WHISPERS

DECEMBER 01, 2023 | VOLUME 13 ISSUE 21

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

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Volume 13 Issue 21

01

The Whispers Overview

Nigeria's economic growth remained positive in Q3'23. The services sector was the primary driver of growth, expanding by 3.99% to contribute approximately 52.7% to GDP growth. In contrast, the agricultural sector, while contributing 29.31% to the total GDP in, experienced a slowdown in growth to 1.30% from 1.50% in the previous quarter. The slowdown is indicative of challenges faced by the sector, including the adverse impact of climate change on productivity. The article in this edition of the FDC Whispers exposes how Nigeria can adapt to the realities of climate change and implement policies to address the issue, using Uganda's experience.

Addressing the challenges faced by the agricultural sector would not only aid the federal government's diversification efforts but also put the country on the path to achieving the annual growth target of 6% set by the current administration.

Overall, the performance of the economy was negatively impacted by structural headwinds and external shocks, compounded by policy contradictions. This is underscored by the decline in the purchasing manager's index—an indicator of economic growth— by 5.29% to an average of 51 in Q3'23 from 53.7 in Q2'23. The impact of these policy inconsistencies on major macroeconomic indicators is analyzed in the next section of this report, while also providing a birds-eye view of the performance of the import and export commodities in Nigeria. The report also includes an insightful economic outlook for the next month.

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02

Adapting to New Realities: Climate Change and Agricultural Output in Nigeria

Nigeria's food security is seriously threatened by climate change, which mainly affects agricultural productivity in the northern and coastal regions, by changing rainfall and temperature patterns. The agricultural sector's share to GDP has incessantly been on the decline as the sector contributed 21.66% of total GDP in real terms in the first quarter of 2023, lower than its contribution in the first quarter of 2022 and lower than in the fourth quarter of 2022 which were 22.36% and 26.46% respectively. Nigeria is currently dealing with a rise in disease incidence such as brucellosis, mastitis, peste des petits ruminants (PPR), an increase in heat waves, unpredictable weather patterns, and a decline in rainfall in areas that have turned to deserts. Food production in the central regions of Nigeria are declining due to rising desertification in the north and the destruction of livelihoods due to rising sea levels in coastal areas (Akwa-Ibom, Bayelsa, Cross-Rivers) where people depend on farming and fishing.

Unfortunately, food shortfalls caused by adverse weather conditions due to climate change have contributed to price hikes and sustained inflationary pressures in Nigeria. Data from the World Food Program (WFP) in November 2022 showed that the share of those in stressed food security situations with minimally adequate food consumption is at 34 percent of the population. Thus, the acute food insecure population has risen by 5.4 million people to 17 million over the past year.

Nigeria relies significantly on rainfall for replenishing its water resources. This is particularly important for agriculture, as many regions in the country depend on rainfed agriculture for crop cultivation. Adequate and timely rainfall is crucial for the success of crops and overall food security[1]. Thus irregular rainfall patterns and temperature swings caused by climate change have impacted livestock production in Nigeria. Mean annual rainfall in this region has dropped below 600mm, compared with 3,500mm in Northern Nigeria. According to Agbeja et al. the influence on livestock productivity in Nigeria can be direct and indirect; direct effects include air, temperature, humidity, wind speed, and other climate variables. While the indirect effects include animal health, production, and overall well-being[2]. Table 1 depicts the direct and indirect observed impacts of climate change on livestock in Nigeria. This makes adaptation measures necessary, to adjust to farming methods and agricultural activity in the new normal.

Table 1. Impacts of climate variability on livestock production in Nigeria

Impact Type	Impacts	Key Significant Factors
Direct Impact	Lower intake of feed	Rising temperature (heat stress)
	Decreased animal milk and meat production	
	Decline in reproductive outcome	
	Poor immune functions	
	Rise in mortality rate	
Indirect Impact	Variations in the yields of feed crops	Increased CO2 level Rising temperature and increased CO2 level
	Variations in forage production and pasture composition	
	Changes in forage quality	
	Decreasing water supply and rising water use	Rising temperature
	Increased seasonal change in resource availability	Extremely frequent weather events
	Increase in disease, pest, and parasite	Rising temperature and variations in the precipitation pattern

1. Adejuwon, S. A. (2004). Impact of climate change variability and climate change on crop yield in Nigeria 2-8
2. Agbeja, A. O., Olaifa, K. A., Akindolu, D. R., Salau, H. O., & Akinlade, M. S. (2021). Climate change and livestock production: A review. Nigerian Journal of Animal Production, 48(4), 9-13.

