

NIGERIAN ECONOMY ON THE BRINK

ADAPT OR COLLAPSE?



OUTLINE

01

Telecom Sector-
the Fulcrum for Economic
Dynamism in Nigeria

02

Resetting the Nigerian Economy-
Impact, Outlook & Consequences

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Key Global Trends

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and Outlook

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Politic & Economy

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Outlook

QUOTES!

“The hoarding of information may be an act of tyranny camouflaged as humility ”

Robin Sharma



“Information is the key to how the digital society adds value and redistributes power”

Don Tapscott



**TELECOM SECTOR-
FULCRUM FOR ECONOMIC DYNAMISM IN
NIGERIA**



ECONOMIC GROWTH IS REKINDLED BY INCREASED INVESTMENT

$$Y = C + I + G + X-M$$

\$364n \$237.3bn \$16.4bn \$-10bn

$$I = 29\%$$

Ghana

$$I = 16.04\%$$

India

$$I = 29.16\%$$

Indonesia

$$I = 29.08\%$$

Vietnam

$$I = 31.7\%$$

Fast-growing peers (2023)

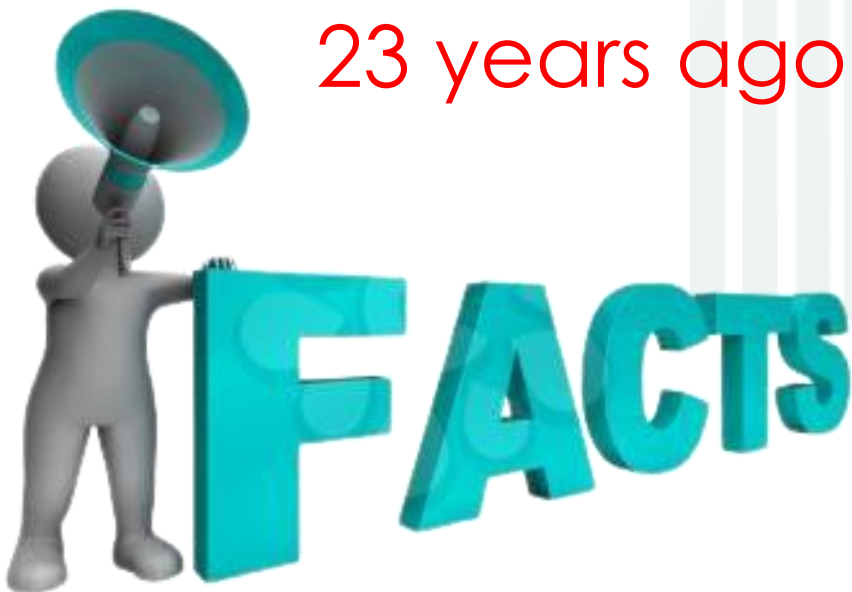
- Countries with higher investment will have higher growth level
- The higher the percentage of investment the higher the growth level
- If we want to be like the Asian Tigers, we need to invest
- Investment in telecom has a linkage effect on other sectors

Why investment has declined in Nigeria

- Inefficient use of capital
- Inefficient use of information

TELECOM SECTOR - BASIC FACTS

23 years ago



THEN (2001)

