WHISPERS

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WHEN WE SPEAK, THE WORLD UNDERSTANDS

Volume 13 Issue 16

The Whispers Overview

The FDC think tank looks into their crystal ball to provide an outlook for the next four weeks.

Pivotal events shaped the Nigerian economy in the last month. First, unemployment numbers were released moving Nigeria from 5.3% in Q4'22 to 4.1% in Q1'23 suing the International Labour Organization methodology. This striking change from 33.3% in Q4'20 happened in just 3 years and Nigeria stands ahead of advanced economies like Germany (5.6%) and Canada (5.5%). Of course, this sparked controversies as the numbers were far from reality, all thanks to a convenient change in methodology. The deep dive into Nigeria's shifting paradigm from jobless growth to working poverty unpacks this unemployment facade in great detail.

Unemployment aside, Nigeria's economy grew by 2.51% in Q2'23 from 2.31% in Q1'23. Though positive, a growth rate of approximately 3% is rather small for an emerging market giant catering to over 200 million people. Emerging market economies have high prospects for double-digit growth, cue in the Asian Miracle. However, Nigeria continues to underperform its potential due to fiscal and monetary policy dissonance and missteps. One costly misstep hanging Nigeria for the past four decades is gas flaring, cutting deep into the government's already thin revenue. In July, gas flaring cost Nigeria N34.1 billion. Although the rate of gas flaring has reduced in recent years, the country still has a long way to go to attain net zero gas flare by 2060. This whispers' provides sustainable measures to cap gas flaring and boost government income.

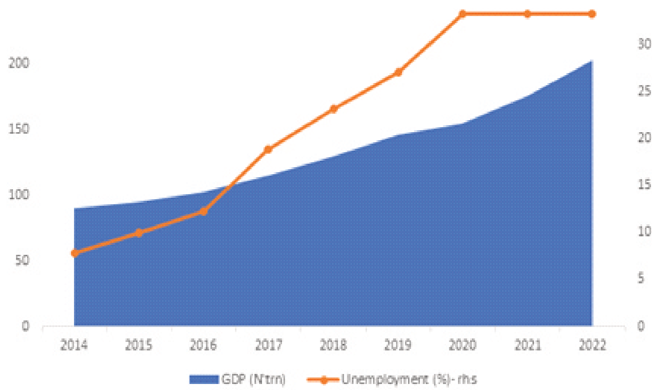
Further down the report, you'll see a detailed analysis of how Nigeria's currency, money equities, and commodities markets fared in August. The teardown shows how the markets reacted to recent policies and data releases like Q2'23 GDP and Q1'23 unemployment statistics. Finally, the FDC think tank looks into their crystal ball to provide an outlook for the next four weeks.

Nigeria's Shifting Paradigm: From Jobless Growth to Working Poverty

"a prosperous society is one where everyone has a fair chance to succeed and share in the benefits of economic growth".

Over the past three decades, the phenomenon of jobless growth (economic growth devoid of job creation) has dominated policy and academic debates in Nigeria. For example, between 1990 and 2021, Nigeria's economy grew by an average of 5% annually, while the unemployment rate rose from 6% to 33%. Over the same period, the size of the economy ballooned to N176 trillion from a paltry N480 billion while economic prosperity seems to have worsened, especially below the upper quintiles. This means that economic growth in Nigeria has not translated to improved economic welfare for the majority of the population.

Figure A.1: Unemployment worsened amid economic expansion



Economic development is sustained economic growth characterized by shared prosperity, evident in improved living standards. Guy Ryder, the former Director-General of the International Labour Organization (ILO), noted that "a prosperous society is one where everyone has a fair chance to succeed and share in the benefits of economic growth". In other words, the true measure of economic success lies in the extent of shared prosperity, where the benefits of growth are broadly distributed in a manner that increases employment and reduces inequality.

In Nigeria, not only did joblessness worsen over the years but inequality deepened. In 2022, Oxfam reported that the combined wealth of Nigeria's five richest men ($29.9 billion) was sufficient to end extreme poverty in the country for over 200 million people.

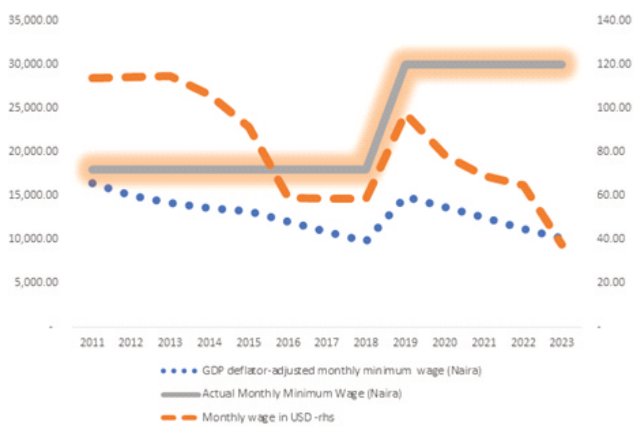
A new era of working poverty

The National Bureau of Statistics (NBS) recently released its "new" unemployment data amidst raging controversies regarding the appropriateness of the data that shows that only 4.1% of Nigerians are unemployed.

The decline is due to the change in NBS' methodology that captures anyone who has worked for at least one hour weekly as employed. The new methodology was prescribed by the ILO under its 19th ICLS resolutions. Hence, while the 33% unemployment rate in Q4'20 is not comparable to the 4.1% reported in Q1'23 due to the change in methodology, the NBS was already reporting the unemployment numbers using the ILO's calculations in the prior unemployment reports.

In Q4'20, by the ILO's computation, Nigeria's unemployment was 17.5%. Forward to Q1'2023, it's down to 4.1%. So, it may be safe to say that Nigeria's unemployment declined by 13.4% between Q4'20 and Q1'23. No doubt the numbers are misleading and far from reality as it suggests that the problem of jobless growth has ceased to exist. However, another problem has boldly emerged with the new statistics: "working poverty".

Figure A.2 Minimum wage increases in a stepwise trajectory while real wage falls steeply



Working poverty is when individuals or households earn incomes that fall below the poverty line despite being employed. It represents a significant challenge, as it reflects the inability of individuals to meet their basic needs and achieve a decent standard of living despite their active participation in the labour force. Impliedly, the new unemployment data shows that only three million Nigerians are unemployed. Juxtaposed with the multidimensional poverty report (133 million), it means that most of Nigeria's employed population are caught in the web of working poverty.