Adaptation strategies

Adaptation Strategies/Policies	What has Been Done	What has not worked and why
Diversify livestock and improve range management.	Efforts to improve livestock breeds and improve range management have been made. For instance, the introduction of breeding and genetic improvement programmes.	However, challenges still exist, including land tenure issues, competition for resources, and the need for continued investment in infrastructure and capacity building.
Increase access to drought-resistant crops and livestock feeds	Strategy not implemented yet.	Agricultural practice in Nigeria is still predominantly rain-fed, making it vulnerable to the impacts of climate change.
Sustainable land use and water resource management	-Introduced the National Water Resources Bill in 2016 to regulate the use and control of its water resources -Launched afforestation and reforestation programs have been ongoing over the years to combat deforestation and land degradation	Combating deforestation, challenges related to illegal logging, land-use changes, and land tenure issues persist.

Climate adaptation practices and policies from other African countries

Since 2006 up to date, Uganda has deployed some policies and practices to promote climate-resilient farming, including training farmers in agroforestry, crop diversification, and soil conservation techniques to mitigate the impacts of changing weather patterns. Farmers were encouraged to grow drought-tolerant and flood-resistant crops to adapt to varying conditions, promoting techniques like terracing, contour farming, and cover crops to reduce soil erosion and enhance soil fertility, and provide training and capacity-building programs for farmers. Uganda's focus on climate-resilient farming practices has benefitted many farmers helping them adapt to changing weather patterns and improve their livelihoods, and agriculture growth surged to 4.8% in 2020 from 3.8% in 2019. Their climate-resilient farming strategy is partially successful, as they are yet to reach more communities. Many of the policies and practices target rural and remote communities, where smallholder farmers rely heavily on agriculture for their livelihoods[3].

Next Steps for Nigeria

Include climate-smart farming techniques, which entail the use of technologies for climate forecasting, the use of cover crops, and other actions by farmers to help manage production concerns related to climate change.

To lessen runoff that is high in nutrients, farmers can apply fertilizers strategically, keep their animals away from streams, and take other measures.

Implement scientifically proven strategies to mitigate the effects of climate change on crops and livestock, such as cutting back on pesticide use and enhancing pollination, and farmers can increase crop tolerance.

Due to temperature changes and fluctuating rainfall patterns, farmers may need to modify their techniques and move to alternative crops because certain crops may no longer suit certain areas.

Collaborating with neighbouring countries and international organizations is crucial for addressing shared climate challenges, such as transboundary water management.

[3]. Call, M., Gray, C., & Jagger, P. (2019). "Smallholder responses to climate anomalies in rural Uganda". World Development, 115, 132-144.