Teledensity
1.89%

GDP growth
5.92%

Population
125.39mn

Internet Users
(% of Population)
0.02%

Base Stations
(2018)
52,160

Total subscribers
100k

Income per
capita
\$538.2

NOW

Teledensity
103.66%

GDP growth
2.74%

Population
222.18mn

Internet Users
(% of Population)
55.4%

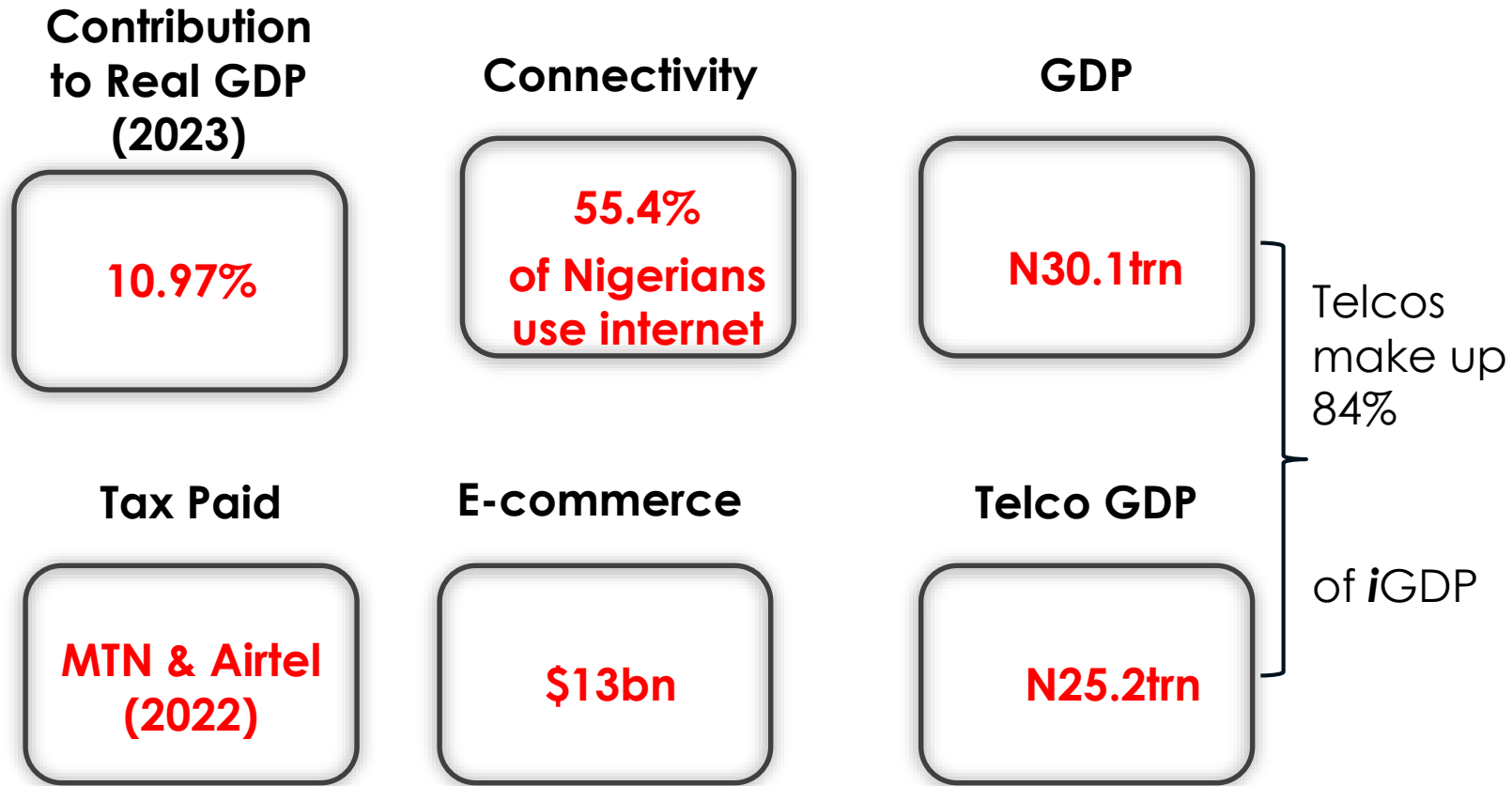
Base Stations
(2022)
127,294

Total subscribers
222mn

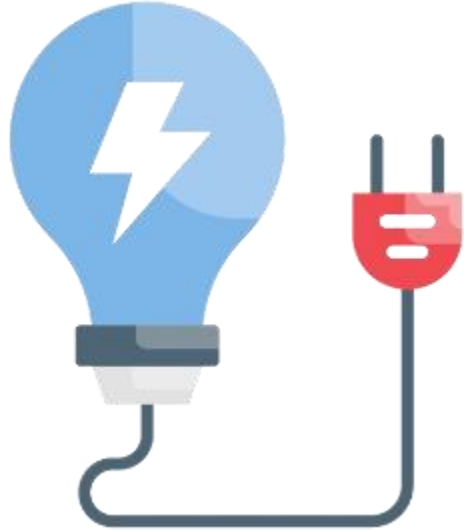
Income per
capita
\$1,109.9

TELCOM SECTOR – THE FULCRUM OF ECONOMIC GROWTH AND DRIVER OF THE FUTURE

- Telcom is a critical sector and a catalyst of economic activities
- Sector outperformed GDP growth by 8% in Q1 2024
- The average GDP growth rate of 2.03% between 2019 and 2023
- Underperformed when discounting for inflation



TELECOM – ONCE A SHINING STAR



Electric power
consumption
growth

2002 – 2023

56.83%

Growth in milk
consumption in
Nigeria

2002 – 2023

37.62%



Growth in active
telephone
subscription

2002 – 2023

9,794.71%

- *The growth potential in the telecommunication sector is massive and Nigeria still has a lot to exploit in the sector*

TELECOM SECTOR IN DECLINE

Causes

- Limited access to foreign exchange
- Rising inflation
- High operating costs
- Regulatory burden
- Multiple taxation
- Right of Way issues
- Vandalism – insecurity
- Declining investment and lack of new investment
- Poor quality of service
- Multiple taxes
- State and local government extortion

Symptoms

EBITDA sharply lower by 12% to N1202bn

Inflation (cumulative): 387%

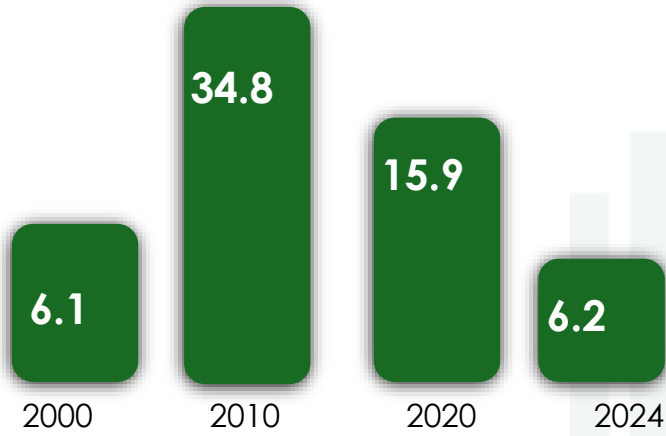
Exchange rate depreciated (cumulative): 763%