Employment is a catalyst for poverty reduction, providing individuals and communities with opportunities for economic empowerment and improved well-being. By securing stable jobs with fair wages, individuals can enhance their economic stability, improve their living conditions, and create a pathway towards better living standards.

Nigeria has a case of chronic working poverty, where an employment rate of 77% coexists with a multidimensional poverty rate of 63%. A back-of-the-envelope extrapolation would suggest that only 18% of employed Nigerians are not living in working poverty. Put differently, about 59% of Nigeria's working population is caught up in working poverty.

Suppose an employee is paid a monthly minimum wage of N30,000 ($33.3). Such a person will need to work for 11 hours a day to escape poverty if there are no dependents, or 57 hours per day if it is a typical Nigerian household with five members.

Wage(N)	Dollar Equivalent($)	Pay per hour($)	Hours to work per day to escape poverty (Poverty benchmark: $2.15 per day)	
			Scenario 1	Scenario 2
30,000.00	33.33	0.19	11	57
60,000.00	66.67	0.38	6	28
100,000.00	111.11	0.63	3	17
200,000.00	222.22	1.26	2	9
500,000.00	555.56	3.16	1	3

Scenario 1: The dependency ratio is zero such that each member of the household works and earns.
Scenario 2: Each household has 5 members and only the head of the household works.

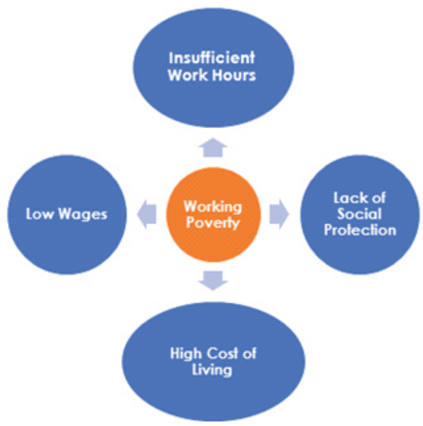
Causes of working poverty

Lack of proper education has trapped many Nigerians in low-wage employment. People often lack the necessary skills or education to access higher-paying positions.

However, while education might be a problem for a handful of Nigerians, even those who are well-educated are underemployed as they work in jobs they are overqualified for. Underemployment not only means that people are working in low-paying jobs but it also deepens working poverty. According to the new Labour Force Statistics report by the NBS, 33.2% of the employed workforce works less than 40 hours per week, while about 12.2% are defined as underemployed.

Another factor that reinforces working poverty is inadequate social safety nets, such as limited access to healthcare, affordable housing, and social assistance programs, which further exacerbate the problem of working poverty. Lack of social safety nets exacerbates working poverty in several ways. Without adequate social protection, individuals and families are left vulnerable to economic shocks such as job loss, illness, or accidents. This can push them into poverty or further deepen their existing poverty. For example, a dearth of social safety nets increases the burden of out-of-pocket expenditure for healthcare, which can be prohibitively high, especially for those with low incomes. Also, without social safety nets, low-wage workers often face difficult choices between accepting exploitative working conditions or risking unemployment. This can lead to a cycle of poverty as workers are forced to accept low-paying jobs with little job security or benefits.

Figure A.3 Causes of working poverty



Shifting the policy goalpost: What should policymakers focus on?

The essence of data is to guide policy formulation in a manner that guarantees an optimal outcome. The goal of full employment is as important as improved welfare (see SDGs 1, 2, and 3). With the new unemployment data showing that Nigeria has shifted from the problem of jobless growth to that of working poverty, there is a need to rethink macroeconomic and welfare-based policies so as to address the emerging issues.

1. Strengthening labor market regulations: Labour market regulations should be strengthened To promote fair and secure employment, including measures such as providing contract stability, strengthening protections against unfair dismissal, ensuring access to social security benefits, and implementing robust minimum wage policies in both the private and public sectors.

2. Investing in Skills Development and Education: To address working poverty, policies should prioritize investments in skills development and education. This includes expanding access to quality education, vocational training, and lifelong learning opportunities. By equipping individuals with the necessary skills and qualifications, they can access higher-paying jobs and break the cycle of poverty.

3. Strengthening Social Protection Systems: Governments and corporates should establish or strengthen social protection programs that offer income support, healthcare, childcare, and other essential services. These programs should be designed to be inclusive, accessible, and responsive to the needs of low-income workers.

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Exploring Sustainable Solutions to Gas Flaring in Nigeria

Globally, Nigeria ranked seventh for gas flaring (6.63 bcm) pollution in 2021, and 18th for the poorest air quality in 2022.[1]

Gas flaring is burning off excess natural gas that is produced along with crude oil at oil wells. According to the World Bank, approximately 140 billion cubic meters (bcm) of natural gas are flared annually at oil fields worldwide, releasing about 300 million metric tons of CO2 into the atmosphere.

Globally, Nigeria ranked seventh for gas flaring (6.63 bcm) pollution in 2021, and 18th for the poorest air quality in 2022.[1] In July 2023, Nigeria lost N34.1 billion (12.7 million mscf) to flaring.[2].

Gas flaring spans over 160 years globally. The practice releases greenhouse gases such as carbon dioxide, methane, and black carbon into the atmosphere, which trap heat and increase the Earth's temperature. This leads to frequent extreme weather events, such as droughts, floods, heat waves, and storms that disrupt agricultural production and threaten food security. Examples of countries where gas flaring worsens climate concerns and negatively impact food security are Nigeria, Iraq, Iran, Venezuela, and Algeria.[3]

Moreso, exposure to the toxins from gas flaring leads to grave health problems such as cancer, blood-related disorders, aggravated asthma, chronic bronchitis, decreased lung function, and even premature death.

The Niger Delta region of Nigeria bears the brunt of gas flaring's adverse effects. Consequently, the region's life expectancy is a mere 40 years (vs. the national average of 52.89 years), with around two million people residing within a four-kilometre radius of gas flaring sites.