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03

Nigeria naira hits record low near unofficial market rate

Culled from Reuters

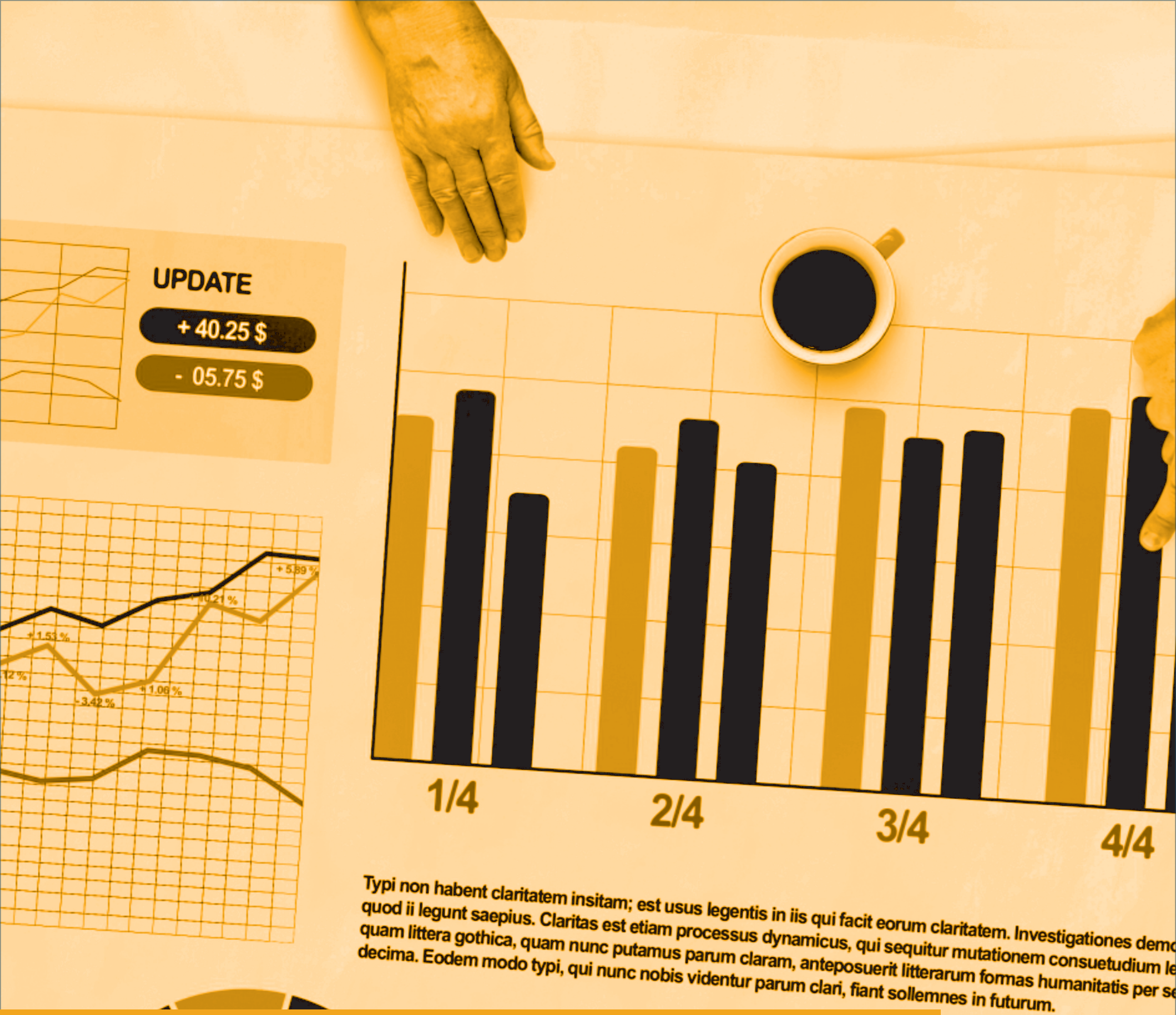
Nigeria's naira dropped to a record low against the dollar on Friday on the official market, close to the rate at which it trades on the unofficial parallel market.

The currency of Africa's biggest economy fell as low as 1,160 naira to the dollar, LSEG data showed, before recovering to around 800 naira.

The naira's official exchange rate has been drifting towards the parallel market level as the central bank is yet to clear outstanding foreign-currency amounts owed in forward deals.

Last week, central bank Governor Olayemi Cardoso said he would allow market forces to determine exchange rates while setting clear, transparent and harmonised rules governing market operations.

The currency sold at around 1,165 naira on the parallel market on Friday.



MACRO ECONOMIC INDICATORS

NOVEMBER 1ST TO 15TH

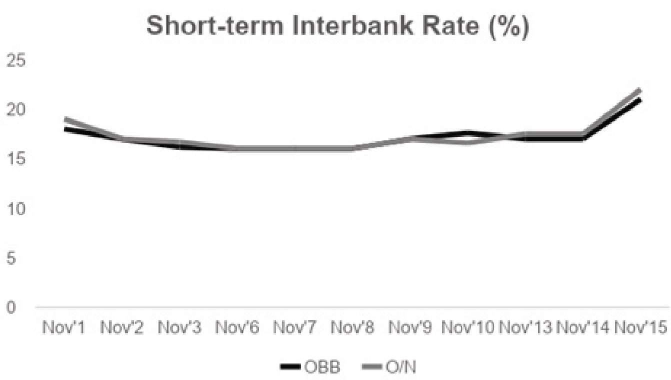
MONEY MARKET

Banks' average opening position averaged N309.57bn in the first half of November, 50.29% lower than the average of N622.71bn in the first half of October. Throughout the review period, there was only one OMO sales worth N77.2bn.

The decline in liquidity was due to the effort by the CBN to curb inflation through the use of orthodox monetary policy tools. This led to a spike in average short-term interbank rates (NIBOR) by 1582bps to 17.27% from 1.45% in the first half of October.

