.6, while inflation has averaged 2.35% in the past two decades.

However, on the other hand, dollarization is perceived to accompany a loss of economic sovereignty, as it entails relinquishing control over monetary policy and exposing the country to external shocks.

In Lebanon for example,the central bank is perceived as a mere "figurehead," with diminished authority and limited control over monetary policy, interest rates, and the money supply. Dollarization restricts the central bank's capacity to act as the lender of last resort during financial crises, as evident in Lebanon's banking crisis in 2019, which caused social unrest and further destabilized the fragile economy due to difficulties accessing funds.

Additionally, dollarization has exacerbated economic imbalances in Lebanon to an alarming extent. The country's heavy dependence on imports, combined with the adoption of the USD as a de facto currency, has resulted in imported goods being priced in foreign currency. This situation has created multiple exchange rate windows and triggered a severe devaluation of the Lebanese pound by over 98% to the USD. As of February 2023, the official exchange rate set by the central bank stood at L£15,000/$1 while tariffs on imported goods were L£45,000/$. Meanwhile, the parallel market rate hovered around L£107,000/$1.

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13. Emilie Madi and Mohamed Azakir.2023. "As economy worsens, Lebanese juggle dizzying rates for devalued pound". Reuters. https://www.reuters.com/world/middle-east/economy-worsens-lebanese-juggle-dizzying-rates-devalued-pound-2023-03-19/
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The significant devaluation of the Lebanese Lira intensified economic challenges, with inflation reaching 260% as of May 2023. Over 90% of the population earns their income in Lebanese pounds, thereby pushing more than half of the country's population (3.28 million people) below the poverty line Unemployment also surged to 29.6% in 2022 from 11.4% in 2018–19, and multidimensional poverty rose to 82% in 2021 from 25% in 2019.

As a response to the adverse consequences, several countries have pursued de-dollarization strategies. Venezuela and Zimbabwe pursued de-dollarization strategies by introducing the sovereign bolivar and the Zimbabwean dollar, respectively. This move aimed to reduce USD dependency and regain monetary sovereignty, enabling tailored economic policies to manage inflation and stabilize exchange rates, ultimately bringing stability and control to their economies.

Also, Argentina implemented proactive measures to boost the usage of the peso in daily transactions, such as establishing price benchmarks in pesos and mandating specific transactions be conducted in the local currency. Encouraging businesses to display prices in pesos aimed to enhance confidence in the national currency and reduce reliance on foreign denominations, contributing to economic stability and monetary control.

In conclusion, Nigeria should carefully consider the lessons learned from experiences with dollarization before pursuing a similar approach. While dollarization may offer short-term stability and attract foreign investment, it carries risks that can compromise economic sovereignty and aggravate existing imbalances. The challenges faced by countries dealing with the loss of monetary policy control, limited crisis response capacity, and significant currency devaluation serve as cautionary examples. Therefore, Nigeria must thoroughly evaluate the impact of dollarization on its unique economic and political circumstances. It would be prudent for Nigeria to prioritize sustainable economic reforms, strengthen domestic institutions, and address political stability to achieve long-term stability and growth while preserving monetary policy independence and economic sovereignty.

15. Emilie Madi and Mohamed Azakir.2023. "As economy worsens, Lebanese juggle dizzying rates for devalued pound". Reuters. https://www.reuters.com/world/middle-east/economy-worsens-lebanese-juggle-dizzying-rates-devalued-pound-2023-03-19/
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02.

OIL SMUGGLING AND ITS IMPLICATIONS FOR GOVERNMENT REVENUE

In 2021, crude oil exports accounted for more than

76%

of Nigeria's total exports

Oil smuggling affects various countries worldwide, with Nigeria being one of the most prominent examples. This illegal trade involves the illicit transportation, sale, and distribution of crude oil products, often bypassing government regulations and avoiding taxation. The underground economy of oil smuggling poses significant challenges to national economies, jeopardizing energy security, fuelling corruption, and undermining environmental and social welfare initiatives. This article aims to explore the economy of crude oil smuggling in Nigeria, highlighting its impact on government revenue, local communities, and overall economic development.

Nigeria, the largest oil producer in Africa, is blessed with substantial oil reserves, estimated to be around 37.05 billion barrels as of 2022. These reserves are primarily located in the Niger Delta basin, which spans several states in southern Nigeria like Bayelsa and Rivers. The region's geology and hydrocarbon potential have made it a highly productive area for oil extraction. Also, Nigeria's oil revenue accounts for a significant portion of government revenue and foreign exchange earnings. In 2021, crude oil exports accounted for more than 76% of Nigeria's total exports, highlighting the nation's high reliance on the oil sector.

However, Nigeria's oil production capacity has fluctuated over the years, falling below one million barrels per day (mbpd) in August 2022 to 972,394bpd, the lowest level in 32 years. This was partly due to oil smuggling caused by several internal and external factors, including geopolitical

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tensions, inadequate infrastructure, and price disparities between neighbouring countries. The increase in oil smuggling has adverse economic, social, and political impacts on the Nigerian economy. According to a report by the Nigerian Extractive Industries Transparency Initiative (NEITI), it is estimated that Nigeria lost approximately $42 billion (bn) to crude oil theft and sabotage between 2009 and 2018. This has deprived the government of crucial funds that could have been allocated to public infrastructure, social services, and development projects. The loss of revenue also contributes to budget deficits, limiting investment in critical sectors and hindering economic growth. In addition, oil smuggling not only affects the government but also has far-reaching socioeconomic consequences for local communities.

The illicit activities associated with oil smuggling, such as pipeline vandalism and theft, often result in environmental degradation and health hazards for nearby residents. Furthermore, the presence of criminal networks involved in oil smuggling leads to increased violence and insecurity in affected areas, undermining the overall well-being and quality of life of the local population.

Recognizing the severity of oil smuggling, the Nigerian government has initiated reforms to enhance the effectiveness and efficiency of institutions responsible for preventing it. This includes improving the capacity, training, and equipping of security agencies, such as the Nigerian Navy and the Nigerian Customs Service, to better patrol and secure Nigeria's territorial waters and land borders. Given that Nigeria shares borders with multiple countries, including Benin, Niger, Chad, and Cameroon, the extensive and often porous nature of these borders makes it difficult to effectively monitor and control the movement of oil products, providing ample opportunities for smuggling activities.

