WHISPERS

MAY 15, 2024 | VOLUME 14 ISSUE 09

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

CONTENTS

01 THE WHISPERS OVERVIEW

Last week, long petrol queues reappeared across the country, catching many by surprise and causing disruptions to transportation services, supply chains, and overall economic activity. The endemic but cyclical pattern of fuel shortages every two years has once again highlighted the role of market structure in the attainment of the desired economic outcome.

This scarcity has resulted in higher prices for the commodity, increasing the possibility of heightened inflationary pressures in the month. This is further compounded by the recent increase in electricity tariffs in the country, following the removal of the electricity subsidy. A higher price level in Nigeria will threaten the IMF's forecast of a moderation in the country's inflation rate to 24% at the end of 2024 from its current rate of 33.2% (March). The fund also revised Nigeria's 2024 GDP growth forecast to 3.3% from its previous forecast of 3%. This is a 0.4% increase from Nigeria's 2023 GDP growth of 2.9%, attributed to improved recovery of the economy's critical oil and agriculture sectors.

Ironically, while the cost of power supply from the grid is rising, diesel prices are coming down amid inadequate power supply and grid collapse. This could lead to a shift in firms' demand for grid power supply. Thankfully, removing the electricity subsidies is expected to foster investment in Nigeria's power sector and fill infrastructure gaps. The inefficiencies of the power sector have been a growth-inhibiting factor in the economy, especially in energy-intensive sectors such as the manufacturing sector.

Nigeria's manufacturing sector has consistently been below global competitive levels over the years and has primarily underperformed compared to other economic sectors. Despite the numerous economic benefits the industry can offer Nigeria, such as increased employment and higher income levels, infrastructural and human capital development, and increased export earnings and government revenue.

Furthermore, the exchange rate volatility and the lack of forex supply have constrained the operations of the manufacturing firms. In 2023, 16 local and multinational manufacturing companies listed on the Nigerian stock exchange recorded a combined forex loss of over N792 billion.

The first article in this edition of the Whispers, "Manufacturing performance in Nigeria's macroeconomic environment," looks in depth at the significance and contribution of the manufacturing sector to Nigeria's GDP and the industry's challenges. Furthermore, Vietnam's export-oriented growth strategy, which led to gains in its manufacturing sector, was analyzed to highlight steps Nigeria can take to rejuvenate its manufacturing sector. This edition of the Whispers also includes a comprehensive analysis of key macroeconomic indicators in the first half of April and an insightful outlook for the upcoming weeks.

02 MANUFACTURING PERFORMANCE IN NIGERIA'S MACROECONOMIC ENVIRONMENT

Manufacturing firms play a significant role in the growth and development of every nation. Manufacturing currently accounts for 16% of global GDP in 2022, compared to other sectors like services and industries, which contribute 63.9% and 28%, respectively. Research on the economic achievements of some Asian countries, such as Malaysia, Vietnam, and Bangladesh, reveals that competitive manufacturing is the fastest route a country can take to be more productive and raise the standard of living of its populace.[1] In the past 30 years, East Asia has seen growth nearly three times faster than Latin America and Sub-Saharan Africa. This growth has coincided with enhanced human development indicators, now among the highest in developing regions. [2]

In Nigeria, the growth of the manufacturing sector has been sluggish and falls short of global competitiveness, with a declining contribution to GDP. Between 1981 and 1985, the sector's contribution to GDP was 18.3%, experiencing a slight dip to 18.1% between 1986–1990 due to a focus on the oil sector. Implementing structural adjustment programs improved the industry's performance, increasing the manufacturing's GDP contribution from 18.1% to 87.4% between 1991 and 1995. This was credited to a substantial capital stock and well-functioning infrastructure. However, GDP declined by 12.9% from 1996 to 2000 due to dilapidated infrastructure, especially the road network and electricity generation.[3] Since then, the manufacturing sector's contribution to GDP has declined to 13.59% in 2022. Global economic pressures and policy changes such as economic policies that favours trade liberalization. causing local industries to struggle against international corporations with superior resources, poor infrastructure, technological backwardness among others, have influenced this.

The latest impactful policy change was the CBN-initiated exchange rate unification reform following President Bola Tinubu's June 14, 2023, inauguration. The reform resulted in a 50.24% devaluation to N1,510/$ at the parallel market and a 68.64% devaluation to N1,504/$ at the Nigerian Autonomous Foreign Exchange Market. In response, capital imports for the manufacturing sector declined by 25.61% from $605.04m in Q2'23 to $450.11m in Q4'23,

1. Josephine Okojie. 2023. "Nigeria's manufacturing woes worsen joblessness". Business Day. https://businessday.ng/business-economy/article/nigerias-manufacturing-woes-worsen-joblessness

2.Jean Raphael Chaponniere & Marc Lautier. 2020. "The role of the manufacturing sector in Asian Economic Development". Proparco. https://www.proparco.fr/en/article/role-manufacturing-sector-asian-economic-development

3.Ihuoma Eke; Felix Eke, Edom Awara. 2023. "Infrastructure and manufacturing sector performance in Nigeria". International Journal of research and scientific innovation. https://www.researchgate.net/publication/373098532_Infrastructure_and_Manufacturing_Sector_Performance_in_Nigeria showing investors' hesitation towards the country.

Manufacturers in Nigeria are now grappling with a severe foreign exchange scarcity, in addition to the chronic infrastructure challenges such as poor power supply, compelling them to slow down production, cut jobs, and reduce raw material imports.[4] These challenges intensify with foreign exchange shortages, resulting in price hikes of goods, inflation, low consumer demand, and low consumer patronage. Recently, multinational firms such as GSK, Unilever, Sanofi, and P&G, among others, scaled down operations or exited the country because of these harsh economic conditions. These exits have led to 20,000 job losses in the past three years, which has worsened unemployment and insecurity in the country and left a gaping void in government revenue, as well as inflicting hardships on countless households.[5] Insufficient infrastructure is a significant obstacle to the manufacturing sector's performance, leading to poor production of goods and services. Challenges like irregular electricity supply contribute to the sector's underperformance.