During the review period (November 1st - 15th), three primary market auctions were conducted as opposed to only one held in the first half of October. A total of N310.67bn was allotted, 749.75% higher than the sum of N36.56bn in the first half of October. At the primary market, yields rose by an average of 557bps across the 90-day, 182-day and 364-day tenors to 7.00% p.a., 11.00% p.a., and 16.75% p.a., respectively.

Similarly, the secondary market yields across all tenors. The average increase was 648bps to 9.69% p.a, 13.53% p.a, and 13.98% p.a, for the 90-day, 182-day and 364-day tenors respectively. The movements in yields indicate positive sentiments toward Nigerian government securities. This could be partly attributed to the central bank's efforts to maintain price stability.



Source: FDC Think Tank

Tenor	Primary market (Oct 13th 2023) (%)	Primary market (Nov 8th 2023) (%)	Secondary market (Oct 13th 2023) (%)	Secondary market (Nov 13th 2023) (%)
91-day	3.67	7.00 ▲	3.92	3.92 ▲
182-day	5.11	11.00 ▲	4.95	13.53 ▲
364-day	9.25	16.75 ▲	8.88	13.98 ▲

Source: FMDQ, FDC Think Tank

Outlook and Implication

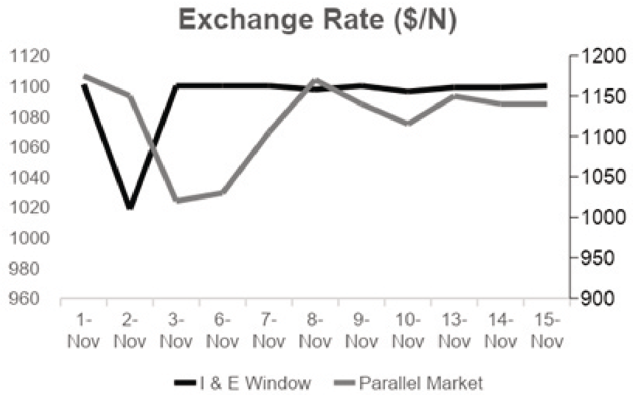
Money market liquidity is expected to remain constrained as the CBN intensifies its attempts to control inflation. Although the MPC is yet to determine the date of its next meeting, the persistently high inflation (now at 27.33%) and increased currency pressures raise the prospect of a tighter monetary policy stance. Consequently, the cost of borrowing rises, which will likely slow money market activity in the near term.

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.

EXCHANGE RATE

At the Investors and Exporters Foreign Exchange window, the naira depreciated by 0.09% against the dollar to close at N1,100/$ on Nov 15 from N1,101/$ on Nov 1. This was as a result of the limited forex supply at the forex market. Whereas, at the parallel market, there was a 3.07% decline in the value of the currency to N1140/$ on Nov 15th from N1175/$ at the beginning of the month.



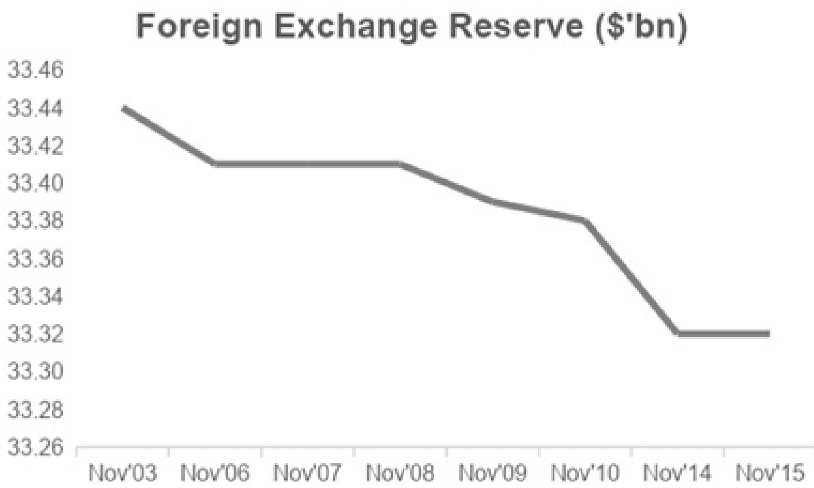
Source: FDC Think Tank

Outlook & Implication

The postponement of the MPC meeting alongside other policy contradictions is expected to intensify concerns and uncertainties among investors. Consequently, investors could adopt a wait-and-see approach resulting in a decline in foreign investment in Nigeria. This could weigh on the country's external reserves and limit the CBN's ability to support the naira, fostering its depreciation in the near term.