Beyond human health in the Niger Delta region, gas combustion's consequences extend to rain, lakes, and stream acidification, adversely affecting aquatic life and farm produce. Vegetations, including palm, orange, mango, pear, and banana trees, are fast dying, exacerbating the country's unemployment and food insecurity challenges.[4]

Notably, the gas flaring tracker report by the World Bank shows a 3% decrease in gas flaring worldwide from 144 bcm in 2021 to 139 bcm in 2022, while oil production increased by 5% to 80 million barrels per day. Most of the decline in gas flaring came from Nigeria, Mexico, and the United States. However, Colombia achieved a remarkable 60% reduction in annual flare volumes between 2015 and 2021, with only 46%

cubic meters of flared gas per barrel of oil. In 2021, Colombia flared only 0.33 bcm of gas with a daily total production of 737 thousand barrels.

Colombia reduced its gas flaring by implementing strong regulations and domestic gas utilization policies. Colombia banned any gas from being wasted or vented at oil fields since 2010 and requires oil companies to submit plans for gas utilization or reinjection before starting production. Colombia also developed its domestic gas market by expanding its pipeline network, increasing its gas-fired power generation capacity, promoting natural gas vehicles, and supporting industrial and residential gas consumption. Colombia has committed to the Zero Routine Flaring by 2030 initiative led by the World Bank in 2020.[5]

Root causes of the gas flaring problem in Nigeria

Nigeria still faces challenges that Colombia has overcome. One challenge is the impracticality of gasreinjection in some oil fields, especially those with low reservoir pressure or high water content.

Gas reinjection requires high capital and operational costs, which may not be feasible or profitable for some operators in Nigeria. Another challenge is the inadequate infrastructure for transporting and refining natural gas, which limits the potential for domestic and industrial use of gas by-products.

Nigeria has a low pipeline density and a high rate of pipeline vandalism, which reduces the reliability and security of gas supply. Additionally, refining capacity is low with a high dependence on imported petroleum products, which reduces the incentive for investing in gas processing plants.

A third challenge is the underdeveloped by-product market, which affects the demand and price of natural gas and its derivatives. Nigeria has a low penetration of natural gas vehicles, which reduces the demand for CNG and LNG as alternative fuels. Nigeria also has a low adoption of cooking gas in low-income households, which reduces the demand for LPG as a cleaner and cheaper energy source.

Possible solutions

To address these challenges, Nigeria needs to adopt a holistic and integrated approach that involves various stakeholders, such as the government, oil companies, local communities, and international partners. Some of the possible solutions are:

- Developing alternative gas utilisation technologies suitable for different oil field conditions, such as mini-LNG plants, gas-to-liquid plants, or gas-to-power plants. These technologies can reduce the dependence on pipelines and refineries and increase the value-added of natural gas by-products.[6]

- Investing in infrastructure development and maintenance for the transport and refining of natural gas, such as expanding and securing the pipeline network, upgrading and building new refineries, and creating regional hubs for gas distribution. These investments can improve the availability and affordability of natural gas and its derivatives, and create more jobs and revenue for the country.

- Promoting market development and diversification for natural gas and its derivatives, such as creating incentives and regulations for natural gas vehicles, subsidizing or providing free cooking gas cylinders to low-income households, and supporting industrial and residential gas consumption. These measures can increase the demand and price of natural gas and its derivatives, and reduce the environmental and health impacts of fossil fuels.

By implementing these solutions, Nigeria can achieve its goal of zero routine flaring by 2030, while also enhancing its energy security, economic growth, social welfare, and environmental sustainability. Nigeria can learn from Colombia's success story, but also adapt to its own context and challenges. Gas flaring is not only a problem but also an opportunity for innovation and development.

[1] World Bank. (2021). Global gas flaring tracker report. https://www.worldbank.org/en/programs/gasflaringreduction/publication/global-gas-flaring-tracker-report

[2] Ediri E. 2023. Gas Flaring: Nigeria losses N34.1bn as oil firms flare 12.7 mscf. Vanguard. Gas Flaring: Nigeria loses N34.1bn as oil firms flare 12.7 mscf - Vanguard News (vanguardngr.com)

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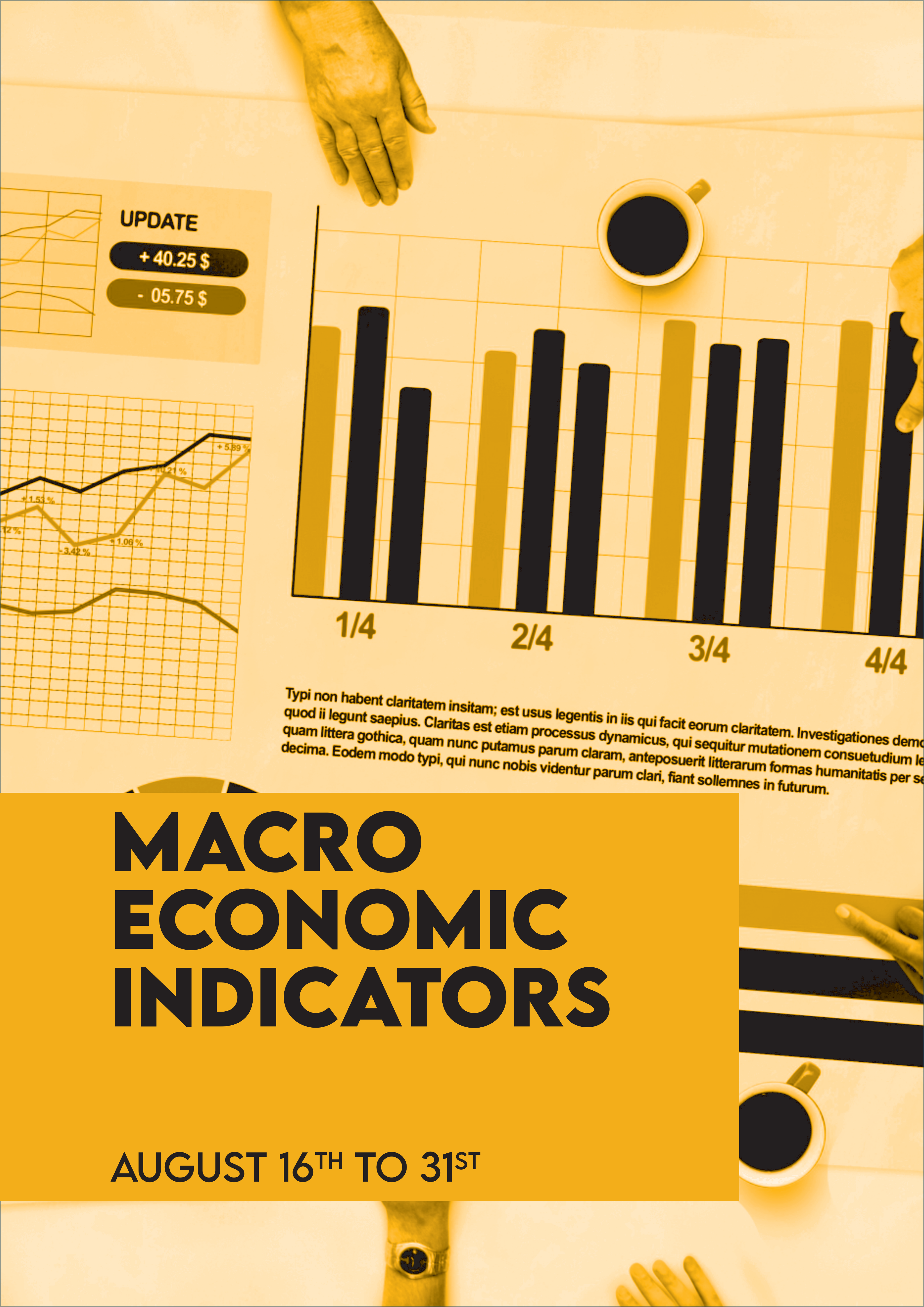