Meanwhile, Saudi Arabia's government continues to leverage oil revenue due to rising oil production. In 2010, it was reported that individuals involved in illegal activities utilized barrels and pipelines to transport oil from undisclosed storage reservoirs belonging to a private Saudi petrochemical company. These perpetrators then proceeded to load the illicitly obtained oil onto ships to France and several other European nations. However, the Saudi Arabian government was able to curb these illegal acts through the implementation of a multi-pronged approach that combines technology, legislation, and international cooperation.

For instance, Saudi Arabia has invested in advanced monitoring and surveillance technologies to strengthen border controls and detect oil smuggling attempts. These systems include radar networks, satellite imagery, drones, and

23. Bassey Udo, 2019. "Nigeria lost $42bn to crude oil theft in nine years –NEITI", Premium Times. https://www.premiumtimesng.com/news/headlines/361353-nigeria-lost-42-billion-to-crude-oil-theft-in-nine-years-neiti.html?tztc=1
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geospatial analytics, enabling authorities to monitor oil infrastructure and detect suspicious activities in real-time. Also, Saudi Arabia has enacted stringent laws and penalties to deter oil smugglers.

The country's regulations outline severe punishments, including hefty fines, imprisonment, and asset seizures, for those involved in oil smuggling. This strong legal framework acts as a deterrent and sends a clear message that oil smuggling will not be tolerated. Similarly, Saudi Arabia recognizes the importance of international collaboration to combat oil smuggling effectively. This prompts them to actively engage with international organizations, neighbouring countries, and key stakeholders to exchange information, share best practices, and coordinate efforts in tackling this transnational crime. Such collaboration helps in tracing illicit oil flows and disrupting smuggling networks. As a result, Saudi Arabia's oil production rose by 11.43% to 11.5mbpd in 2022, up from 10.32mbpd in 2018.

Drawing from Saudi Arabia's successful efforts, Nigeria can adopt the following best practices and strategies to combat oil smuggling effectively:

1. Enhanced Technological Solutions: Nigeria should invest in advanced monitoring technologies, such as radar systems, drones, and satellite imagery, to strengthen border surveillance and detect oil smuggling activities promptly. These technologies can aid in identifying illegal bunkering activities, monitoring pipeline networks, and securing oil infrastructure.

2. Strengthened Legal Framework: Nigeria should enact comprehensive legislation that provides for stricter penalties, asset forfeiture, and legal frameworks to tackle oil smuggling effectively. By establishing a robust legal framework, including swift prosecution and sentencing of offenders, Nigeria can deter potential smugglers and ensure accountability.

3. International Cooperation: Nigeria should actively engage with international organizations, neighbouring countries, and relevant stakeholders to foster information sharing, joint operations, and capacity building. Collaborative efforts will help track illicit oil flows, identify smuggling routes, and disrupt transnational smuggling networks.

4. Public Awareness and Stakeholder Engagement: Nigeria should launch public awareness campaigns to educate the population about the negative impacts of oil smuggling on national development. Additionally, engaging local communities, oil companies, and relevant stakeholders in anti-oil smuggling initiatives can foster cooperation and enhance the effectiveness of enforcement efforts.

In conclusion, the practice of oil smuggling has significant fiscal and

25.Statista, 2023. “Statista Indicator”. Amna Puri- Mirza. www.statista.com/statistics/663535/saudi-aramco-crude-oil-production/#:~:text=Saudi%20Aramco%20reported%20a%20crude,day%20among%20oil%20producing%20companies.

development impact in Nigeria. The loss of revenue due to oil theft and pipeline sabotage deprives the government of crucial funds that could be allocated to public infrastructure and development projects, contributing to budget deficits and hindering economic growth.

Similarly, local communities suffer from environmental degradation, health hazards, and increased violence and insecurity. To impede oil smuggling, Nigeria can learn from the success of Saudi Arabia's approach. Implementing advanced technological solutions like radar systems, drones, and satellite imagery can strengthen border surveillance and detect smuggling activities. Nigeria should also establish a strengthened legal framework with stricter penalties and asset forfeiture provisions. International cooperation and information sharing with neighbouring countries and relevant stakeholders will also play a key role in tracking illicit oil flows and disrupting smuggling networks.

03.

FRAGILITY AND POVERTY IN SUB-SAHARAN AFRICA: TWO SIDES OF THE SAME COIN - CULLED FROM WORLD BANK

35%

of the population in Sub-Saharan Africa were estimated to be living in extreme poverty

In 1990, about half of the population in Sub-Saharan Africa and South Asia and two-thirds in East Asia and the Pacific were living in extreme poverty (defined as living on less than what today amounts to around $2.15 per person per day). In the three decades that followed, these three regions have followed quite different development paths. In 2019, 35 percent of the population in Sub-Saharan Africa were estimated to be living in extreme poverty, compared to 9 percent in South Asia or 1 percent in East Asia and the Pacific.

Why has Sub-Saharan Africa been left behind? What explains the sluggish progress in poverty reduction in the region?

The role of fragility, conflict, and violence in stifling development

Fragility, conflict, and violence, or, more generally, the lack of peace and security, is one of the key barriers to poverty reduction in Sub-Saharan Africa. The World Bank's list of fragile, conflict-affected, and violent (FCV) countries in 1998, the year with the earliest available data, indicates that 13 of the 24 FCV countries worldwide were in Sub-Saharan Africa (54%, or slightly over a half). By 2021, the year with the latest available data, the number of FCV countries in Sub-Saharan Africa had increased by six, and the region still accounted for roughly half of all FCV countries in the world (19 of the 37 FCV countries).