EXTERNAL RESERVES

Nigeria's gross external reserves have continued to decline, dropping by 0.63% to $33.23bn on Nov. 22nd from $33.44bn at the beginning of November. Apart from the exit of FPIs, other reasons for external reserves attrition are debt service costs and the decline in oil export earnings.



Source: CBN, FDC Think Tank

COMMODITY EXPORTS

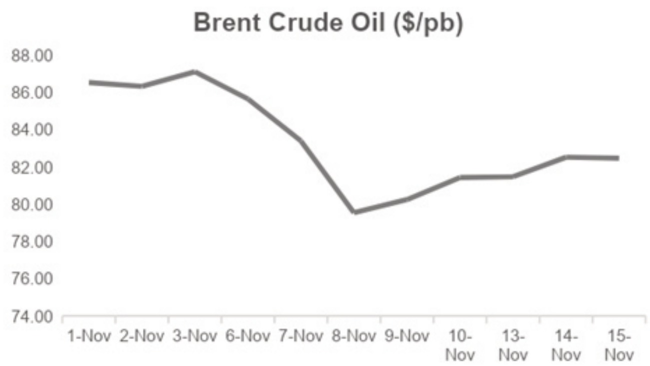
Nigeria participates in the commodity as both an importer and exporter. It exports crude oil (79%), LNG (11%), Cocoa (1.0%) and a few other commodities. On the other hand, Nigeria is a net importer of sugar and wheat among other commodities.

OIL PRICES

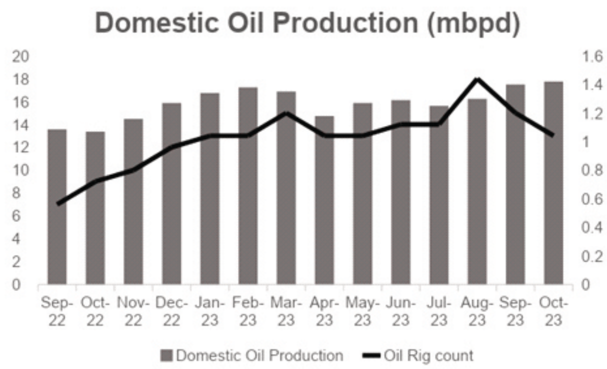
Brent Crude Oil prices varied during the period. The initial stability in the first half of the review period, notably, the market experienced heightened demand concerns and at the latter part of the period witnessed a gradual recovery in prices. On average, oil prices declined by 5.44% to $83.25/bp from $87.91/bp in the first half of October. However, it declined by 6.21% to close the period at $81.31/pb after touching a high of $87.11 on Nov. 3rd. Oil prices fell as weak global demand offset tight supply concerns.

OIL PRODUCTION

In October, domestic oil production declined by 1.43% to 1.42 million barrels per day from 1.4 million barrels per day in September. However, the country's oil rig count remained unchanged at 18 points. OPEC produced an average of 28.08 million barrels per day in October, marking a modest increase of about 50,000 barrels per day compared to September 2023. Specifically, Nigeria led this rise in production, followed by Congo, Gabon, Angola, and Equatorial Guinea. while fractional reductions were observed in Iran, Iraq, Kuwait, and Libya.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

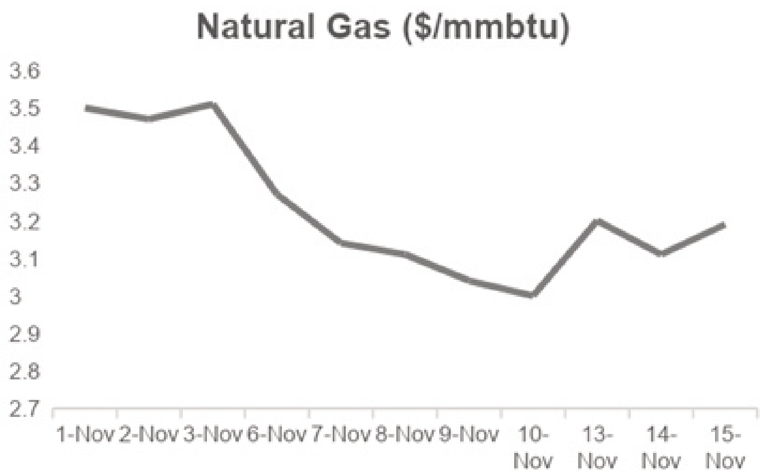
Oil prices are expected to rise in the coming weeks as the recent oil output cut by OPEC+ offset the concerns about weak oil demand.