In contrast to Nigeria's approach, which centers on import substitution, Vietnam adopts an export-oriented growth strategy, emphasizing the export of manufactured goods. As of December 2023, Vietnam's manufacturing sector contributed significantly to its GDP, accounting for 24.8%.[6]

Vietnam exports surged by 122.82% from $137.36bn to $306.06bn between 2014 and 2023. In January 2024, the country attracted $2.36bn in foreign direct investment, marking a 40.2% increase from 2023. This export-driven strategy contributes to currency stability through foreign exchange earnings.[7]

The positive impacts on Vietnam's economy stem from the 'doi moi' reform of 1986, which means renovation or innovation. The goal was to create a socialist-oriented market economy, which resulted in driving growth in exports, foreign direct investment, and international trade. The reform addressed many areas of the economy, such as finance, agriculture, education, foreign direct investment, etc.

Special economic zones were created, and various incentives were provided to boost economic growth and attract foreign investors. The country also pursued policies to integrate into the global economy by joining international organizations like the World Trade Organization in 2007. The currency was devalued in 1991 by 25% to make exports more competitive and encourage foreign investment.

An exciting part of the Doi Moi reform was the trade policy with objectives to liberalize and link domestic prices to world prices so that they would have a role in guiding resources. It performed well, leading to increased trade and economic growth. Commodities involved included agriculture (such as rice, coffee, and seafood) and manufactured goods (like textiles and electronics). The reform also increased the number of trading activities to avoid distortions in price signals through anti-competitive behavior and removed exchange rate distortions.[8]

4. https://www.researchgate.net/publication/373098532_Infrastructure_and_Manufacturing_Sector_Performance_in_Nigeria. Clara Rabbani. March 2023. "Carnival: Brazil's Most Popular National Holiday". Latina Republic. https://latinarepublic.com/2023/03/06/carnival-brazils-most-popular-national-holiday/

5. Ifunaya. 2024. Media Talk Africa. "Impact-of-multinational-companies-exit-20000-jobs-lost-in-3-years-neca". https://mediatalkafrica.com/141412/impact-of-multinational-companies-exit-20000-jobs-lost-in-3-years-neca/

6. David Lim. 2011. ILO. "Export and FDIdriven industrialization strategy and employment in Vietnam". https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms_171372.pdf

7. Thang Long. 2024. "Vietnam plus". https://en.vietnamplus.vn/vietnams-fdi-forecast-to-remain-strong-through-2024/279260.vnp

8. Nguyen Thi Tue Anh, Luu Minh Duc, and Trinh Duc Chieu. 2011. "The Evolution of Vietnamese industry". Brookings. https://www.brookings.edu/wp-content/uploads/2016/07/l2c_wp19_nguyen-luu-and-trinh-1.pdf

The reform shifted Vietnam, a once underdeveloped country, from one of the poorest nations to an industrialized middle-income economy. In January 2024, 190 new projects received investment registration certificates, marking a 24.2% year-on-year increase. Their total registered capital exceeded $2bn in January 2023, reflecting a 66.9% surge from the previous year.[9]

Vietnam now sees substantial foreign exchange inflows through exports and investments from major multinational firms like Samsung, Bosch, LG, etc, contributing to increased forex supply. These firms have their plants in Vietnam, manufacturing and exporting to various countries. This is unlike the case of Nigeria, where firms and the country primarily sell raw materials and import finished goods to sell domestically. Vietnam's firms contribute to forex supply and enhance the country's economic prospects.

Nigeria should diversify its export earnings to boost forex supply for industry support. Further, prioritizing domestic manufacturing is crucial, focusing on processing raw materials and producing machinery, contributing to 50% of imports. This approach enhances economic resilience and reduces dependency on external sources for crucial industrial components.[10]

Finally, the government should prioritize providing adequate and stable foreign exchange for the manufacturing sector as it will enhance the procurement of raw materials, machinery, and technology, ensuring smooth operations, cost-effective production, and improved competitiveness in the global market.

"Prioritizing domestic manufacturing enhances economic resilience and reduces dependency on external sources for crucial industrial components.

9. Vietnamnews. 2023. "More than $20 billion of foreign investment capital registered in Vietnam in 9 months". Vietnam News. https://vietnamnews.vn/economy/1594432/more-than-20-billion-of-foreign-investment-capital-registered-in-viet-nam-in-9-months.html

10. Dr. Akinwunmi A. Adeshina. 2021. "Overcoming binding constraints to competitive manufacturing for intra-regional trade". https://www.afdb.org/en/news-and-events/speeches/overcoming-binding-constraints-competitive-manufacturing-intra-regional-trade-46465

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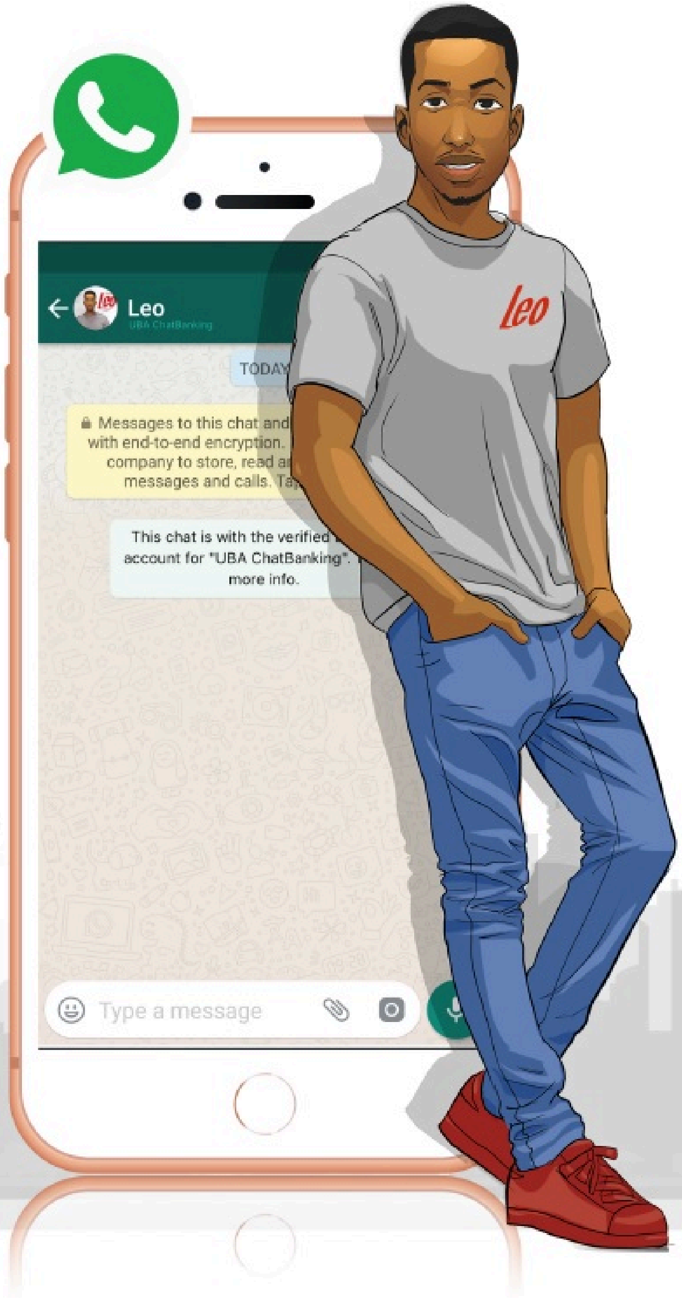