MACRO ECONOMIC INDICATORS

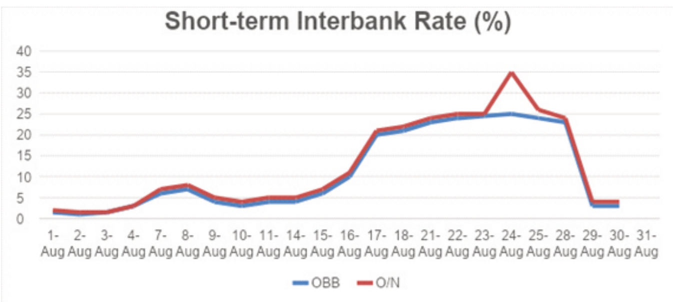
AUGUST 16TH TO 31ST

MONEY MARKET

Banks' opening position in the second half of August averaged N83.44bn, which is 77.28% lower than N367.63bn in the second half of July. The decline in liquidity was partly due to Nigerian Treasury Bills (NTB) sales of N533.47bn. On a monthly basis, the average balance for banks fell by 50.19% to N280.57bn in August from N563.29bn in July, owing to Nigerian Treasury Bills (NTB) sales of N687.46bn during the month. The sharp drop in banking liquidity led to an increase in average short-term interbank rates (NIBOR) by 498bps to 11.63% p.a. in August from 6.65% p.a. in July.

There were two primary market auctions conducted in August. A total of N457.19bn was allotted, up 12.59% from the total allotment of N406.06bn in July. Notably, the 364-day t/bill yields increased while the 91-day yields declined at both the primary and secondary markets. In essence, Nigeria has an upward sloping yield curve, suggesting that markets/investors are optimistic about the country's long-term outlook. This could be partly because of the expected long-run impact of recent policy reforms. Higher yields will increase the real return on investments, especially as inflation is projected to fall in the long-run due to productivity gains.

Meanwhile, the movement of yields across the secondary market, where activities are truly reflective of market sentiments, suggest that the CBN's monetary policy transmission mechanism is still relatively weak as short-term yields keep declining.



Source: FDC Think Tank

Tenor	Primary market (July 26th 2023) (%)	Primary market (Aug 23rd 2023) (%)	Secondary market (Aug 1st 2023) (%)	Secondary market (Aug 30th 2023) (%)
91-day	6.00	5.19	5.00	3.56
182-day	8.00	8.00	6.63	6.00
364-day	12.15	13.97	8.00	8.07

Source: FMDQ, FDC Think Tank

Outlook and Implication

The tight liquidity conditions in the money market are expected to continue as the CBN ramp up efforts to rein in inflation. The MPC will meet on September 25/26, the stubbornly high inflation (currently at 24.08%) and heightened currency pressures increase the chances of a tighter monetary policy. This means that short-term interbank interest rates would remain elevated in the near term.

Activities in the money market will also be driven by sentiments as investors keep an eye on economic, policy and political events.

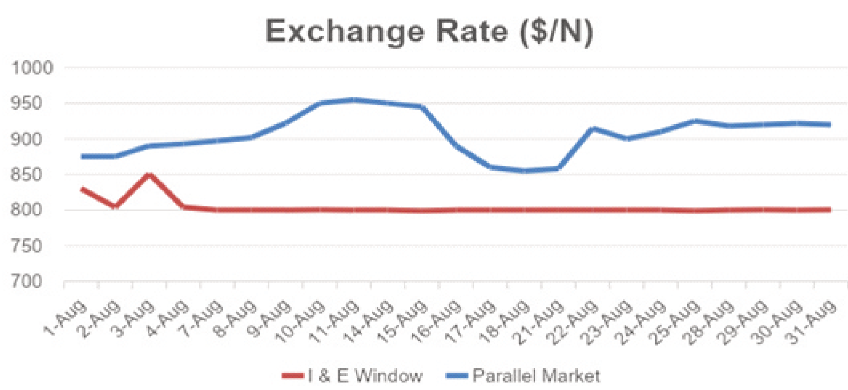
FOREX MARKET

The forex market is currently being reformed. On June 14, 2023, 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.

At the I & E window, the naira traded within a tight band of N799.90/$–N800/$ in the second half of August. It depreciated marginally by 0.01% to N800/$ on August 31st from N799.90/$ on August 16th. However, on a monthly basis, the currency appreciated by 3.75% to N800/$ at the end of the month from N830/$ at the beginning of the month.