Implication

Higher oil prices coupled with the sustained increase in oil production in Nigeria will support the country's oil export earnings. Increased forex inflows from the sale of oil will in turn bolster the CBN's ability to intervene in the forex market to support the naira.

NATURAL GAS

The movement of Natural Gas prices between November 1 -15 followed a distinct pattern. LNG price declined by 9.26% to close at $3.19/MMBtu on Nov. 15th from $3.5/MMBtu at the start of the month due to higher gas demand from Europe. On average, gas prices declined by 4.88% to $3.00/MMBtu from $3.15/MMBtu in the previous month (October).



Source: Bloomberg, FDC Think Tank

Outlook

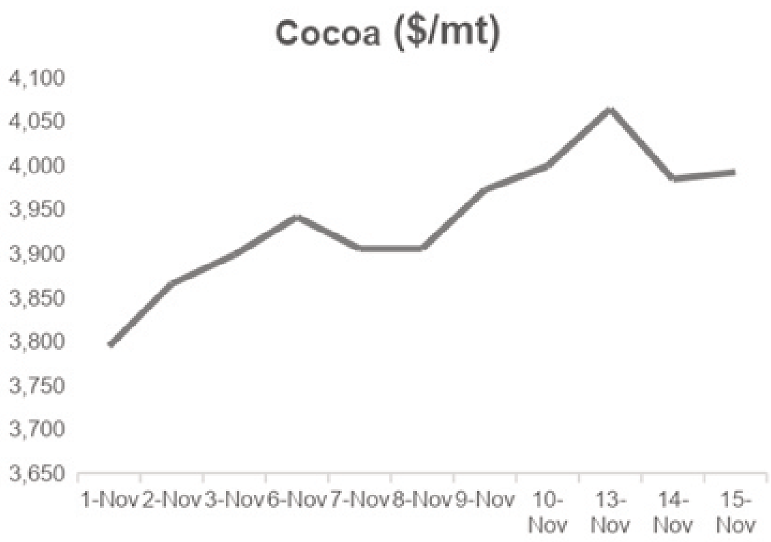
Gas prices are anticipated to ease in the short term as a result of milder-than-anticipated weather conditions in the United States.

Implication

Gas accounts for 10% of total exports. The observed decline in the price of natural gas could impact the country's export and fiscal revenues.

COCOA

Cocoa prices were generally bullish in the review period. It closed the period at $3,992/mt on Nov. 15th, 5.09% higher than $3,794/mt at the start of the month (Nov 1). The price of cocoa averaged $3,933/mt in the first half of November, up 12.09% from the average of $3,485/mt in the preceding month. This increase was buoyed by tight supply due to floods in Ivory Coast, which accounts for roughly 45% of the total global cocoa supply.



Source: Bloomberg, FDC Think Tank

Outlook

The price of cocoa is likely to remain elevated in the near term owing to lingering supply shortages from key West-African producing countries.

Implication

Cocoa is a major non-oil export commodity in Nigeria. A rise in cocoa prices will boost the country's foreign exchange earnings and likely support cocoa farmers income.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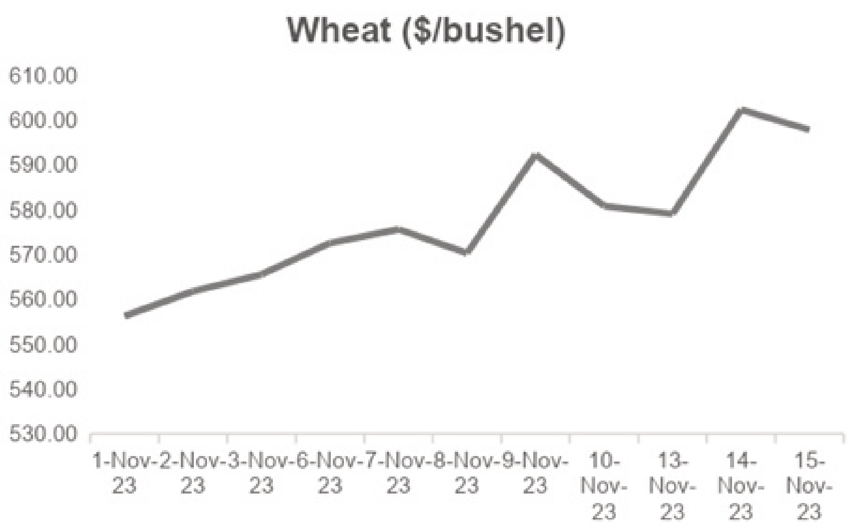
COMMODITY IMPORTS

WHEAT

During the review period (Nov. 1-15), the average price of wheat inched up to $ 580.51/bushel, 2.07% higher than the average of $ 568.61/bushel in the same period in October. The price of wheat increased to close the period at $584.50/bushel, 3.96% higher than $561.75/bushel on November 1st due to lower output from Australia and lingering concerns over the black sea supply.