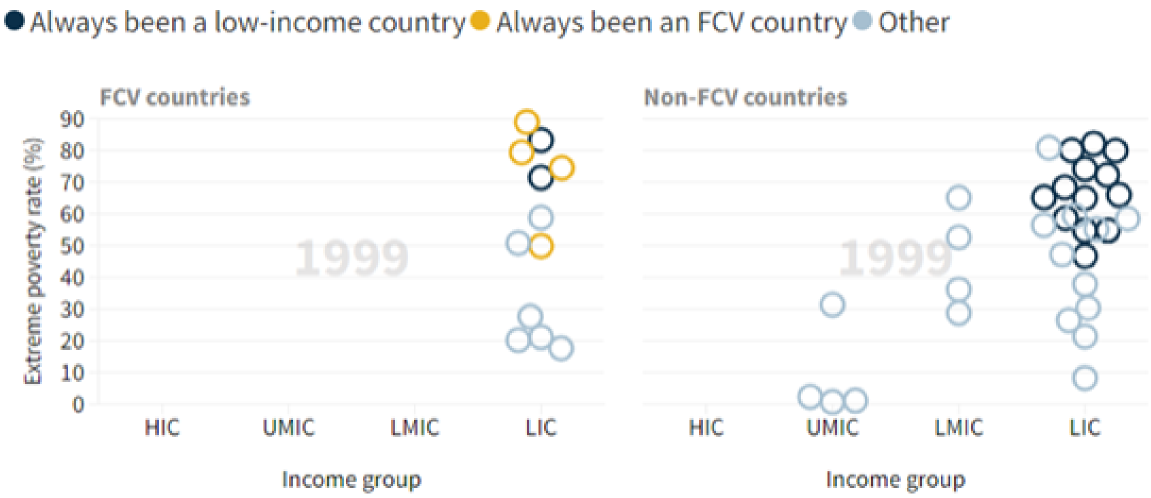
Even before Russia's invasion of Ukraine in 2022, the world had already become more violent over the years, largely driven by increasing counts of FCV countries in Sub-Saharan Africa and the Middle East and North Africa. These two regions do not only have the most cases of fragility, conflict, and violence, but also the worst trends in extreme poverty. Thirty out of the 48 countries in Sub-Saharan Africa (almost two-thirds) have been designated as a fragile, conflict-affected, or violent (FCV) country at least once since 1998; in the Middle East and North Africa, it is 7 out of 14 countries (or a half). Extreme poverty has decreased at a slow pace in Sub-Saharan Africa and is increasing in the Middle East and North Africa (though at lower levels of poverty and subject to greater uncertainty due to a lack of recent data for many countries in the Middle East).

Besides the severe impact on human life and happiness, conflicts worsen a country's ability to promote its own development and eradicate poverty. They lead to the loss of lives (human capital) and property (physical capital), thereby stifling investment, growth, and poverty reduction. From an economic standpoint, they destroy investor confidence in the economy and lead to wasteful military spending. Conflicts destabilize economic activity, disrupt food value chains, and increase the risk of food insecurity and hunger. In times of political or civil unrest, people flee for safety in neighboring countries, human mobility and transportation can be restricted, trust and social capital get destroyed, and people live in fear and panic with little or no hope for a better life. All these factors are contrary to the values of freedom, peace, and stability necessary for poverty reduction.

Poverty and fragility: a vicious circle

Figure 1 suggests that the lack of peace increases the risk of poverty in Sub-Saharan Africa. All FCV countries in the region in 1998 were low-income countries, whereas the non-FCV countries were split between middle-income and low-income countries. The Democratic Republic of Congo, Burundi, the Central

Figure 1: Fragility and poverty in Sub-Saharan Africa



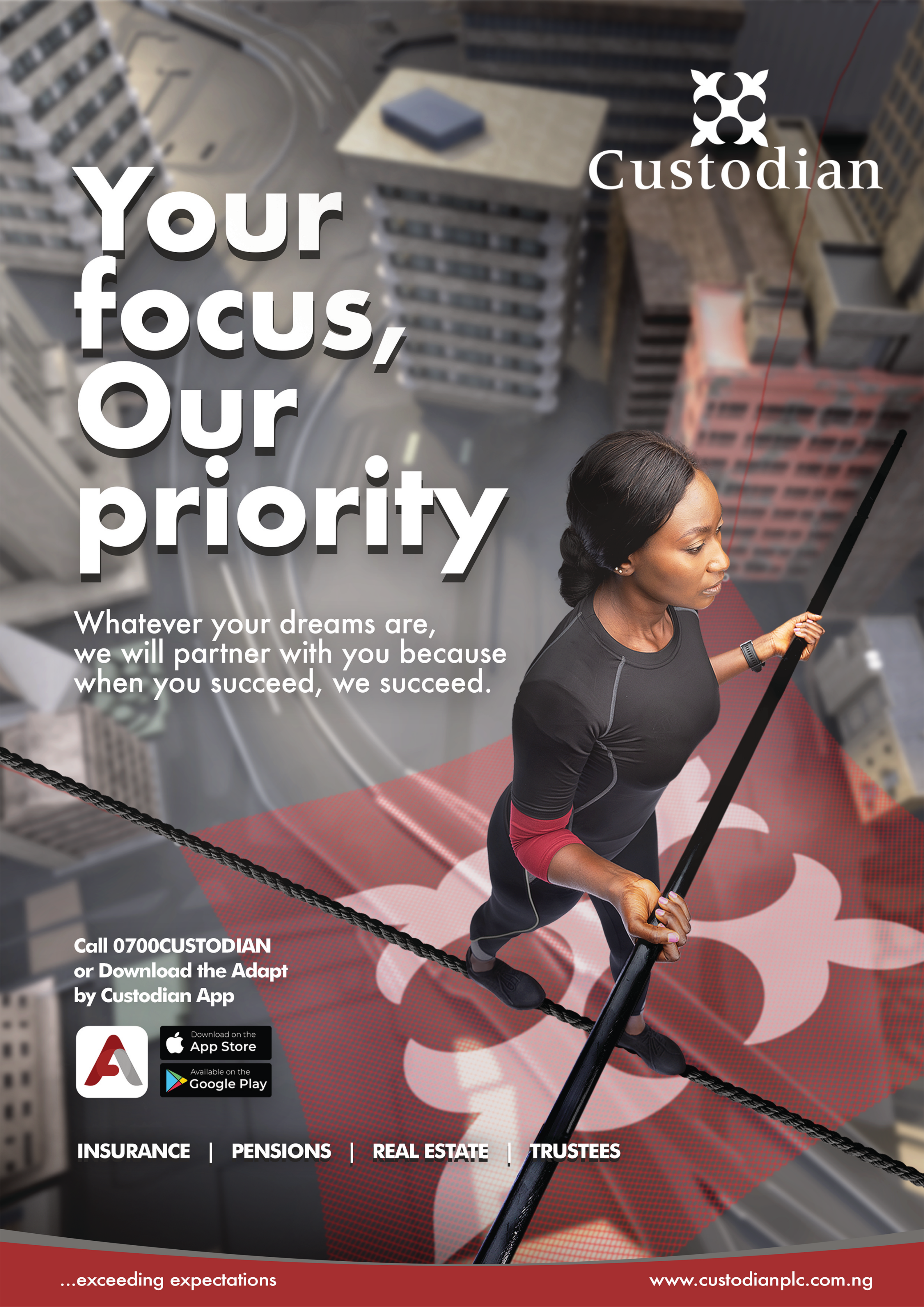
Source: Poverty and Inequality Platform (PIP), World Bank • Note: This chart shows the cross-country relationship between fragile, conflict-affected, and violent (FCV) status and income status. The World Bank has been publishing the list of FCV countries every year, starting with data from 1998. The World Bank has since 1989 been classifying countries into different categories based on gross national income per capita, expressed in US dollars. Currently, there are four categories—namely, low-income countries (LICs), lower-middle-income countries (LMICs), upper-middle-income countries (UMICs), and high-income countries (HICs). For the 2019 calendar year, their income thresholds are less than $1036, $1036 - $4045, $4,046 - $12535, and greater than $12535, respectively. The latest year for which poverty rates are reported in Sub-Saharan Africa is 2019.