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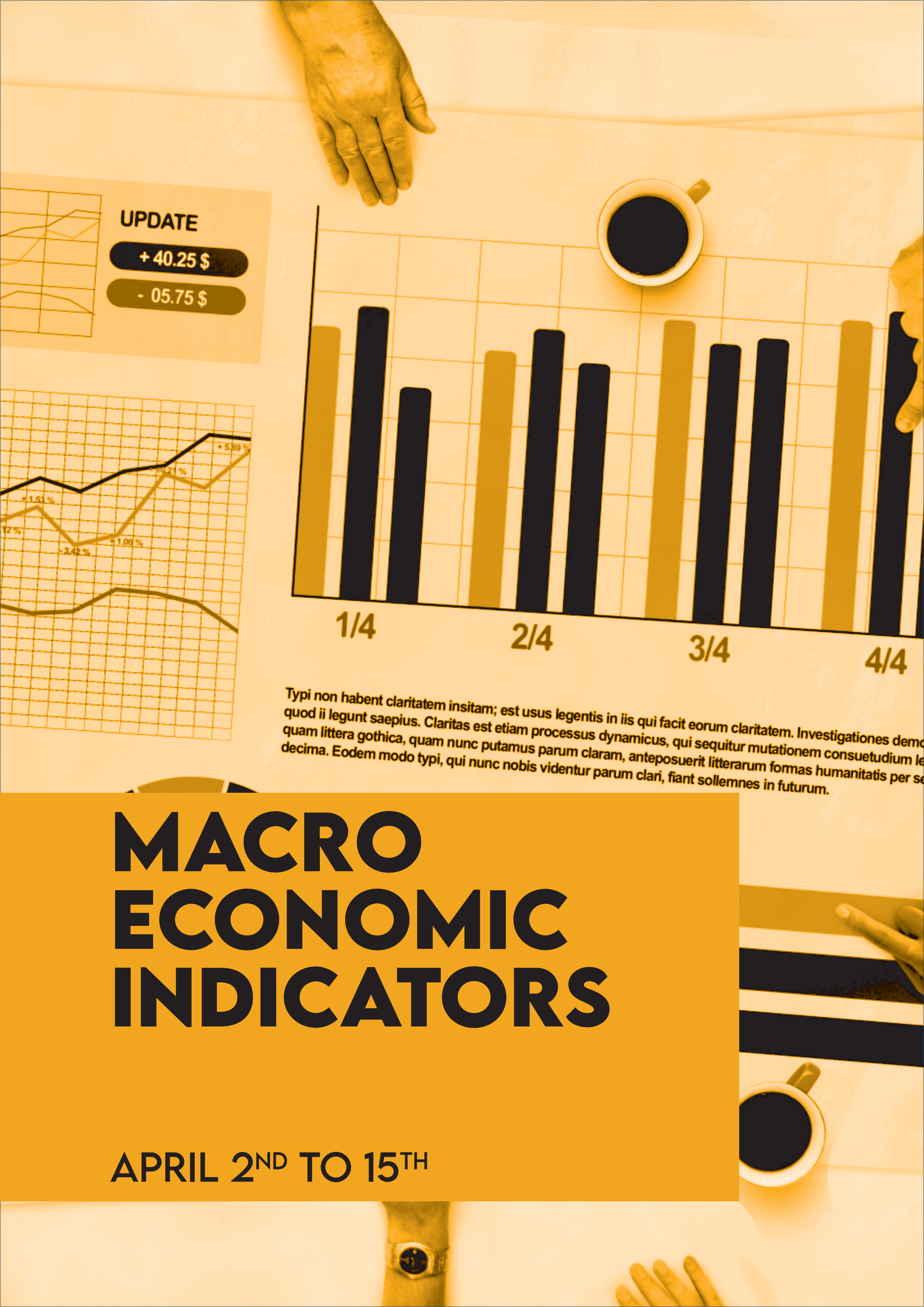


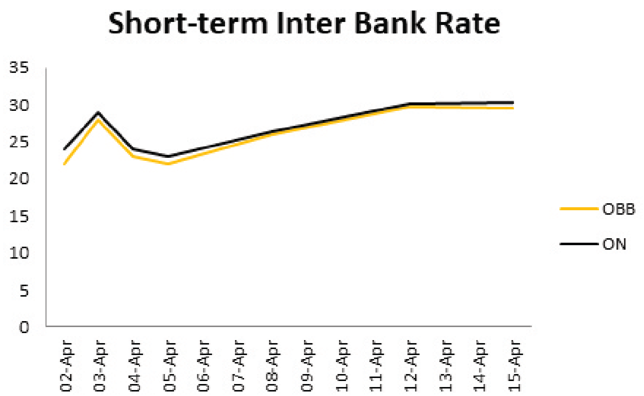
MACRO ECONOMIC INDICATORS

APRIL 2ND TO 15TH

MONEY MARKET

Bank's average position was N312.39bn in the first half of April, 18.27% higher than the average of N264.13bn in the first half of March. One OMO sales and repayment were made during the review period. Also, short-term interbank rates (OPR, O/N) averaged 26.22% p.a,down 392bps from 30.14% p.a. in the same period in March.