Source: Bloomberg, FDC Think Tank

Outlook-Grains

The price of corn is expected to ease in the near term owing to forecasts of a 10% increase in the US corn supplies in 2023/24. However, wheat prices are likely to rise in the coming weeks due to lower production impacted by delayed sowing and adverse weather in the wheat growing regions.

SUGAR

Sugar price recorded a choppy movement in the first half of November. It declined by 1.32% to close the review period at $27.15/ pound from $27.51/pound on November 1st. On average, sugar prices rose by 2.21% to $27.50/pound at the end of November from $26.90/pound in October. The increase was driven by expectations of a decrease in supply due to a delay in Indian monsoon rain.

Source: Bloomberg, FDC Think Tank

Outlook

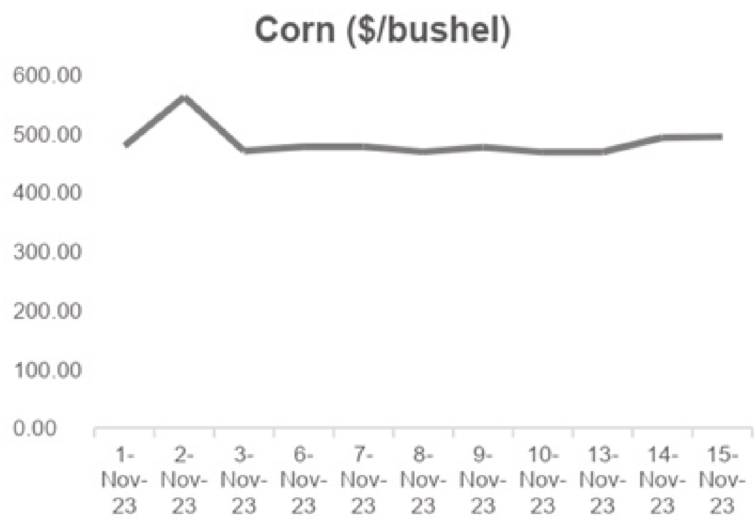
The price of sugar is expected to remain elevated as the El Nino weather patterns decrease global sugar production in India and Brazil.

Implication

The hike in the price of sugar will increase Nigeria's import bill negatively impacting foreign exchange reserves and widening the negative balance of trade. Confectioners' production costs will also rise as a result.

CORN

Corn price sharply declined between November 1 and 15. It touched a high of $561.75/bushel on November 1st (up 13.89% from October's close of $493.25/bushel) before easing by 14.10% to close at $487.75/bushel on November 23rd. On average, the price of corn fell by 0.54% to $485.68/bushel in the first half of November from $488.31/bushel in the same period in October due to moderating demand for US corn and weak export amid profit taking.



Source: Bloomberg, FDC Think Tank

Implication-Grains

Higher grain prices are likely to push up the country's import bill as well as manufacturing costs for food processing companies. This will increase inflationary pressures as retail prices rise, resulting in a loss in consumers' real income.

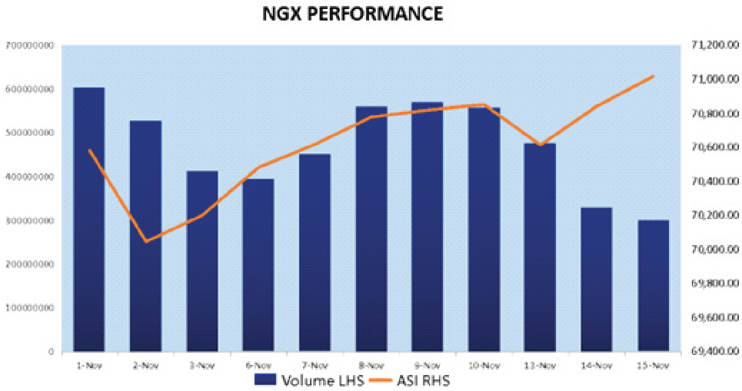
Terms of Trade

As the price of exports reduces in contrast to imports, the country's terms of trade is expected to be negative. The trade balance (currently at N1.29trn) may worsen as export earnings decrease and import expenditure rises, potentially leading to a trade deficit or an unfavourable balance of trade.