PMS prices increased by 341%

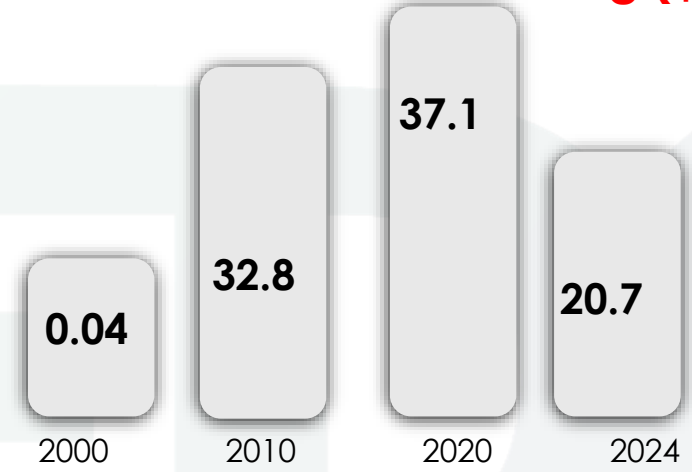
Marginal cost > Marginal revenue

THE GOLDEN SECTOR LOSING ITS SHEEN

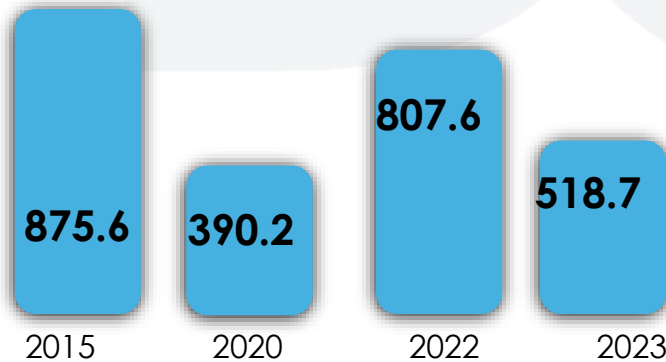
Telecom Growth is stagnating (%)



Telecom GDP is now falling (\$bn)



Telecom contribution to tax revenue is plunging (\$mn)



- Telecom CAGR was 32% per annum between 2000 and 2010
- The sector's growth is now stagnating at 6% but still above population growth rate of 2.2%
- The telecom industry is becoming relatively unattractive
- Expenditure has increased over the years, but returns and revenues have squeezed to negative margins
- Unexploited economics of scale

Profits are declining



MTN reported a loss of N137bn in 2023

Employment in the sector is falling



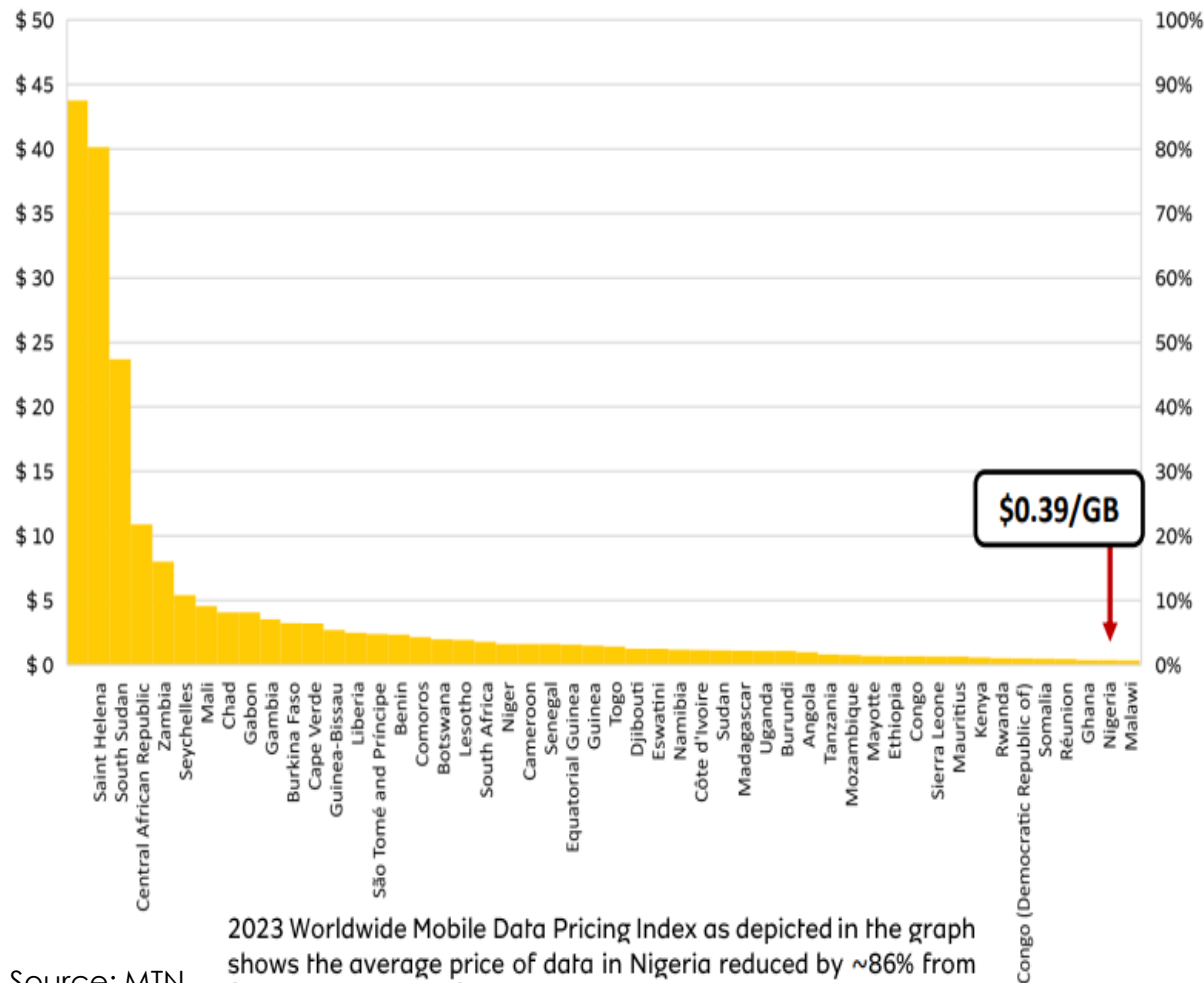
2017: 13,145
Now: 7,451



NIGERIA'S TARIFFS ARE RELATIVELY LOWER THAN PEERS

Consequences, in the long run, are data and voice arbitrage

Comparative Analysis of Price per GB of data in SubSaharan Africa (in US\$)