EXCHANGE RATE

At the parallel market, the naira depreciated by 3.26% to close at N920/$ on August 31st from N890/$ on August 16th due to forex shortages. A monthly review of the exchange rate at the parallel market showed that the currency touched a peak of N955/$ (August 11) due to heightened demand for dollars by businesses and summer travellers. It gained in the following week due to the AFREXIM loan secured by NNPCL until August 18 before resuming its free fall due to JP Morgan's disclosure of Nigeria's net external reserves position. Compared to N875/$ on August 1st, the parallel market rate depreciated by 4.89% to close at N920/$ on August 31st.



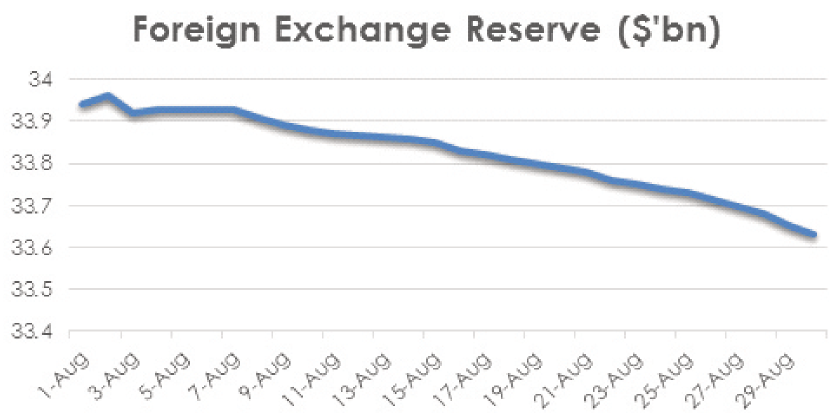
Source: FDC Think Tank

Outlook

The naira at the parallel market is expected to depreciate further in the near term due to forex shortages amid increased demand for dollars. Meanwhile, the CBN is expected to remain committed to intervening in the forex market. However, this will dent the country's external reserves, in addition to the low level of inflows and external debt servicing costs. So far in 2023, the FGN has spent $1.24bn in servicing its external obligations. This is over 80% total revenue generated.

EXTERNAL RESERVES

Nigeria's foreign exchange reserves maintained a downward trend in the second half of August, declining by 0.59% to close the period at \$33.63bn from \$33.83bn on August 16th. Similarly, on a monthly basis, it dropped by 0.91% to close the month at \$33.63bn from \$33.94bn at the beginning of the month. The sustained depletion was due to CBN's intervention in the forex market. The country's import and payment cover decreased by 9.09% to 7 months from 7.70 months at the start of the month.



Source: CBN, FDC Think Tank

Implication

A sustained depletion of the external reserves will limit the CBN's ability to supply forex at the I & E window, further weakening the naira. Low FX reserves could douse foreign investor confidence and lead to a downgrade on Nigeria's sovereign credit ratings by global rating agencies.

COMMODITY EXPORTS

Nigeria's main export commodities are crude oil, LNG, accounting for about 70% and 10% respectively, while cocoa is its top non-oil export commodity.

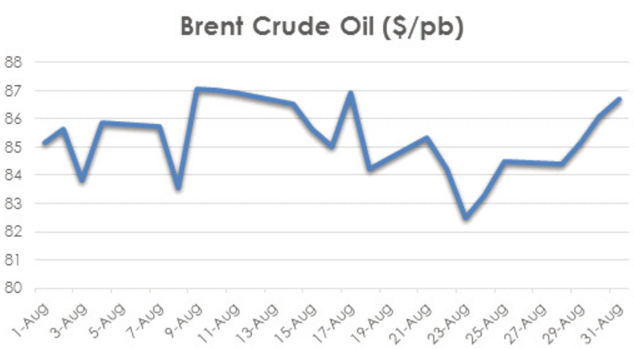
OIL PRICES

Oil prices rose to $86.94pb on August 31 from $85pb on August 16,driven by production cuts by major producers Saudi Arabia and Russia and lower crude inventories in the US. Meanwhile, throughout the month of August, oil above $80pb, peaking at $87.05pb before declining to close the month at $86.94pb. On average, Brent crude increased by 6.83% to $85.27pb in August from $79.82pb in July.

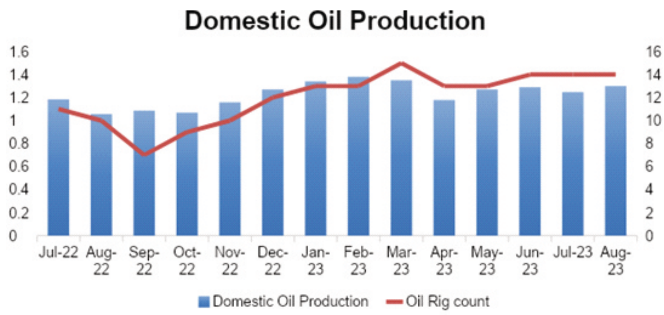
OIL PRODUCTION

Domestic oil production decreased by 3.10% to 1.25mbpd in July from 1.29mbpd in the preceding month. The decline was due to repairs in major oil terminals and lingering crude oil theft.

OPEC's average crude oil production declined by 836,000 barrels per day in July 2023 to an average of 27.31 million barrels per day compared to 28.19 million barrels per day in June. Oil production increased mainly in Iraq, Iran, and Angola, while production declined in Nigeria, Libya, and Saudi Arabia.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

Oil prices are expected to be volatile in the coming month due to oil production cuts by major producers (Saudi Arabia and Russia) and the decline in US inventories. Moreover, increased crude supply by some oil-producing nations like Iran and Venezuela and the weak demand from China could bring down oil prices in the near term. Meanwhile, oil production in Nigeria for August would improve due to the resumption of export operations in Forcados Terminal.