One primary market auction was conducted in the first half of April. A total sum of N951.82bn was allotted, 8.93% lower than f N1.44tn in March. On the other hand, the primary market repayment amounted to N1.27tn. Primary market rates were steady across the91-day and 182-day but fell in 364-day tenor.



Source: FDC Think Tank

Tenor	Primary market (Mar 27th, 2024) (%)	Primary market (Apr 12th, 2024) (%)	Secondary market (Mar 28th, 2024) (%)	Secondary market (Apr 15th, 2024) (%)
91-day	16.24	16.24 ↔	16.90	16.71 ▼
182-day	17.00	17.00 ↔	17.03	17.13 ▲
364-day	21.12	20.70 ▼	18.60	19.06 ▲

Source: FMDQ, FDC Think Tank

Outlook and Implication

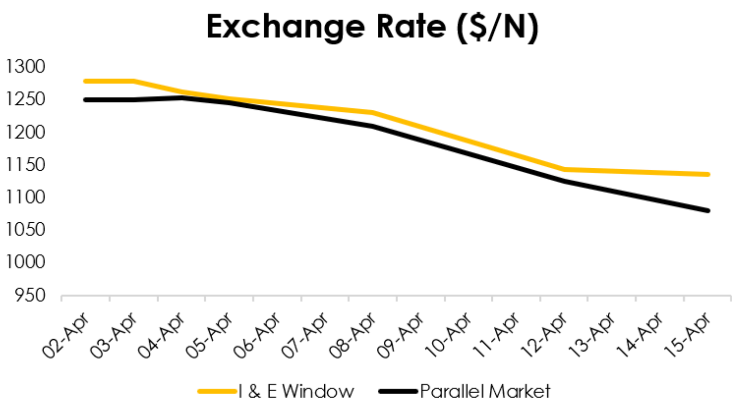
Short-term interbank rates are expected to remain at elevated levels as the CBN maintains its contractionary monetary policy. Forex Market

FOREX MARKET

The forex market is currently being reformed. Since the adoption of a "willing-buyer-willing-seller" model by the CBN, the exchange rate is allowed to 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 appreciated by 12.55% against the dollar to close at N1,136.04/$ on April 15 from N1,278.58/$ on April 2 on CBN's interventions and forex sales to BDCs. Similarly, in the parallel market, the currency appreciated by 15.74% to N 1,080.00/$ on April 15, compared to N1,250.00/$ at the beginning of the review period. However, the naira has since depreciated by 25% at both markets owing to highetened FX demand and bearish investor sentiments.



Source: FDC Think Tank

Outlook

The naira is expected to remain under pressure as FX demand continues to outstrip supply. Additionally, the recent moves by fiscal authorities to demolish businesses in commercial hubs send negative signals to investors, likely deterring the much-needed capital inflows in the near term. At its next meeting, the MPC will consider the naira's volatility amid unanchored inflation and exchange rate expectations to stay on the path of tightening and market interventions to defend the naira.

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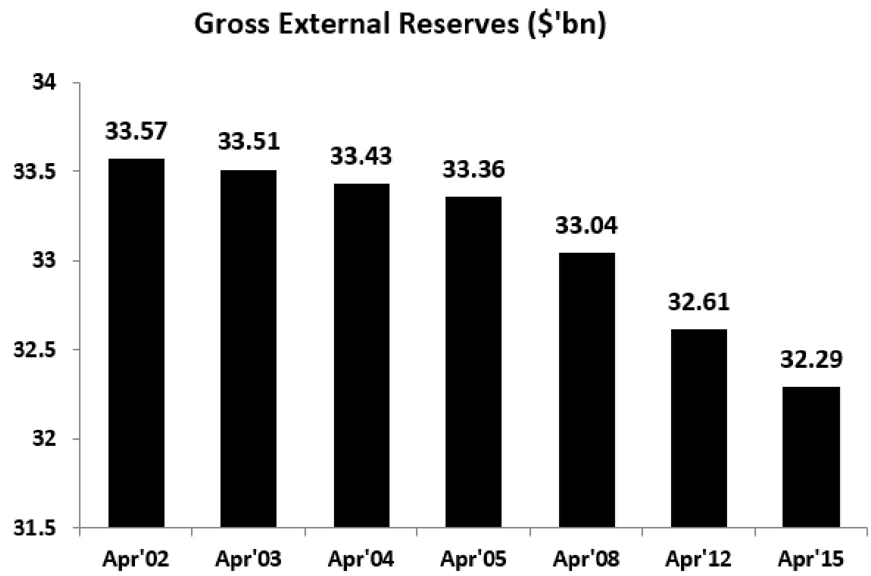
EXTERNAL RESERVES

The country's external reserves saw a 3.81% decline, closing at $32.29 billion on April 15, down from $33.57 billion at the beginning of the period (April 2). On average, gross external reserves fell by 3.07% ($1.05bn) from $34.17bn in the same period in March. This steady decrease in gross external reserves can be attributed to the CBN's interventions in the foreign exchange market to stabilize the naira.