African Republic, and Liberia are highly conflict-affected, and are the only countries that have remained FCV countries without interruptions since 1998. These four low-income countries had an average extreme poverty rate as high as 73 percent in 1998, while the remaining FCV countries had an average rate of 44 percent compared with 56 percent for all non-FCV low-income countries. In 2019, the above mentioned four countries still had a high extreme poverty rate of 58 percent, almost twice the extreme poverty rate in the remaining FCV countries or all non-FCV low-income countries (34 percent and 39 percent, respectively).

Or could it be that the lack of peace in Sub-Saharan Africa is because of poverty (and inequality) in the region? Studies have suggested that grievance increases the risk of conflict, and grievance may occur when individuals or groups of individuals are socially, politically, or culturally deprived. Conflicts are more likely when deprivation occurs along the lines of ethnicity, religion, or geographical location. In fact, high ethnic and cultural diversity in Sub-Saharan Africa increases the proclivity for such conflicts.

Figure 1 shows a negative relationship between income status and FCV status, supporting the idea that poverty drives conflicts. On the other hand, it is important to stress that this is not an automatic mechanism: eight countries have always been low-income countries but were not FCV countries in 2019. Also, two of them (Rwanda and Uganda) have never been FCV over the entire period for which data are available. Overall, poverty and fragility can reinforce each other and create a vicious cycle or a trap.

There are other factors that might jointly explain the high levels of poverty and fragility in Sub-Saharan Africa, such as low schooling attainment, high inequality in educational outcomes, and the lack of decent jobs. Improving educational outcomes for all (i.e., SDG 4) and increasing job opportunities for all (i.e., SDG 8) would therefore be priority areas in Sub-Saharan Africa that could potentially break the poverty-fragility trap that the region seems to be stuck in. A highly educated population is more likely to be tolerant, while education and employment opportunities offer the most likely route out of poverty. However, these policy actions are more long-term in perspective, and require peace and stability to be effective.



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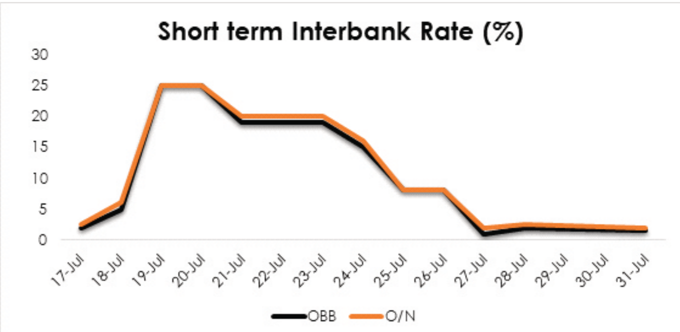
MACRO ECONOMIC INDICATORS

JULY 17TH TO 31ST

MONEY MARKET

Banks' opening position averaged N367.63bn in the second half of July. This is 58.53% lower than the average position of N882.79bn in the corresponding period in June. The liquidity squeeze was partly due to the NTB sales of N26.33bn. Consequently, average short term interbank rates increased by 378bps to 11.14% p.a from the average of 7.36% p.a in the second half of June.

There was a treasury bill primary market auction during the review period, where a total of N234.33bn was sold. This is 25.03% higher than the sum of N187.41bn sold in the second half of June. Primary market rates were up by an average of 461bps across all the three tenors. Meanwhile, at the secondary market, the 91-day t/bill yield declined by 9bps while the 182-day and 364-day t/bill yields increased by 263bps and 69bps respectively.



Source: FDC Think Tank

Tenor	Primary market (July 12th, 2023) (%)	Primary market (July 26th, 2023) (%)	Secondary market (July 17th 2023) (%)	Secondary market (July 31st, 2023) (%)
91-day	2.86	6 ▲	5.09	5.00 ▼
182-day	3.50	8 ▲	4.00	6.63▲
364-day	5.94	12.15▲	7.31	8.00▲

Source: FMDQ, FDC Think Tank

▼ 58.53%

N367.63BN

BANK OPENING POSITION

OUTLOOK AND IMPLICATION

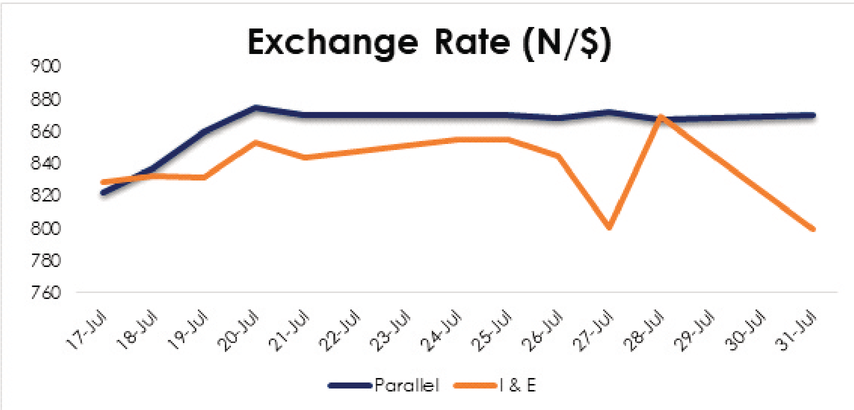
Following the 25bps hike in the policy rate at the July MPC meeting, we expect effective interest rates to increase in the near term. The CBN's hawkish monetary policy stance is expected to tighten liquidity in the system and keep general interest rates elevated. This will push up borrowing costs and possibly reducing access to finance especially for individuals and firms. It also raises the risk of loan default, which can push up impairment costs for financial institutions.

FOREX MARKET

The forex market is currently being reformed. Recently, the CBN adopted a "willing-buyer-willing-seller" model thereby scrapping the multiple exchange rate system. Henceforth, the exchange rate will be determined by the forces of demand and supply. Some of the exchange rate determinants are balance of payments, capital inflows, and trade balance.

EXCHANGE RATE

The Naira traded within the band of N799.5/$-N869/$ at the I&E window in the second half of July. It appreciated by 3.68% to close the period at N799.5/$ from N829/$ on July 17th. The currency also hovered around N822/$-N875/$ at the parallel market. It lost 5.52% to close the month at N870/$ from N822/$ on July 17th.