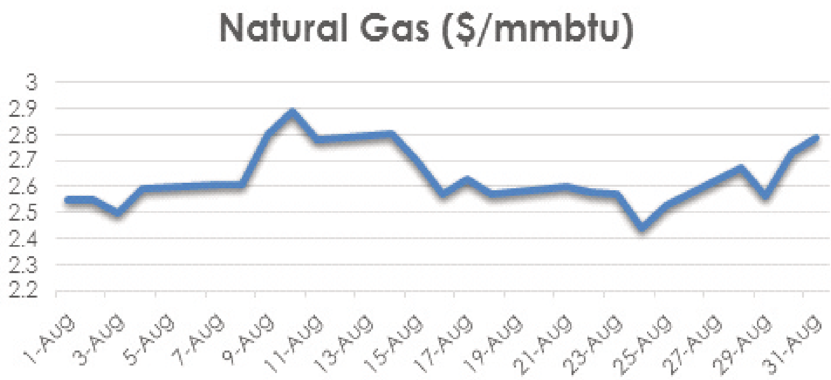
Implication

Oil prices above $80 per barrel coupled with the prospect of improved oil production will boost the country's oil revenue. Nigeria’s oil revenue surged by 46.41% to N21trn in 2022 from N14.41trn in 2021. In Q1’23, crude oil sales amounted to N5.14trn and is projected to rise further as oil prices rise and oil production increase. Oil contributes about 50% to government revenue and over 70% to foreign exchange earnings. As a result, FAAC funding to the three tiers of government will rise. After declining steadily in the first five months of the year, FAAC allocation has constantly increased in the last three months, largely due to exchange rate gains.

NATURAL GAS

At the end of the second half of August, the price of gas increased by 8.56% to $2.79/MMBtu on August 31 from $2.57/MMBtu on August 16. This was driven by high liquefaction costs (tolling fees) in the U.S., the world's second-largest exporter.

LNG price movement was quite choppy in August. It touched a two-month peak of $2.89/MMBtu before declining to close the month at $2.79/MMBtu. This is still 9.4% higher than $2.55/MMBtu at the beginning of the month. On average, LNG prices fell slightly by 1.49% to $2.63/MMBtu in August from $2.67/MMBtu in July due to an improved supply outlook.



Source: Bloomberg, FDC Think Tank

Outlook

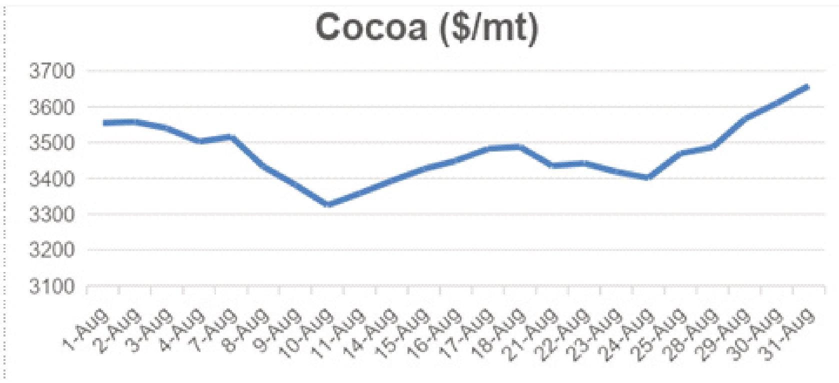
The price of gas is expected to remain elevated owing to concerns about the possible strike actions by LNG facility workers in Australia. Australia was the 3rd largest exporter of LNG (6.8 metric tons) in January 2023, behind Qatar (7.3 metric tons) and the US (6.9 metric tons). The largest importers of LNG in 2022 were Japan (71.99 million tonnes) and China (63.44 million tonnes). China is currently battling with slow growth (down 1.4% to 0.8%) and deflation (-0.3%), which could reduce demand for commodities including LNG. However, as winter approaches, we expect a boost in demand for LNG. This coupled with the output shortfall will keep prices high.

Implication

Natural gas accounts for 9.11% of total exports in Q2'23. Hence, high gas prices are positive for the country's terms of trade, foreign earnings and fiscal revenues. However, higher global LNG prices could exacerbate Nigeria's inflationary pressures for consumers and manufacturers who utilize gas. Already, cooking gas has spiked 25% to N750 in August from N600 in June.

COCOA

Cocoa prices increased steadily in the second half of August. It touched a low of $3401/mt on August 24 before increasing by 7.55% to close the month at $3658/mt. This can be attributed to global supply concerns amid the outbreak of the black pod disease in top producers in West Africa. The price of cocoa averaged $3,473/mt in August, 2.2% higher than the average of $3,398/mt in July. This was supported by the global deficit outlook in the 2023 -24 season exacerbated by the El-Nino weather forecast. El-Nino is a naturally occurring climate pattern associated with warming of the ocean surface temperatures in the central and eastern tropical Pacific Ocean.



Source: Bloomberg, FDC Think Tank

Outlook

Cocoa price is expected to rise further owing to supply shortages heightened by unfavourable weather conditions in West-Africa producing countries such as Ivory Coast (45%), Ghana (20%) and Nigeria (6.5%).

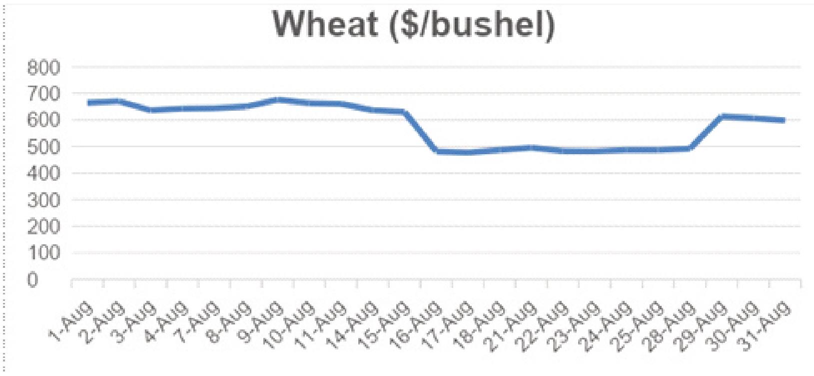
Implication

Cocoa is a major non-oil export commodity in Nigeria, accounting for 1.31% of total export earnings. High cocoa prices will increase the country's foreign exchange earnings as well as the income of cocoa farmers.

COMMODITY IMPORTS

WHEAT

In the second half of August, the price of wheat increased by 24% from $481.5/bushel to $597.25/bushel (Aug 31) after touching a low of $676/bushel on August 17th. The increase was due to the decline in Canadian production due to drought. Overall, wheat prices recorded a decline in August owing to concerns over weak global demand and improved supplies from Russia. It decreased by 10.18% to close at $597.25/bushel (August 31) from $665/bushel (August 1). Meanwhile, on average wheat prices fell by 14.58% to $581/bushel from $680.24/bushel in July.