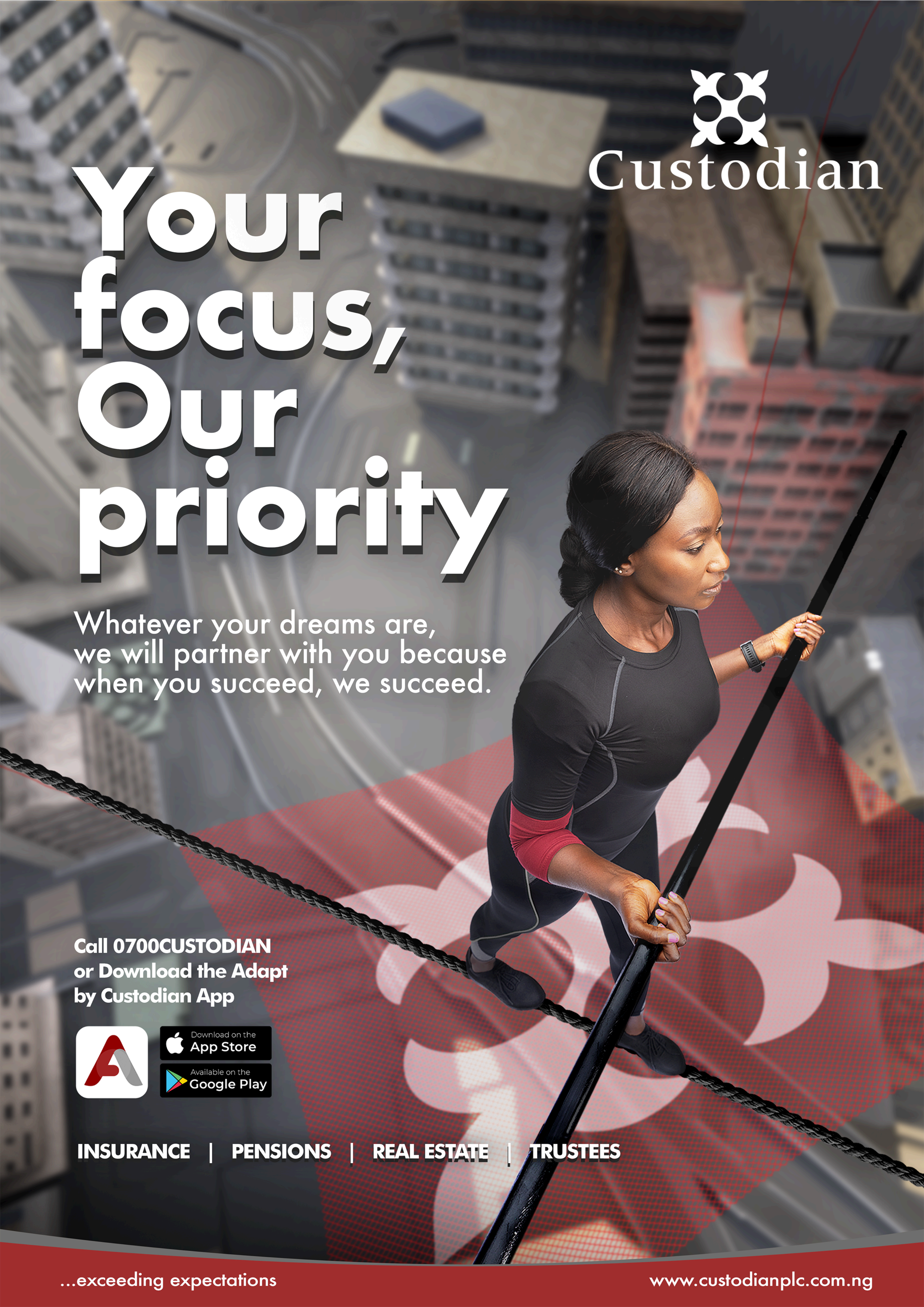
Source: CBN, FDC Think Tank

Impact

A decrease in the external reserve will cap the CBN's ability to defend the currency, causing the naira to depreciate and exacerbate inflationary pressures. It will further erode investors' confidence, reducing foreign Portfolio investments.

Outlook

The external reserve is expected to continue declining in the near term as the CBN intervenes in the foreign exchange market to stabilize the naira amid dwindling oil revenues. Oil production fell 6.88% to 1.23mbpd in March from 1.32mbpd in February.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COMMODITY EXPORTS

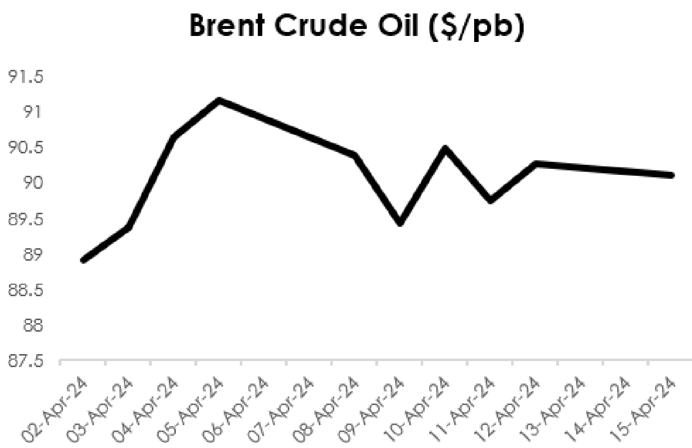
Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

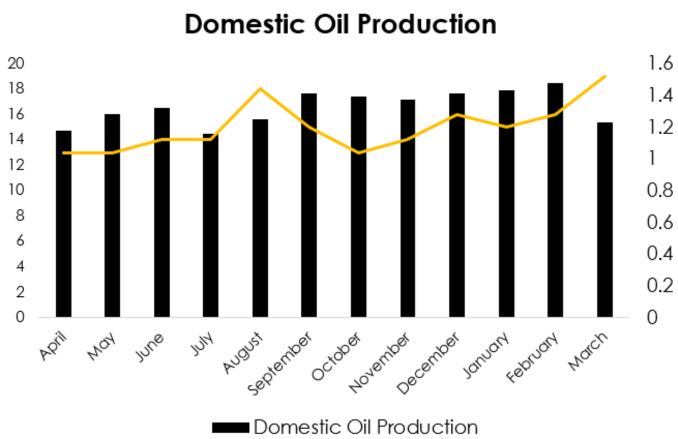
OIL PRICES

During the review period, the price of Brent crude gained 1.24%, rising from $88.92 per barrel on April 2 to $90.10 per barrel on April 15. The increase in Brent's price is mainly driven by OPEC+'s decision to maintain its oil production cuts, further supported by tensions in the Middle East. On average, Brent prices increased by 8.19%, reaching $90.05 per barrel on April 15, compared to $83.23 per barrel in the corresponding period in March.

OIL PRODUCTION

Domestic oil production decreased by 6.88% in March to 1.23 million barrels per day from 1.32 million in February. However, the country's oil rig count rose by three units to 19 units in March. OPEC produced an average of 26.60 million barrels per day in March, marking a modest increase of about 300,000 barrels per day compared to February 2024. Specifically, Iran and Saudi Arabia had the highest oil production, while production in Nigeria and Iraq decreased.