2023 Worldwide Mobile Data Pricing Index as depicted in the graph shows the average price of data in Nigeria reduced by ~86% from \$2.80/GB in 2017 to \$0.39/GB in 2023

Source: MTN

- Market distortions arise from fixed prices, hindering competition and affordability for consumers
- Price controls deter investment, impacting service quality
- Decline in telecom sector investments limits infrastructure development and technological advancements
- Overregulation stifles telecom innovation and quality, distorting markets and diminishing investment incentives
- Economic repercussions include job losses, reduced GDP contribution, and digital inclusion setbacks



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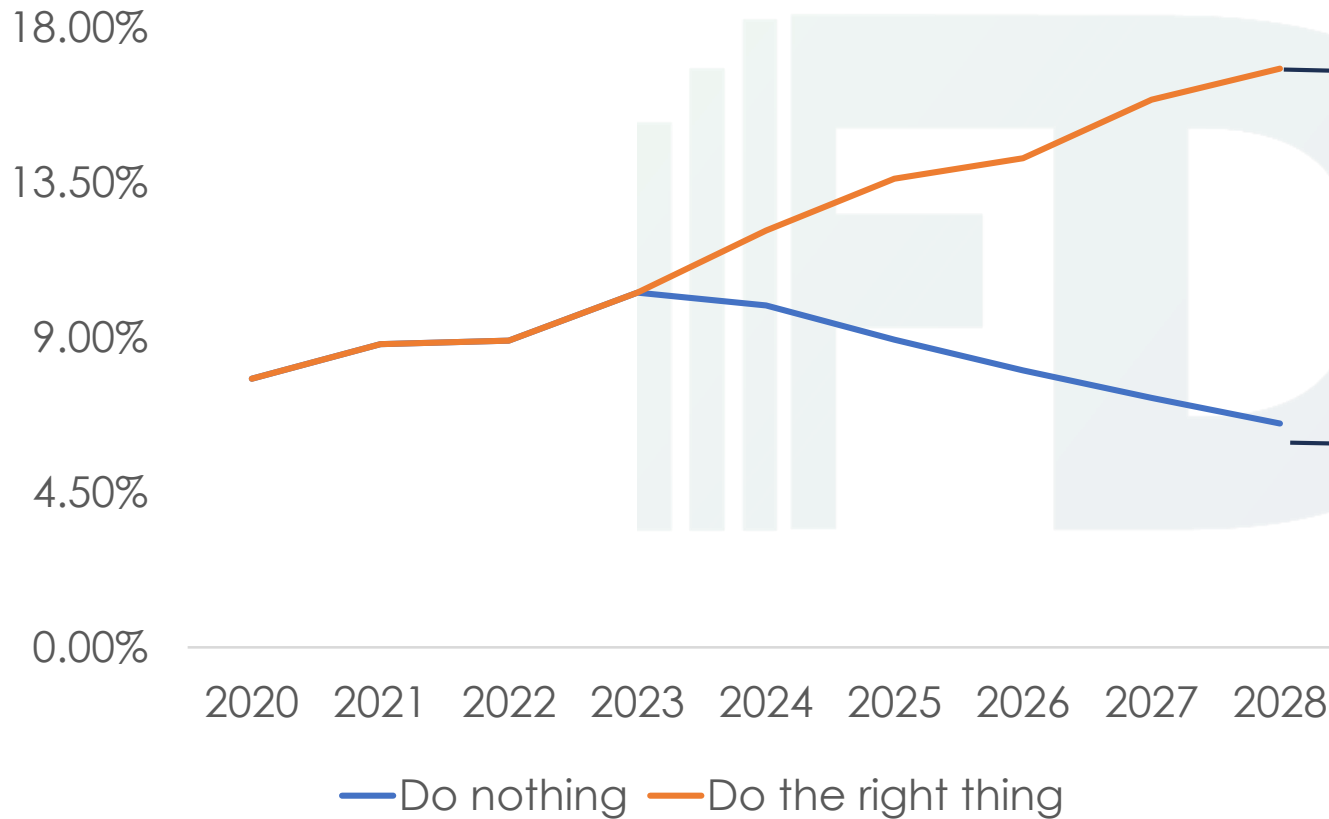
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IF THE SECTOR COLLAPSES – THE ECONOMY FAILS

Value at Risk Analysis

Scenarios: Telecoms Contributions to GDP



Do the right thing
(Short term - increase tariff
Long term - price deregulation)