Source: FDC Think Tank

▲ 5.52%

N870/$

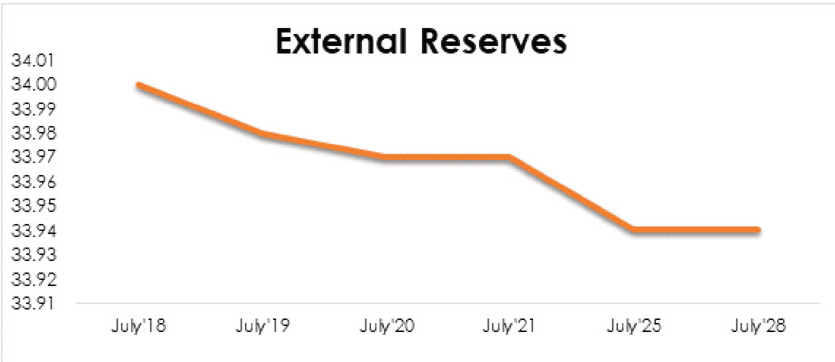
PARALLEL MARKET RATE

OUTLOOK

The projected increase in oil production and prices is expected to boost the reserve level. However, the CBN, at the recently concluded MPC meeting noted that it would keep intervening to keep the exchange rate at a fairly stable level. This is likely to weigh on the reserves level.

EXTERNAL RESERVES

The country's gross external reserves decreased by 0.14% to close the review period at $33.95bn (July 28) from $34bn at the beginning of the period (July 18th). The country's imports and payment cover also slightly declined to 7.7 months from 7.72 months in the second half of June. This was despite the increase in domestic oil production amid higher oil prices.



Source: CBN, FDC Think Tank

▼ 0.14%

$33.95BN

NIGERIA'S EXTERNAL RESERVES

IMPLICATION

Sustained depletion of the gross external reserves would undermine investor confidence due to concerns about the country's capacity to meet its obligations.

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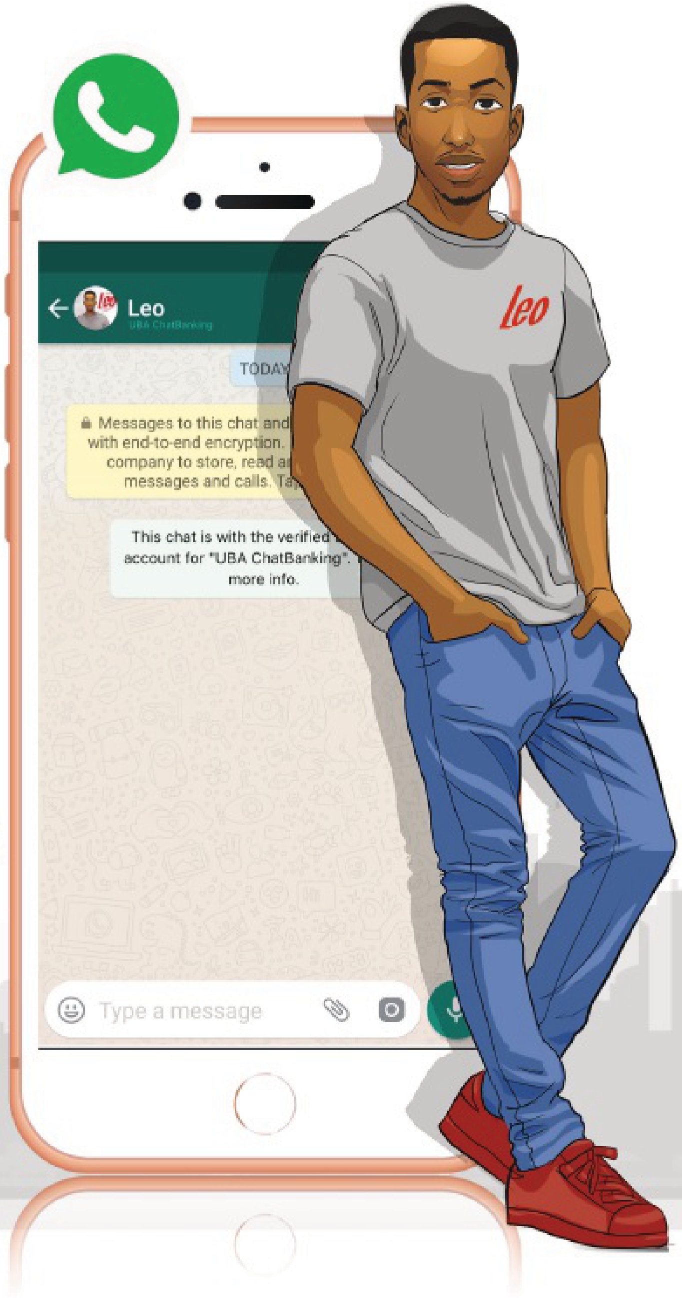