Source: Bloomberg, FDC Think Tank

Outlook

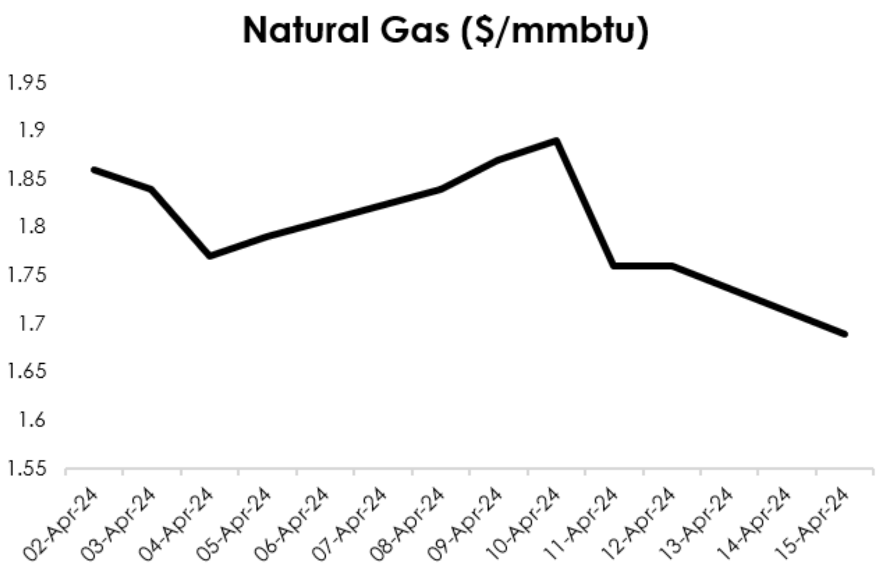
Oil prices are expected to be elevated in the near term in anticipation of escalating Middle East tensions, supported by OPEC+ oil production cuts into the second quarter of 2024. Nigeria's oil production is likely to increase in the near term, as the country's oil rig count increased to 19 in March from 16 in February, aiding the facilitation of oil extraction and production.

Implication

The decline in oil production by 6.88% to 1.23mbpd in March from 1.32mbpd in February poses the risk of Nigeria benefiting from the increase in global oil prices. The increase in oil prices will increase the inflow of dollars at a critical time when it is needed and improve the country's external reserve since oil is still the major source of foreign earnings. Hence, Nigeria needs to increase its oil output to achieve the inflow of forex.

NATURAL GAS

In the review period, the price of natural gas rose by 1.61% to a peak of $1.89/MMBtu on April 10, from $1.86 at the beginning of the period (April 2). The price increase was driven by lower gas supply in the largest gas-producing country, Russia, and is supported by higher heating demand from Asia. LNG prices dropped by 10.58%, declining from $1.89/MMBtu on April 10 to $1.69/MMBtu on April 15. The decrease is attributed to lower demand and elevated gas storage levels in the U.S.



Source: Bloomberg, FDC Think Tank

Outlook

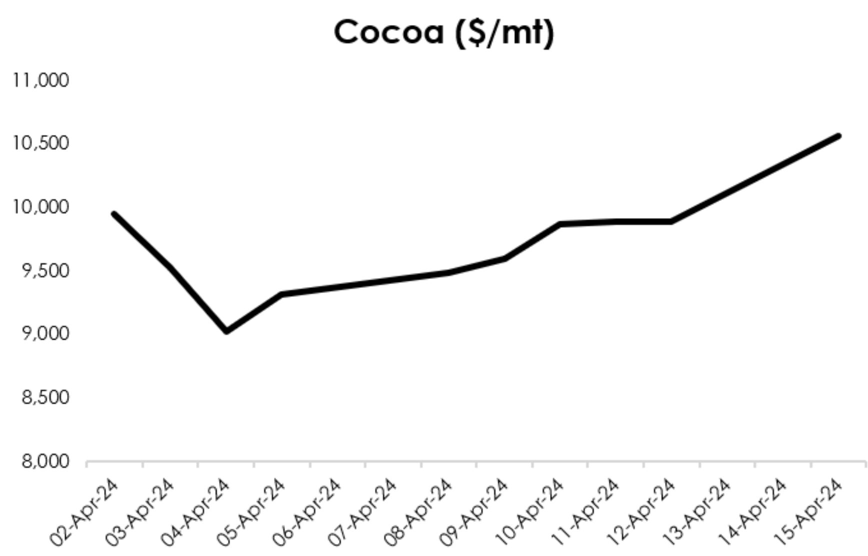
Gas prices will likely be bearish in the near term due to warmer-than-average weather, which will reduce demand for heating amid increasing natural gas inventories in the U.S.

Implication

The decline in the price of natural gas will reduce Nigeria's export earnings and the government's revenue from oil and gas earnings.

COCOA

The price of cocoa surged in the first half of April, fuelled by tighter cocoa supply in West African cocoa producing countries (Ivory Coast, Ghana, Nigeria, and Cameroon), due to poor weather conditions. During the review period, cocoa prices rose consistently to a record high of $10,559/mt on April 15, marking a 6.13% increase from $9,949 on April 2. On average, the price of cocoa surged by 42.50% to $9,710/mt in the first half of April from $6,814/mt in the same period in March.



Source: Bloomberg, FDC Think Tank

Outlook

The price of cocoa will likely remain bullish in the near term due to lingering supply shortages, poor crop yield, and growing global demand for chocolate, especially in Asia, given that top cocoa growers cannot meet the demand.

Implication

Higher cocoa prices are expected to increase government foreign earnings. Unfortunately, Nigeria may not be able to benefit from the spike in the global price of cocoa as cocoa exports fell by 18% year-on-year to 26,103 MT in February due to production challenges.