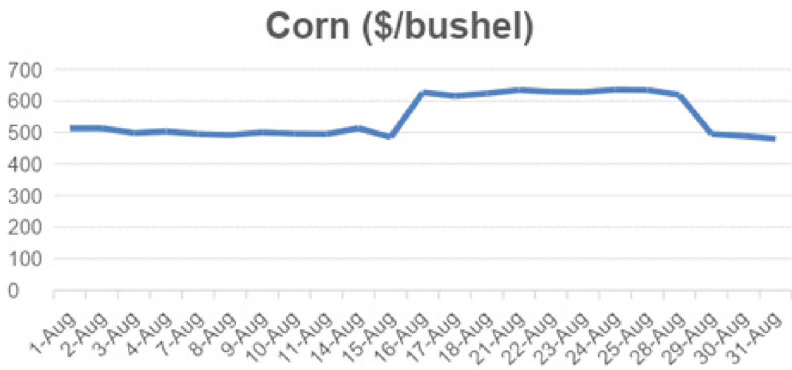
Source: Bloomberg, FDC Think Tank

Outlook-Grains

Grain prices are expected to fall due to the opening of a new export route through Croatian ports, which will enhance the global supply of Ukrainian grains. However, the growing attack on Ukraine's grain infrastructure by Russia and adverse weather conditions in grain-producing regions like Argentina, Canada, and Australia could exert upward pressure on prices.

CORN

Corn price was relatively stable in the second half of August. It declined by 23% from $627/bushel on August 16th, supported by forecasts of improved supply from Brazil. After touching a high of $636/bushel on August 24th, corn price fell by 24.5% to close the month at $480/bushel on August 31st. However, the average price of corn increased by 5.41% to $548.61/bushel in August from $520.42/bushel in the previous month as unfavourable weather conditions affected crop yields in the U.S.



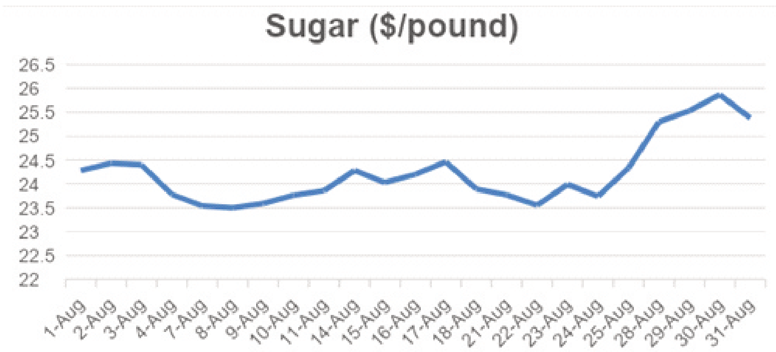
Source: Bloomberg, FDC Think Tank

Implication-Grains

Nigeria spends over $2 billion annually on wheat imports. With lower grain prices, Nigeria could spend less on imports, which would improve its trade balance. Also, this could translate into reduced cost of production for wheat related commodities such as bread and flour.

SUGAR

Sugar price was relatively bullish in the second half of August due to tight supplies from India and Thailand. Overall, the price of sugar increased by 8% to close the month at $25.38/pound from its low of $23.5/pound on August 8th. Sugar prices averaged $24.23/pound in August, 1.12% higher than the average of $23.96/pound in July. This accretion was a result of the expectation that India, which accounts for over 15% of output, would halt exports in October, as well as supply worries from Asia, the largest producing region.



Source: Bloomberg, FDC Think Tank

Outlook

The price of sugar is expected to remain elevated due to dry weather conditions in major producing countries, India (the second-largest producer) and Thailand (the third-largest).

Implication

Increased global sugar prices coupled with currency pressures in Nigeria are expected to raise production costs for domestic confectioners. This would further stoke inflationary pressures in the country, as the cost burden is transferred to consumers in form of higher sugar prices.

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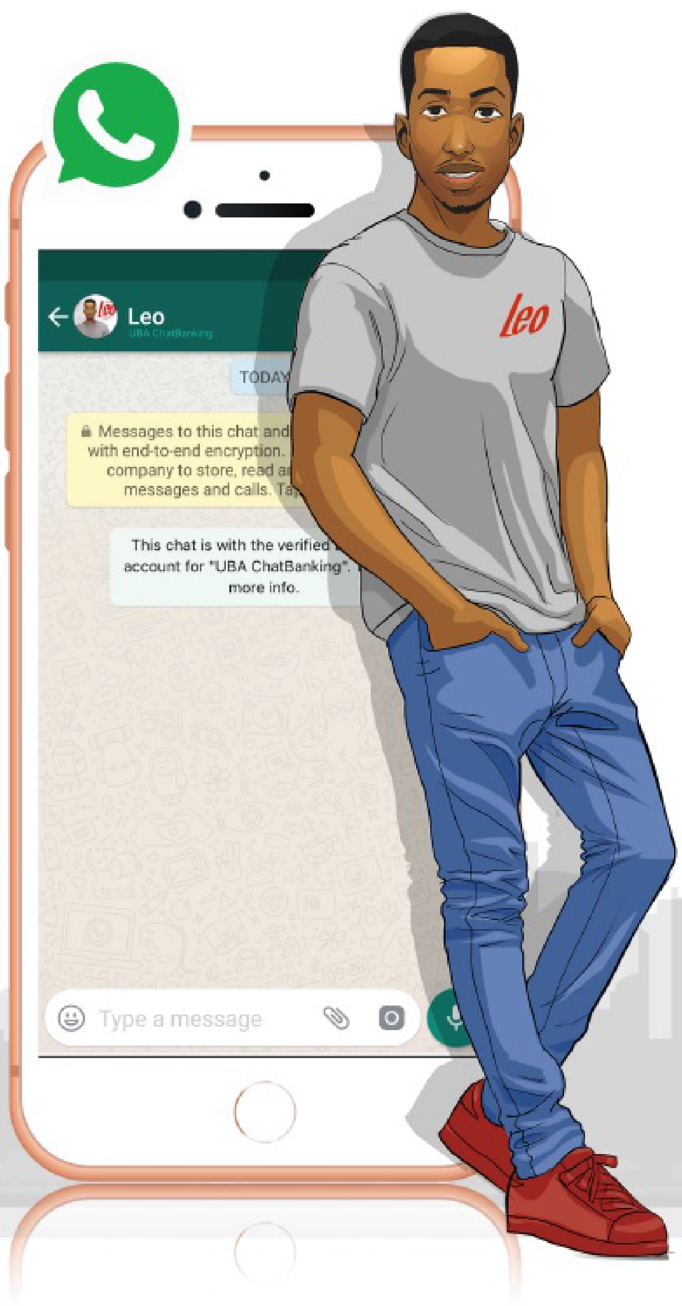