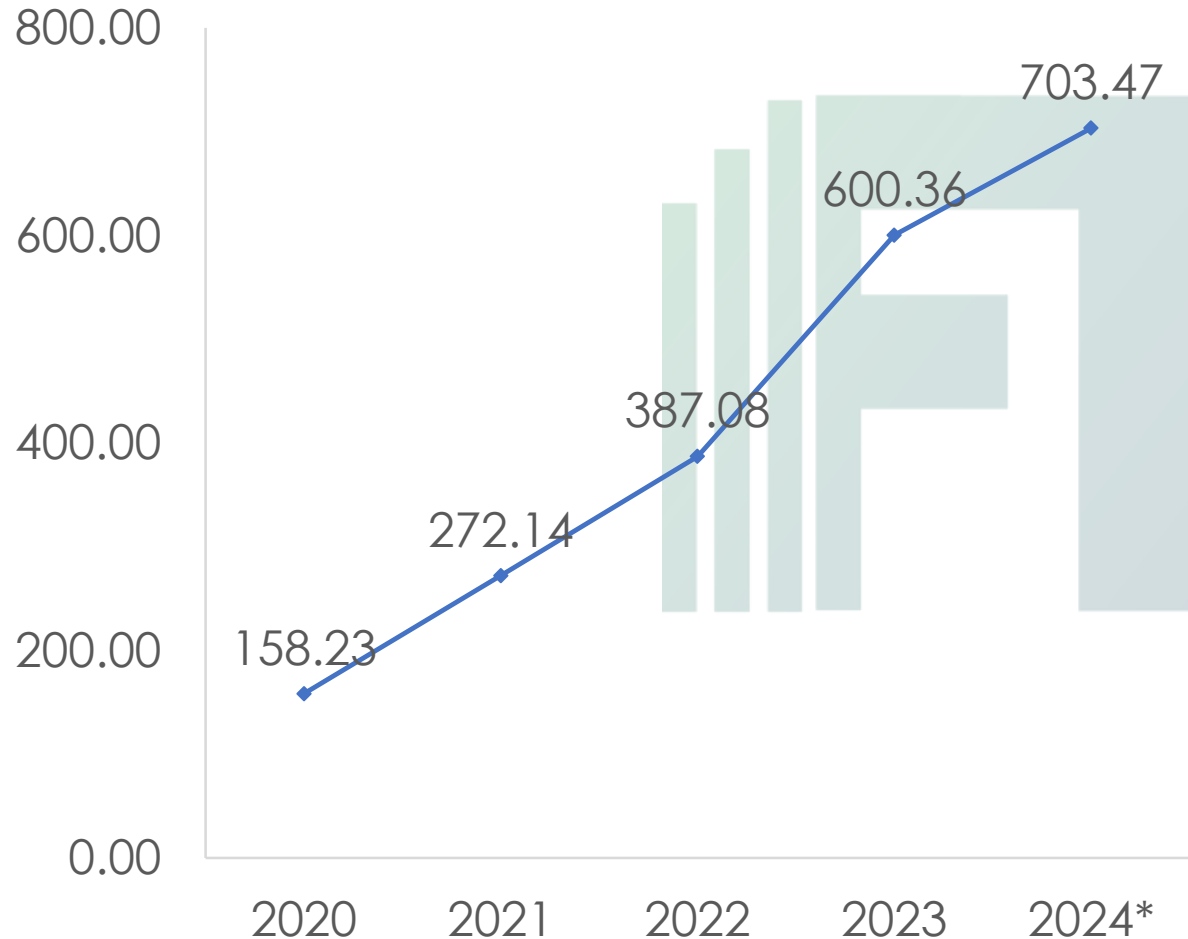
Do nothing
(market delves into oblivion)

- Without immediate intervention, the revenue potential from telcos may start falling
- Telecoms are linked to many sectors, hence, any disruption in its operations will have a chain effect on other sectors of the economy



SECTORS THAT WILL SLACK- PAYMENT SYSTEM

NIBSS instant Payment (N'Trn)



**Payment of transactions grew at 345% over 5 years
CARG = 69%**

Faster and more efficient payment processing

Reduce transaction times and increasing overall system throughput

Reduce the costs associated with traditional payment methods

Enhance the security of payment systems and reduce the risk of fraud and unauthorized access

Mobile payments, contactless transactions, and other digital payment convenience and security

SECTORS THAT WILL SLACK

Manufacturing

Contribution to GDP

14.79%

Employees

Labour elastic

- Increase in connectivity will lead to an increase in output
- Facilitates smooth production processes, efficient logistics, and real-time problem-solving
- Promotes Industrial Automation
- Telecom powers efficient supply chain management

Agric

Contribution to GDP

17.22%

Employees

Labour elastic

- High Telecom quality service
 - Information sharing – market prices, agric. best practices
 - Precision agric. – soil moisture, temperature, and crop health
 - Faster problem-solving, sharing knowledge, and coordination of agric. activities
 - Market access by bridging the gap between farmers and buyers

Trade

Contribution to GDP

15.70%

Employees

Labour elastic

- The Telecom sector facilitates efficiency and speed of domestic and foreign trade
- Global supply chain - Manufacturers, suppliers, and distributors can coordinate production and logistics seamlessly
- Telecom infrastructure allows for the growth of e-commerce

TELECO SECTOR LINKAGE TO CRITICAL ACTIVITY - ELECTORAL SYSTEM



1999 to 2011 Manual Voting

- Long queues
- Delayed results
- Electoral violence
- Ballot box snatching
- More court cases



2015 to 2023 E-voting

- Short queues
- Fast & Accurate results
- Secured
- Convenience
- Trust & transparency
- Less violence



Without an effective Telecom sector

- The electoral system is in chaos

WHEN SECTORS ARE NOT PROPERLY INTEGRATED

- Inefficiency
- Reduced productivity
- Fragmentation of markets
- Missed opportunities for innovation
- Social and environmental challenges
- Supply chain disruptions



Communication plays a crucial role in enhancing linkages between sectors

- Telecom provides the essential infrastructure backbone for communication
- Offers various communication channels, including telephone, mobile, internet, email, and messaging services
- Provide global connectivity, linking organizations and individuals across national and international borders
- facilitate the efficient transmission of large volumes of data
- Allow stakeholders to communicate instantly regardless of their location

THE MULTIPLIER EFFECT ON OTHER SECTORS WILL LEAD TO OUTPUT GROWTH

$$Y \uparrow = C + I + G + X-M$$

34.5%

- Access to efficient and reliable telecom services enhances the productivity of businesses across various sectors
- Enable faster information exchange
- Smoother supply chain management
- Efficient business operations
- As businesses become more productive, they can produce more output with the same or fewer resources
- leading to overall economic growth.