COMMODITY IMPORTS

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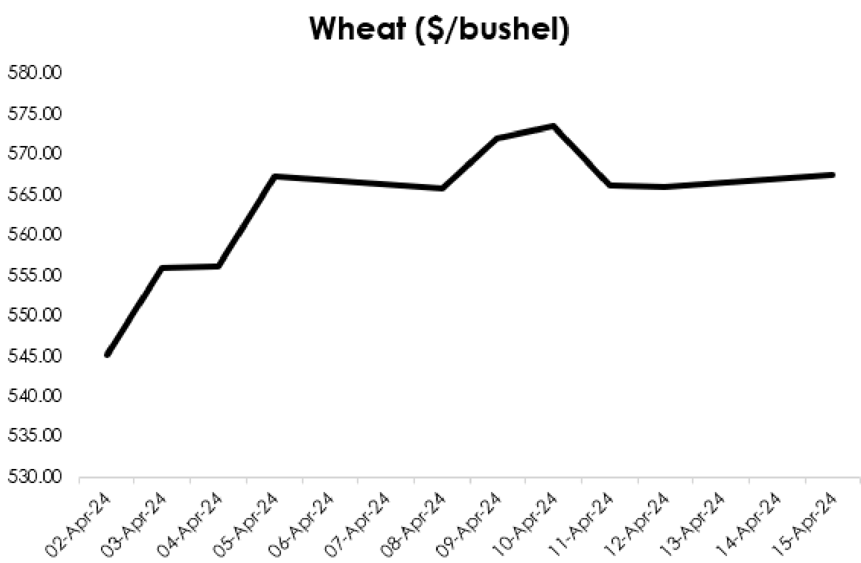
WHEAT

The price of wheat rose by 4.08% to $567.50/bushel on April 15 from $545.25/bushel on April 2. The increase in the price of wheat is driven by rising tensions in the Black Sea region, fueling supply concerns. Wheat prices increased by 3.78% to $563.58/bushel within the review period, up from an average of $543.82/bushel in the first half of March.



Source: Bloomberg, FDC Think Tank

Outlook

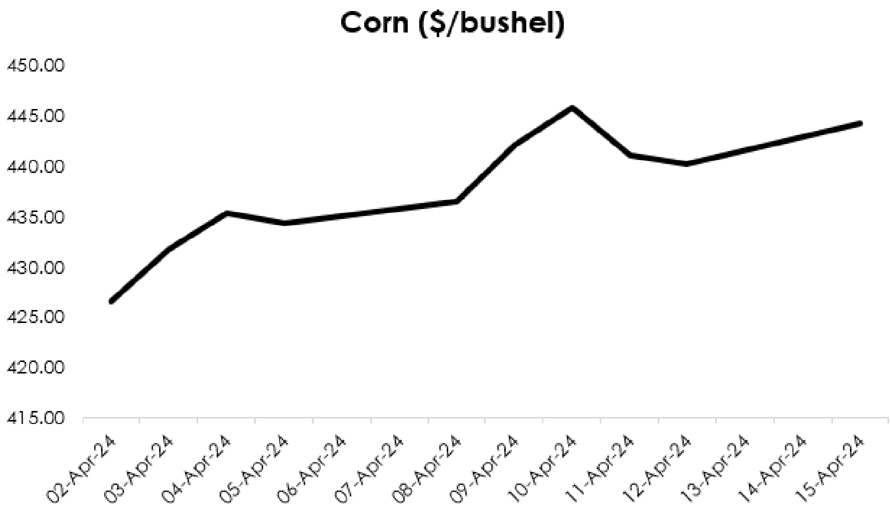
The price of wheat is expected to decline in the near term, driven by more significant exports from Ukraine, Russia, Egypt, and Australia.

Impact

Higher wheat prices will challenge food security in Nigeria as the price of wheat derivatives increase and lead to cost-push inflation.

CORN

The price of corn rose from the beginning of the review period, starting at $426.50/bushel, to a peak of $444.25/bushel on April 15. This increase was driven by worsened crop conditions in Brazil and delayed harvests in Argentina due to excessive rain amid improved demand. A forecast of low planting by corn producers in the U.S. due to the lower global price also supports the price decline. Corn price averaged $437.75/bushel in the first half of April, up by 0.66% from $434.86/bushel in the first half of March.



Source: Bloomberg, FDC Think Tank

Implication

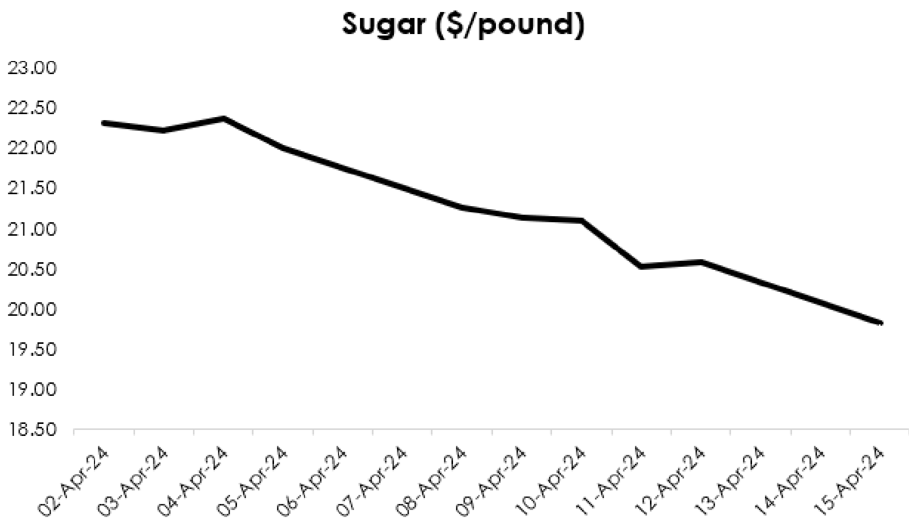
The price of corn is expected to remain bullish in the near term due to lower U.S. exports and a decline in corn planting in the U.S., the top producer of corn.

Impact

An increase in corn prices is expected to raise importation and production costs for manufacturers, as well as the price of corn derivatives like cornflakes, and this could further worsen inflation.

SUGAR

During the review period, the price of sugar dropped by 11.20% to close at $19.82/pound from $22.32/pound. This downward movement was driven by stronger-than-expected sugar production in India and Thailand, which are top sugar producers. However, on average, the price of sugar fell to $21.33/pound, indicating a 0.61% decline compared to the average of $21.46/pound in the first half of March.



Source: Bloomberg, FDC Think Tank

Outlook

The price of sugar is expected to remain bearish in the near term, supported by ample supplies in India and Thailand.

Implication

A Lower price of sugar will decrease Nigeria's import bill and improve its trade balance. It would also reduce inflationary pressures as sugar derivatives become less expensive.