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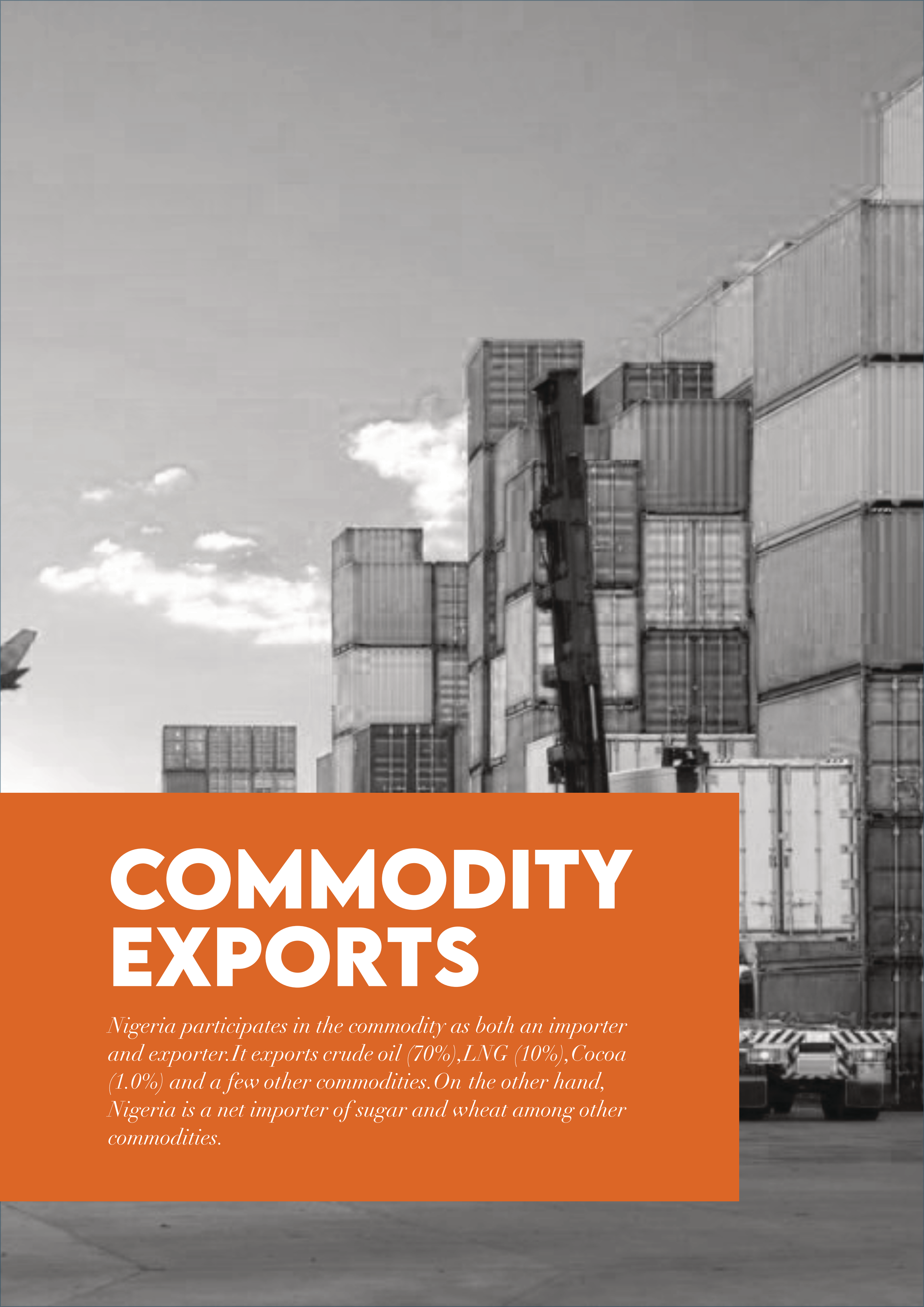


COMMODITY EXPORTS

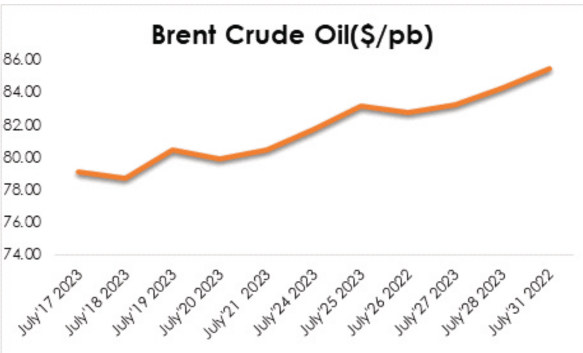
Nigeria participates in the commodity as both an importer and exporter.It exports crude oil (70%),LNG (10%),Cocoa (1.0%) and a few other commodities.On the other hand, Nigeria is a net importer of sugar and wheat among other commodities.

OIL PRICES

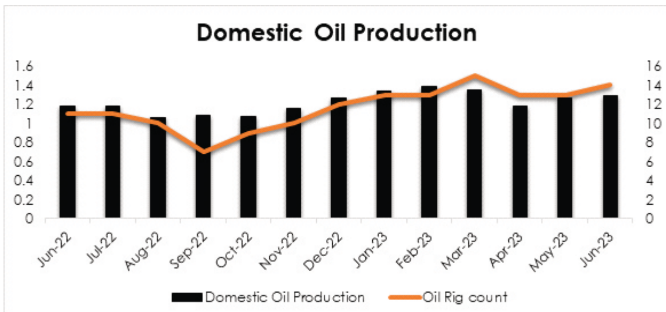
The price of oil traded below $90pb in the second half of July. It gained 8.01% to close the period at $85.46pb from $79.12pb on July 17th. This increase was due to the lower-than-expected fall in U.S. crude inventories amid expectations of improved demand from China. On the average, the price of Brent crude was $81.74pb, up 8.56% from the average of $75.29pb in the second half of June.

OIL PRODUCTION

Domestic oil production increased by 1.57% to 1.29mbpd in June from of 1.27mbpd in May. Similarly, the country's oil rig count rose to 14 points from 13 points in the month of May. Average OPEC's crude oil production fell to 28.19mbpd in June, 91,000 barrels higher than 28.06mbpd in May. Increased oil production in Nigeria, Iraq and Iran limited the impact of production cutbacks by Angola and other OPEC + members.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

▲ 1.57%

1.29mbpd

DOMESTIC OIL PRODUCTION

OUTLOOK

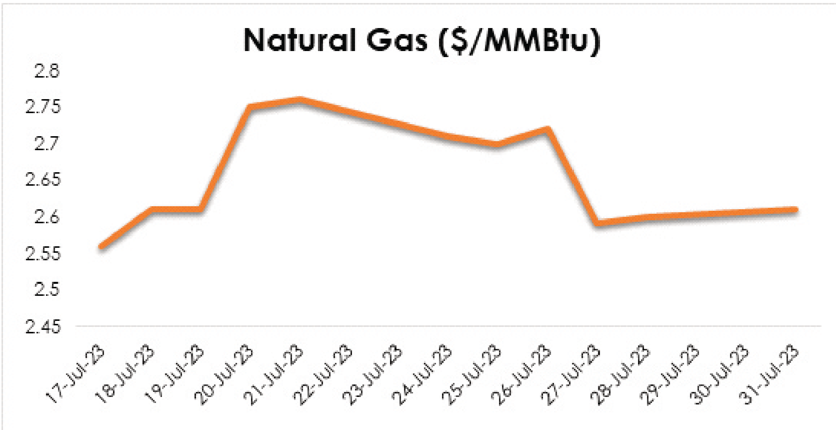
Oil prices are likely to remain elevated in the near term as Saudi Arabia (1 mbpd) and Russia (500,000 bpd) extends supply cuts to September.

IMPACT

Higher oil prices alongside an increase in the country's oil production will boost its export earnings and its external reserves. This could help the CBN increase liquidity in the foreign exchange market while stabilizing the currency.