TELECOM INDUSTRY LINKAGES TO OTHER SECTORS

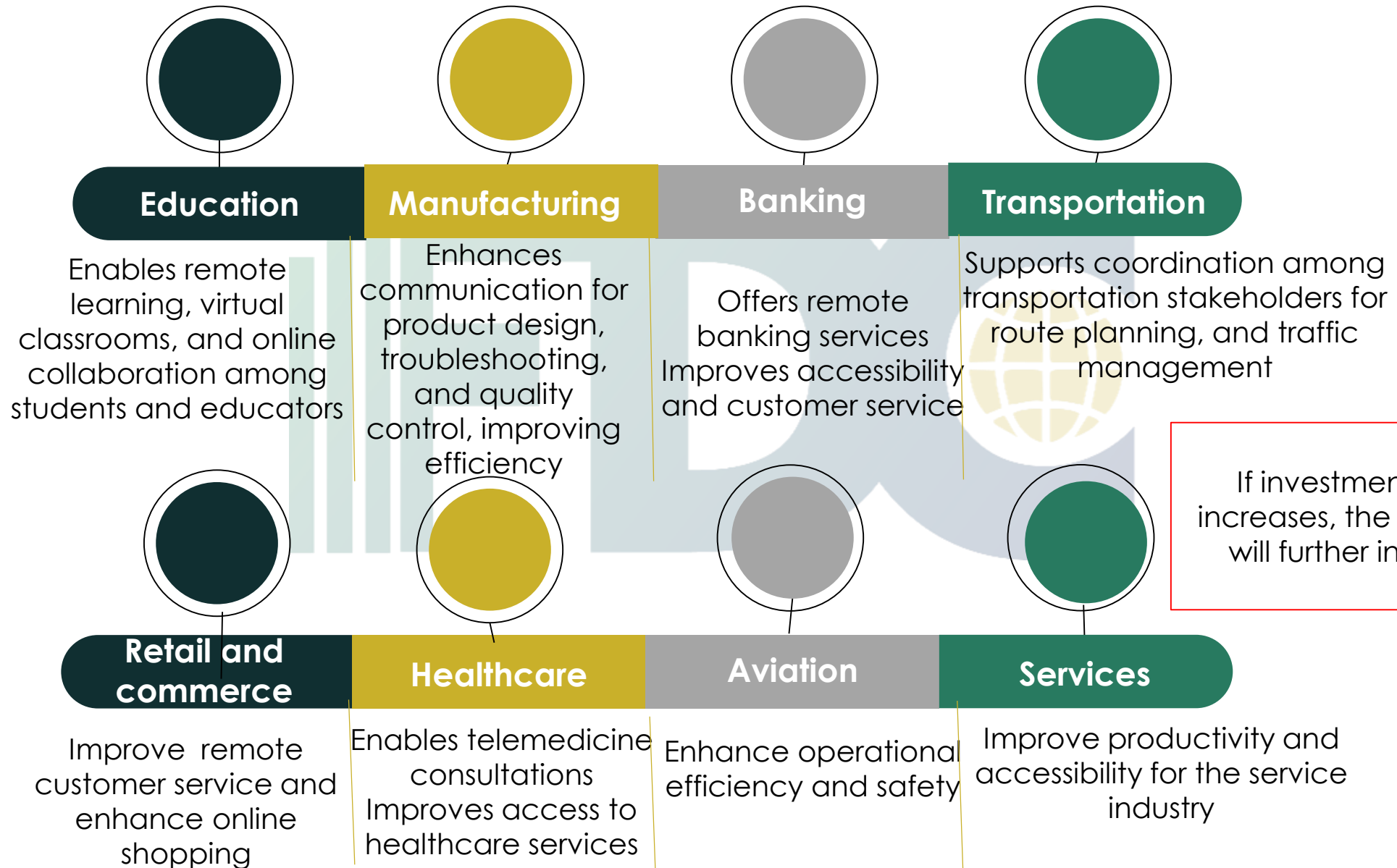


- Big push theory posits that growth in one sector can stimulate growth in others through backward and forward linkages
- The telecom sector has both forward and backward linkages to various sectors
- This linkage to other sectors is vital for economic growth, innovation, and productivity across various industries
- Making it a key enabler and driver of development in modern economies
- If the telecom industry collapses all other sectors will follow