Terms of Trade

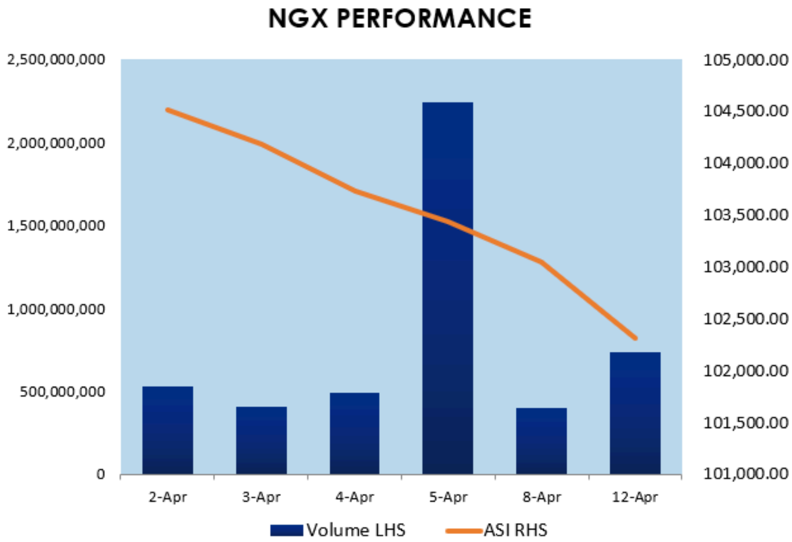
The country's terms of trade are expected to be positive as the prices of its export commodities rise relative to its imports. Nigeria relies on oil for 80% of its foreign earnings, and with oil prices hovering between $85pb and $90pb and cocoa prices above $10,000/mt, the country is expected to benefit from the increase in price despite low production.

STOCK MARKET REVIEW

APRIL 2ND TO 15TH

The Nigerian Stock Exchange closed negative from April 2 – 15, 2024. It lost 3.64% to close at 100,717.21 points on April 15, down from 104,518.14 points on April 2. Also, the market capitalization decreased by 2.6% to N57.56 trillion relative to its close of N59.10 trillion on April 2. In April, the NGX lost 4.51% from its close of 104,562.06 points on March 28.

The market's YTD return was 36.11% in the review period, while the breadth was positive at 0.45x; as 25 stocks gained, 74 remained unchanged, and 55 lost. Market sentiment was negative due to profit-taking activities in the banking sector and investors rotating their portfolios towards fixed-income assets.



Source: NGX, FDC Think Tank

The market activity level was mixed. The average volume traded increased by 87.26% to 731.65mn units from 390.71mn units. However, the average value of trades declined by 12.92% to N13.34bn from N15.32bn in the review period.

The performance of the sectors was negative in the review period, as all sectors lost. The Banking sector lost (16.71%), the Insurance sector lost (5.07%), followed by the Industrial sector and consumer sector (0.39%), and the Oil and gas sector recorded a loss of 0.28%.

SECTOR PERFORMANCE

Industrial	Oil &Gas	FMCG	Insurance	Banking
-0.39	-0.39	-16.71	-0.28	-5.07

TOP 5 GAINERS

Morrison Industries Plc, a company that provides services in retail groceries, topped the gainers' list with a 59.66% increase in its share price, driven by strong buying interest in the company's stocks. This was followed by CUTIX Plc (15.38%), Nigeria Exchange Group (NGX Group) (12.15%), Linkage Assurance Plc (11.76%), and Oando Plc (11.67%).

TOP 5 LOSERS

The laggards were led by Royal Exchange Nigeria Plc (-19.77%), DEAP Capital Management & Trust Plc (-13.89%), Tourist Company of Nigeria Plc (-11.97%), Dangote Sugar Refinery Plc (-11.86%) and First Bank Nigeria Holding Plc (-11.79%).

TOP 5 GAINERS				
Company	Apr-02 (N)	Apr-15 (N)	Absolute Change	Change (%)
MORISON	1.76	2.81	1.05	59.66%
CUTIX	2.60	3.00	0.40	15.38%
NGXGROUP	21.40	24.00	2.60	12.15%
LINKASSURE	0.85	0.95	0.10	11.76%
OANDO	12.00	13.40	1.40	11.67%

TOP 5 LOSERS				
Company	Apr-02 (N)	Apr-15 (N)	Absolute Change	Change (%)
GTCO	53.05	38.20	-14.85	-27.99%
ACCESSCORP	25.00	18.55	-6.45	-25.80%
FBNH	34.85	26.75	-8.10	-23.24%
TANTALIZER	0.42	0.35	-0.07	-16.67%
UCAP	24.00	20.05	-3.95	-16.46%

Outlook

After gaining 39.84% in the first quarter of the year, the stock market has begun to correct itself, driven by selloffs in banking stocks. This is due to concerns about share dilution as banks commence plans to increase their capital. We expect the bearish sentiment to persist in the near term as yields in fixed-income securities remain attractive.

WHISPERS OUTLOOK

- We expect oil prices to remain elevated in the near term, trading around $82-$84pb, which is lower than last few weeks' average of $88pb. Hamas and Israel are negotiating ceasefire agreements which are bearish for oil prices. Also, the higher for longer interest rate in the US and the lower-than-expected Q1'24 GDP growth of 1.6% in the US could stoke demand concerns, weighing on prices.

- Despite the recent trend of declining domestic oil production in Nigeria, the elevated oil prices and high global cocoa prices are favorable for Nigeria's export earnings. This could lead to an accretion in the external reserves after its steep decline by 3.81% to $32.29 billion in the first half of April, bolstering the CBN's ability to intervene and defend the naira.

- Forex demand has increased significantly as portfolio investors repatriate their earnings and exit the country. This would require the CBN to step up its interventions in the FX market to ensure the naira's stability. We expect pressure on the naira to remain before the next MPC meeting on May 21.

- While month-on-month inflation is expected to decline in April, the renewed pressure on the naira poses risks to inflation in the country. Hence, we anticipate the MPC to remain hawkish in its May meeting and raise rates by 100bps to 25.75% p.a.

- The higher interest rates are likely to keep equities in a bear market while raising yields on fixed-income assets.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