NATURAL GAS

The price of gas recorded a choppy movement in the second half of July. It touched a high of $2.76/mmbtu on July 21 before declining to close the review period at $2.61/mmbtu on July 31st. This decline was due to weak demand and rising inventory level in Europe. On the average, gas prices increased marginally by 0.37% to $2.65/mmbtu within the review period (July 17th – 31st) from the average of $2.64/mmbtu in the second half of June.



Source: Bloomberg, FDC Think Tank

▲ 0.37%

$2.65/MMBtu

AVG NATURAL GAS PRICE

OUTLOOK

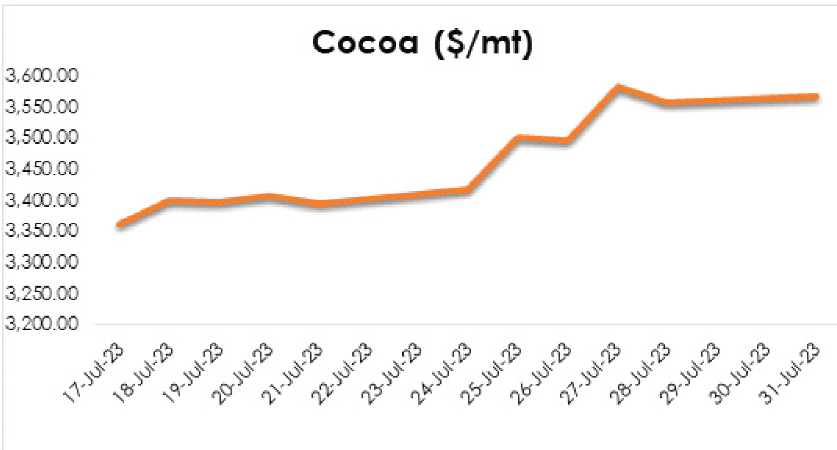
Gas prices are expected to increase in the coming weeks as demand rises due to hot weather condition in the US.

IMPLICATION

Gas accounts for about 10% of total exports. Hence, higher gas prices will bolster the country's external and fiscal revenues.

COCOA

The price of cocoa increased significantly in the second half of July despite weaker global demand. It rose by 6.1% from $3,360/mt on July 17 to close the review period at $3,565/mt. On the average, cocoa prices surged by 6.9% to $3,460/mt in the second half of July from $3,236/mt in the second half of June. The increase in cocoa prices can be attributed to limited supply due to the black pod disease in West Africa.



Source: Bloomberg, FDC Think Tank

▲ 6.9%

$3460/mt

AVG COCOA PRICE

OUTLOOK

Cocoa prices are expected to remain elevated as supply concerns heighten owing to unfavourable weather conditions in major producing countries in West Africa.

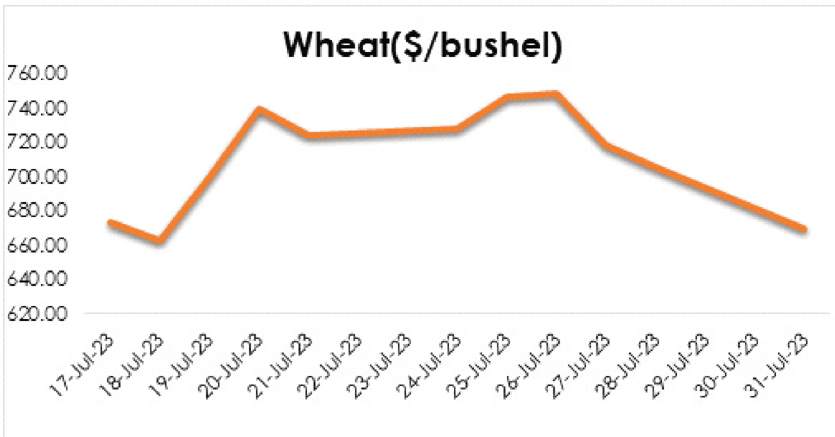
IMPLICATION

An increase in the price of cocoa will push up the country's foreign exchange earnings and buoy the income of cocoa farmers.

COMMODITY IMPORTS

WHEAT

The price of wheat increased to $748.25/bushel on July 26 owing to Russia's attacks on Ukraine's grain warehouses, before easing to close the period at $668.75/bushel on July 31st. On the average, the price of wheat decreased by 0.67% to $710.11/bushel from $714.97/bushel in the corresponding period in June. This was due to robust U.S. production outlook and favorable weather conditions in Argentina.



Source: Bloomberg, FDC Think Tank

▼ 0.67%

$710.11/b

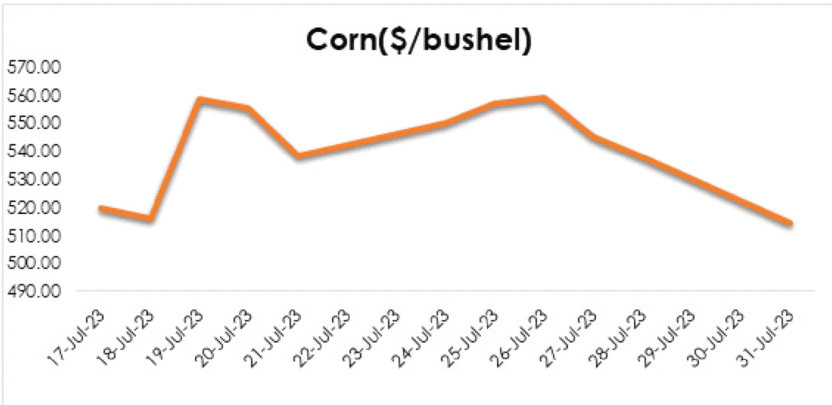
AVG WHEAT PRICE

OUTLOOK- GRAINS

The price of grains (wheat and corn) is expected to remain subdued in the coming weeks due to forecasts of higher production in the US, a top exporter.

CORN

The price of corn touched a high of $559/bushel, before declining by 7.96% to close the period at $514.50/bushel on July 31. This drop in corn price was driven by the forecast of hot weather conditions in the U.S Midwest. When compared to $589.58/bushel in the second half of June, average corn prices fell slightly by 0.34% to $541.11/bushel in the review period.