IMPACT OF TELECOM ON OTHER SECTORS

Impact

Impact

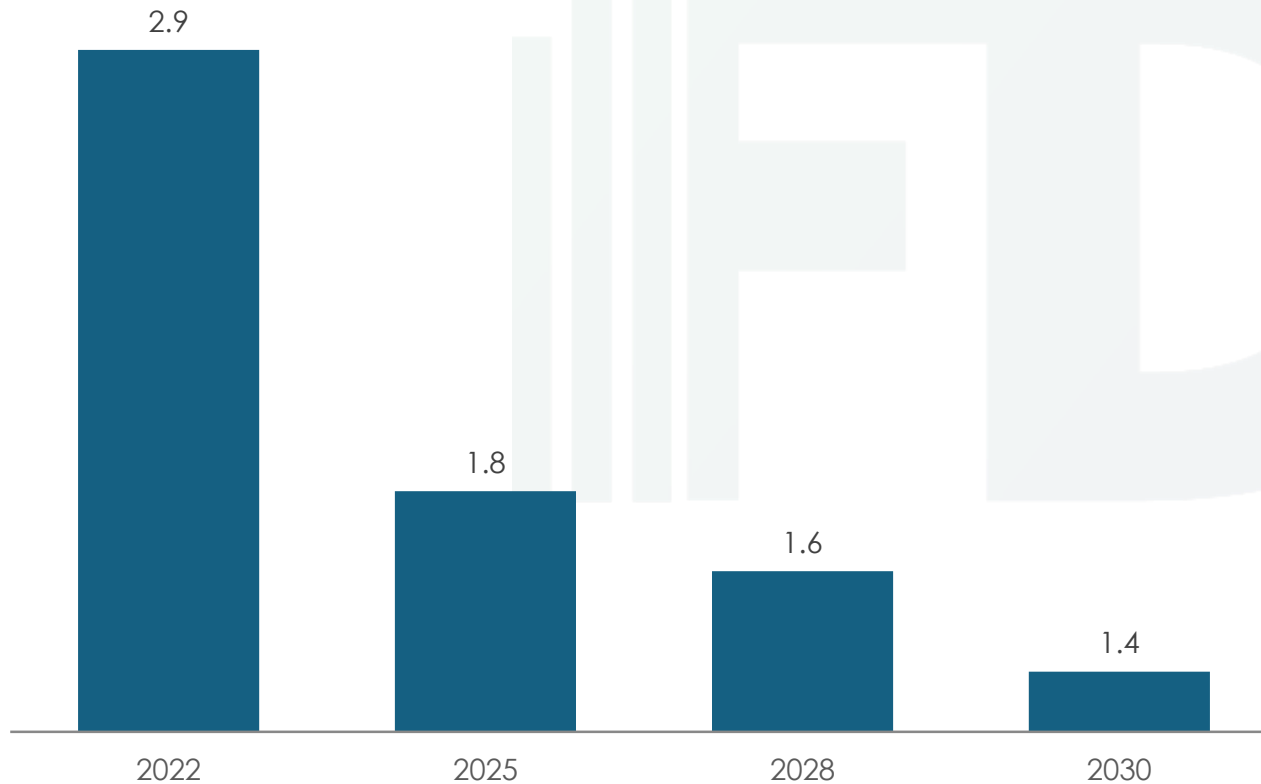


If investment in telecom increases, the DGP rate of 3% will further increase to 4%