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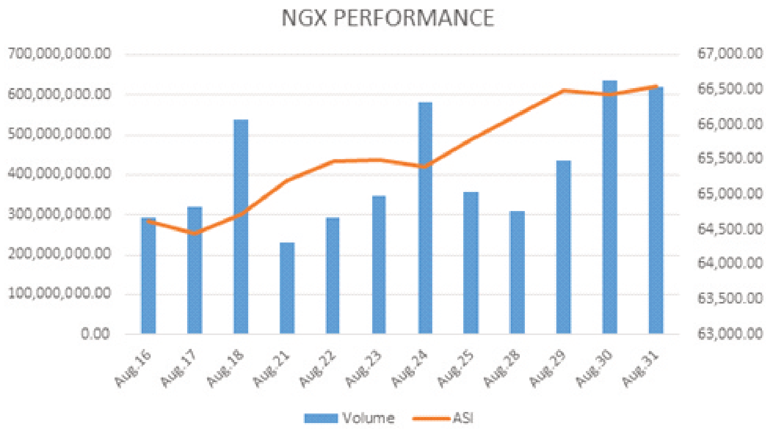
STOCK MARKET REVIEW

AUGUST 16TH TO 31ST

Nigerian Exchange Limited closed on a positive note from August 16th-31st. It gained 2.50% to close at 66,548.99 basis points on August 31st, up from 64,928.98 basis points on August 15th. Also, the market capitalization increased by 2.97% to 36.42 trillion (trn) relative to its close of 35.37 trillion (trn) in the prior period. The market YTD return rose to 29.85% from 26.10% in the preceding period. The market breadth was negative at 0.73x as 41 stocks gained, 58 stocks remained unchanged while 56 stocks lost. The positive performance of the market could be attributed to a surge in investor confidence in specific stocks, notably DANGSUGAR and TRANSCORP. Dangote Sugar Refinery announced in the period that NASCON Allied Industries Plc and Dangote Rice Limited have agreed to the terms and conditions of the proposed merger.



Source: NGX, FDC Think Tank

The market activity level was positive in the review period. The average volume traded increased by 15.73% to 414.04mn from 357.76mn units. Similarly, the average value of trades rose by 17.29% to N6.31bn from N5.38bn in the review period.

The performance of the sectors was positive in the review period, as three sectors gained while two sectors lost. The Consumer Goods sector recorded a gain of 21.38% in the review period. This was followed by the Oil & Gas sector (3.20%), and the Industrial sector, (1.87%). Meanwhile, the Banking sector recorded a loss of -4.01% followed by the Industrial sector, -3.87%.

SECTOR PERFORMANCE

Industrial	FMCG	Banking	Oil &Gas	Insurance
1.87	21.38	-4.01	3.20	-3.87

TOP 5 GAINERS

ABC Transport Pllc topped the gainers' list with an 88.33% increase in its share price. This was followed by Thomas Wyatt Nig. Plc (68.22%), Dangote Sugar Refinery Plc (54.93%), Transnational Corporation Plc (51.37%), and Nason Allied Industries Plc (44.43%).

TOP 5 LOSERS

The laggards were led by Tantalizers Plc (-31.82%), Chellarams Plc (-18.86%), Cutix Plc (-16.67%), Daar Communications Plc (-15.63%), and Jaiz Bank Plc (-14.29%).

Company	Aug-15 (N)	Aug-31 (N)	Absolute Change	Change (%)
ABCTRANS	0.48	0.88	0.40	83.33
THOMASWY [MRS]	1.29	2.17	0.88	68.22
DANGSUGAR	35.5	55	19.50	54.93
TRANSCORP	4.01	6.07	2.06	51.37
NASCON	35	50.55	15.55	44.43

Company	Aug-15 (N)	Aug-31 (N)	Absolute Change	Change (%)
TANTALIZERS	0.44	0.3	-0.14	-31.82
CHELLARAM	4.4	3.57	-0.83	-18.86
CUTIX	2.7	2.25	-0.45	-16.67
DAARCOMM	0.32	0.27	-0.05	-15.63
JAIZBANK	1.75	1.5	-0.25	-14.29

Outlook

September is traditionally a bearish month for global equities, and after four consecutive months of gains in the NGX and a PE ratio of 12.85 at the end of August, which is 28.8% higher than the PE ratio at the start of the year, the market may be due for a correction. Profit-taking in stocks that have seen increased investor interest in recent months may also contribute to the downward trend. We, however, expect the macroeconomic conditions in the country to be at the forefront of investors' minds in the coming months, particularly the aftermath of the Presidential Election Tribunal as well as the CBN's decision at the next MPC meeting on September 26.

WHISPERS OUTLOOK- SEPTEMBER 2023

- In the coming weeks, we expect inflationary pressures to persist due to the lingering impact of the policy reforms on food and transport prices. In FDC, we are projecting a further increase in inflation to 25.47% in August, which will be compounded by the currency depreciation.

- The Naira at the parallel market, although currently down from the peak of N955/$ on August 11 to N936/$, is expected to depreciate further due to forex shortages and the heightened dollars for dollars, following the disclosure by JP Morgan on Nigeria's FX reserves true position.

- Meanwhile, the CBN is expected to maintain intervention in the forex market to sustain the naira. However, this would further dent the country's gross external reserves, which has bled 1.59% to $33.39 billion in the last month.

- Oil production is expected to improve due to the resumption of oil exports at the Forcados terminal. This, coupled with oil prices above $90 per barrel (due to lower crude supplies), will support the accretion of gross external reserves in the near term. Already, gross external reserves improved slightly by 0.95% to close the month of August at $33.95 billion.

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