Source: Bloomberg, FDC Think Tank

▼ 0.34%

$541.11/b

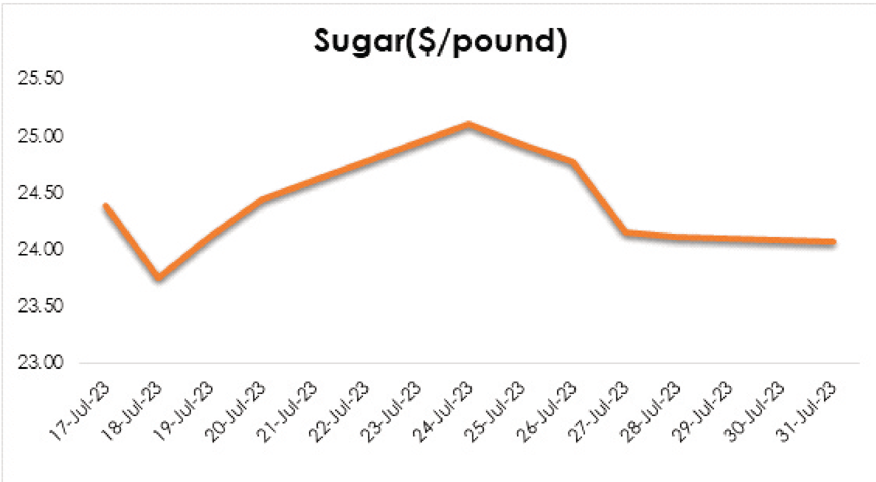
AVG CORN PRICE

IMPLICATION - GRAINS

The fall in grain prices will positively affect the country's import bill as Nigeria is a major importer of grains. This implies a reduced cost of production for corn dependent firms and an increase in consumers' real income.

SUGAR

The price of sugar fluctuated in the second half of July and traded within the range of $23.74/pound - $25.10/pound. It rose to a high of $25.10/pound on July 24th before settling to close at $24.06/pound on July 31st on forecasts of improved crop yields. Overall, the price of sugar averaged $24.40/pound in the second half of July, 2.12% lower than the average of $24.93/pound in the second half of June.



Source: Bloomberg, FDC Think Tank

▼ 2.12%

$24.40/lb

AVG SUGAR PRICE

OUTLOOK

The price of sugar is expected to remain low in the coming weeks owing to projections of higher output in major producing countries, Brazil and India.

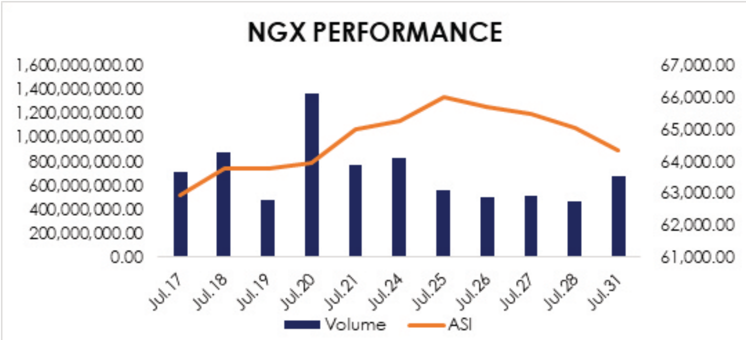
IMPLICATION

Low sugar prices imply reduced import bills for the government, while confectioners and sugar-dependent businesses may enjoy lower production costs.

STOCK MARKET REVIEW

JULY 17TH TO 31ST

The Nigerian Exchange Limited closed on a positive note in the second half of July. It gained 2.83% to close at 64,337.52 basis points on July 31st, up from 62,569.73 basis points on July 14th. Also, the market capitalization increased by 2.76% to 35.01 trillion relative to its close of 34.07 trillion on July 14th. The market YTD return rose to 25.53% from 22.08% in the preceding period. The market breadth was positive at 1.56x as 64 stocks gained, 50 stocks remained unchanged while 41 stocks lost. The bourse's positive performance could be partly attributed to improved investor sentiment due to expectations of positive corporate earnings results.



Source: NGX, FDC Think Tank

The market activity level was negative in the review period. The average volume traded decreased by 53.58% to 700.91mn from 1.51bn units. Similarly, the average value of trades fell by 37.64% to N13.02bn from N20.88bn in the review period.

The performance of the sectors was positive in the review period, as four sectors gained while one sector lost. The Oil and Gas sector recorded a gain of 10.43% in the review period. This was followed by the Banking sector (10.36%), the Insurance sector (5.60%) and the Industrial sector (2.45%). Meanwhile, the Consumer Goods sector recorded a loss of -2.13% in the review period.

SECTOR PERFORMANCE

Industrial	FMCG	Banking	Oil &Gas	Insurance
2.45%	-2.13%	10.36%	10.43%	5.60%

TOP 5 GAINERS

Skyway Aviation Handling Co Plc topped the gainers' list with a 73.56% increase in its share price. This was followed by Sunu Assurance Plc (37.50%), Sovereign Trust Insurance Plc (36.96%), Chellarams Plc (32.39%), and The Initiates Plc (31.15%).

TOP 5 LOSERS

The laggards were led by Abbey Mortgage Bank Plc (-34.21%), Cadbury NIgeria Plc (-32.84%), Courteville Business Solutions Plc (-25.84%), Guinness Nigeria Plc (-25.06%), and FTN Cocoa Processors Plc (-20.57%).

Company	Jul-14 (N)	July-31(N)	Absolute Change	Change (%)
SKYAVN	14.75	25.60	10.85	73.56
SUNUASSUR	0.48	0.66	0.18	37.50
SOVRENINS	0.46	0.63	0.17	36.96
CHELLARAM	1.76	2.33	0.57	32.39
TIP	0.61	0.80	0.19	31.15

Company	Jul-14(N)	Jul-31(N)	Absolute Change	Change (%)
ABBEYBDS	1.52	1.00	-0.52	-34.21
CADBURY	16.75	11.25	-5.50	-32.84
COURTVILLE	0.89	0.66	-0.23	-25.84
GUINNESS	80.00	59.95	-20.05	-25.06
FTNCOCOA	2.82	2.24	-0.58	-20.57

OUTLOOK

Stock market performance is likely to be bearish in the near term as the 25bps hike in the policy rate increases yield on fixed income securities, prompting investors to rebalance their portfolio in favour of fixed income assets.

OUTLOOK FOR NEXT MONTH

Nigerians continue to battle with the inflationary impact of the recent policies by the new administration, without adequate safety nets put in place to mitigate the impacts. In July, Inflation soared to 24.08% for the 7th consecutive time as the policy reforms fully reflected on food and transport prices. The naira at the parallel market fell to an all-time low of N955/$.

The CBN is likely to continue its intervention in the forex market, which could further weigh on the gross external reserves. The depletion of the external reserves may likely be compounded by the possible decline in oil prices as concerns of the weak demand from China outweigh OPEC supply cuts. Brent crude price may likely fall below $80 per barrel in the near term.

On the bright side, Forcados terminal has resumed export operations. This is expected to increase the country's crude oil output and earnings in August.

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