STOCK MARKET REVIEW

NOVEMBER 1ST TO 15TH

The Nigerian Stock Exchange closed on a positive note from November 1st - 15th. It gained 2.57% to close at 71,014.34 points on November 15th, up from 69,236.19 points on October 31st. Also, the market capitalization increased by 2.66% to N39.05 trillion (trn) relative to its close of N38.04 trillion (trn) on October 31st.



Source: NGX, FDC Think Tank

The market's YTD return rose to 38.56% from 35.09% in the preceding period. The market breadth was positive at 1.64x as 59 stocks gained, 60 stocks remained unchanged, 36 lost, two were de-listed (CAPHOTEL and COURTVILLE), and one new stock was listed (MECURE). The positive performance of the NGX could be attributed to increased investor sentiment in tier 1 banking stocks following their strong Q3'23 earnings report.

The market activity level was positive in the review period as the average volume traded increased by 8.85% to 469.21mn units from 431.05mn units in the previous period. Similarly, the average value of trades rose by 56.29% to N8.08bn from N5.17bn in the review period.

The performance of the sectors was positive, as four sectors gained while one lost. The Insurance sector recorded a gain of 3.85% in the review period. This was followed by the Oil & Gas sector (2.0%), the Banking sector (1.99%), and the Consumer Goods sector (0.05%). Meanwhile, the Industrial sector recorded a loss of 0.76%.

SECTOR PERFORMANCE

Industrial	FMCG	Banking	Oil &Gas	Insurance
-0.76	0.05	1.99	2.00	3.85

TOP 5 GAINERS

Omatek Ventures Plc topped the gainers' list with a 67.39% increase in its share price. This was followed by Japaul Gold & Ventures Plc (61.02%), Deap Capital Management & Trust Plc (60.00%), RT Briscoe Nigeria Plc (38.30%) and Glaxo SmithKline Consumer Nig. Plc (32.79%).

TOP 5 LOSERS

The laggards were led by The Initiates Plc (-12.07%), SCOA Nig. Plc (-10.40%), Caverton Offshore Support Grp Plc (-10.32%), Red Star Express Plc (-10.30%) and E-Tranzact International Plc (-10.12%).

TOP 5 GAINERS

Company	Oct-31 (N)	Nov-15(N)	Absolute Change	Change (%)
OMATEK [RST]	0.46	0.77	0.31	67.39
JAPAULGOLD	1.18	1.9	0.72	61.02
DEAPCAP [DWL]	0.25	0.4	0.15	60.00
RTBRISCOE	0.47	0.65	0.18	38.30
GLAXOSMITH	12.2	16.2	4	32.79

TOP 5 LOSERS

Company	Oct-31 (N)	Nov-15(N)	Absolute Change	Change (%)
TIP	1.16	1.02	-0.14	-12.07
SCOA	1.25	1.12	-0.13	-10.40
CAVERTON	1.55	1.39	-0.16	-10.32
REDSTAREX	3.3	2.96	-0.34	-10.30
ETRANZACT [BLS]	8.4	7.55	-0.85	-10.12

Outlook

We expect market sentiment to be bearish in the coming weeks due to expectations of further monetary policy tightening by the MPC. This could lead to investors rotating their portfolios towards fixed-income assets.

WHISPERS OUTLOOK

- The Nigerian economy will continue to perform sub-optimally in the coming months due to persistent macroeconomic challenges like high inflation and currency pressures.

- The CBN governor has said that there will be no MPC meeting till 2024, This pronouncement alongside other policy contradictions is expected to intensify concerns and uncertainties among investors.

- Consequently, investors are likely to adopt a wait-and-see approach (tentative) resulting in a decline in foreign investment into Nigeria, especially at a time when the country is in dire need to foreign exchange.

- This impact could manifest in the external reserves, possibly depleting further from the current overestimated value of $33.04 billion. However, the adverse effects might be mitigated by the recovery in domestic oil production (up 1.4% to 1.4mbpd in October), and the anticipation of higher oil prices due to the oil supply cut by the OPEC+ in their most recent meeting.

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