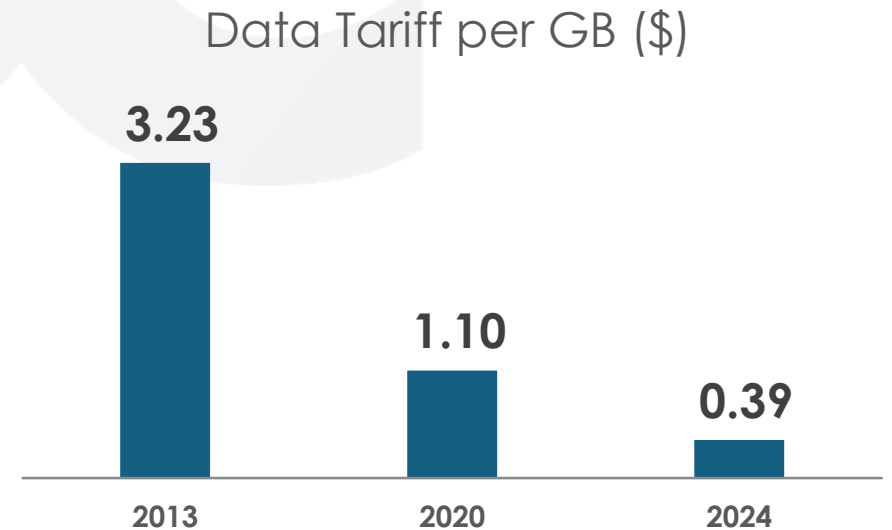


LOW INVESTMENT – NEED FOR REINVESTMENT & NEW INVESTMENT

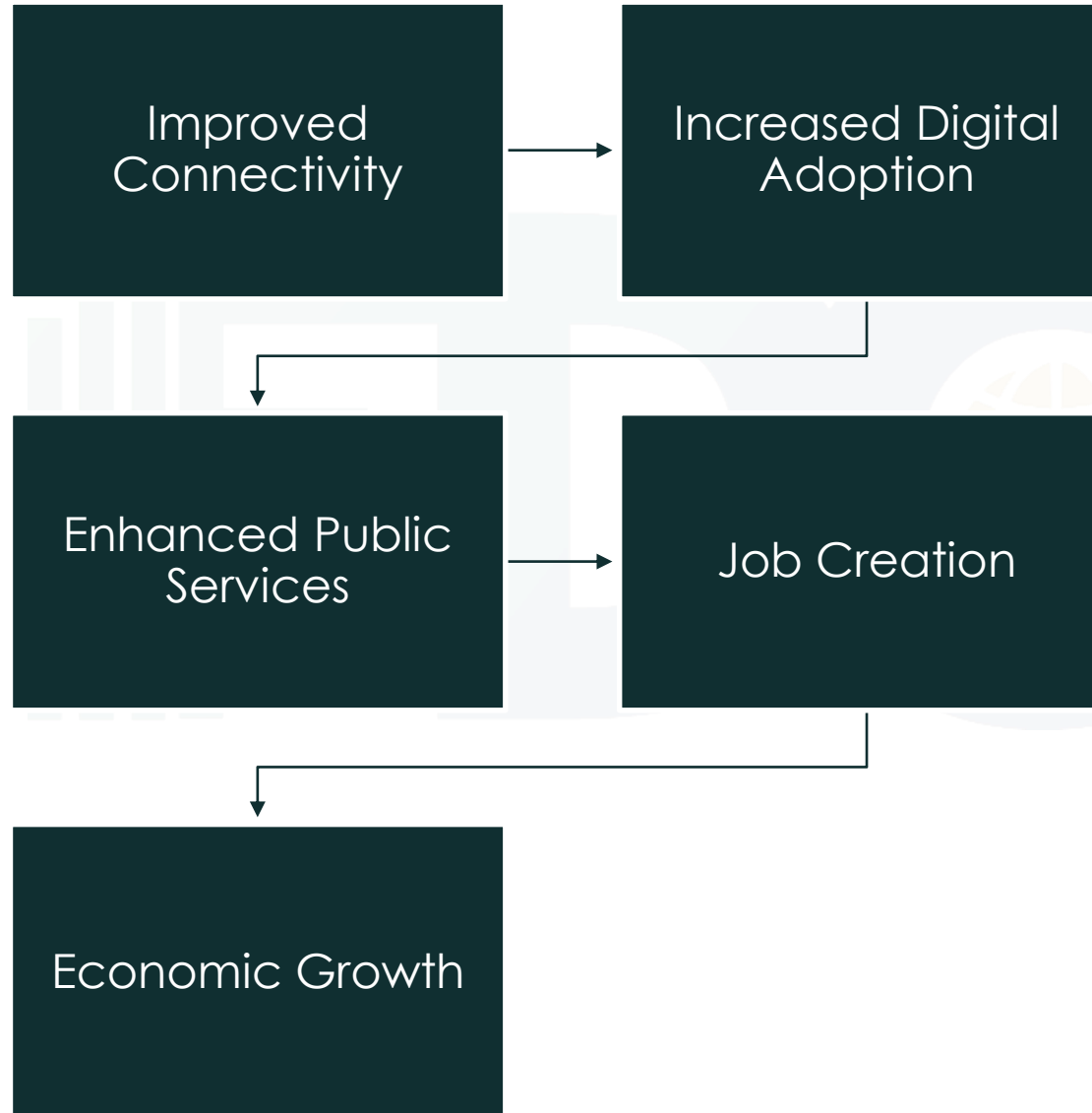
Telecoms Investment halve by
2030 (US\$bn)
(Business as usual Scenario)



- EIU forecasts that telecom sector investment will halve by 2030
- Buoyed by falling real service tariff
- Harsh regulatory environment
- Multiple taxation



WHAT IS THE FUTURE OF NIGERIA IF WE INVEST IN TELECOM



*770#

Start now. Dial *770#



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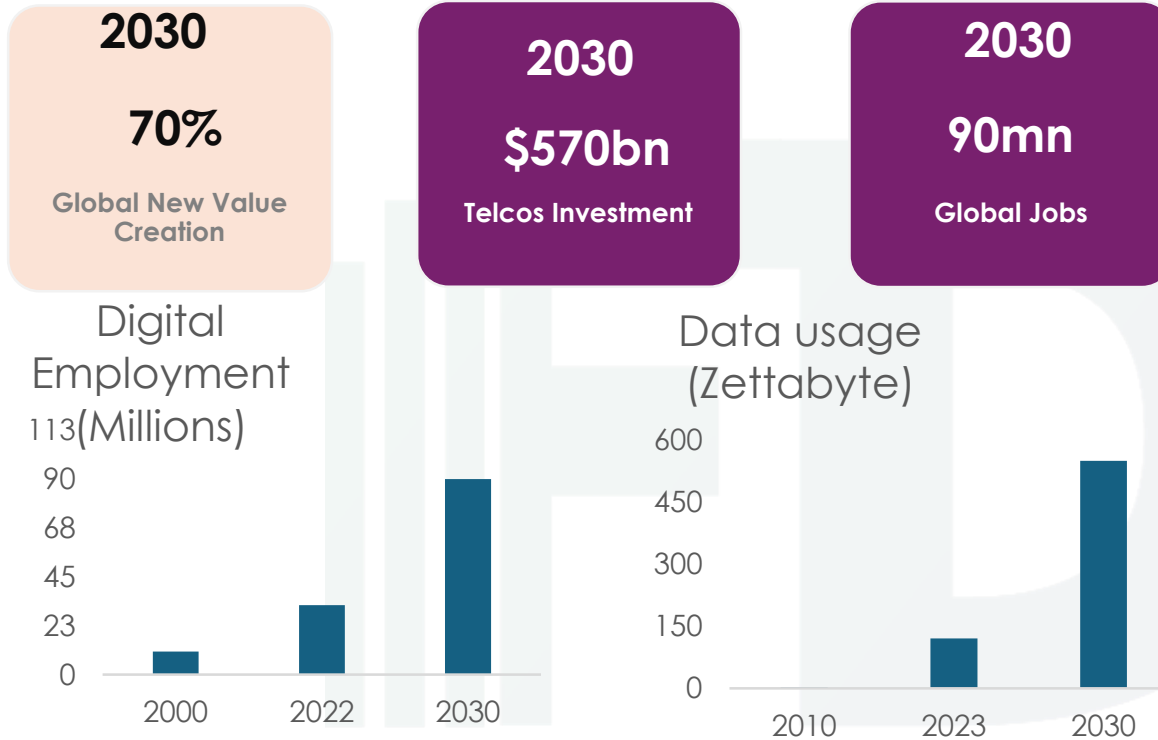


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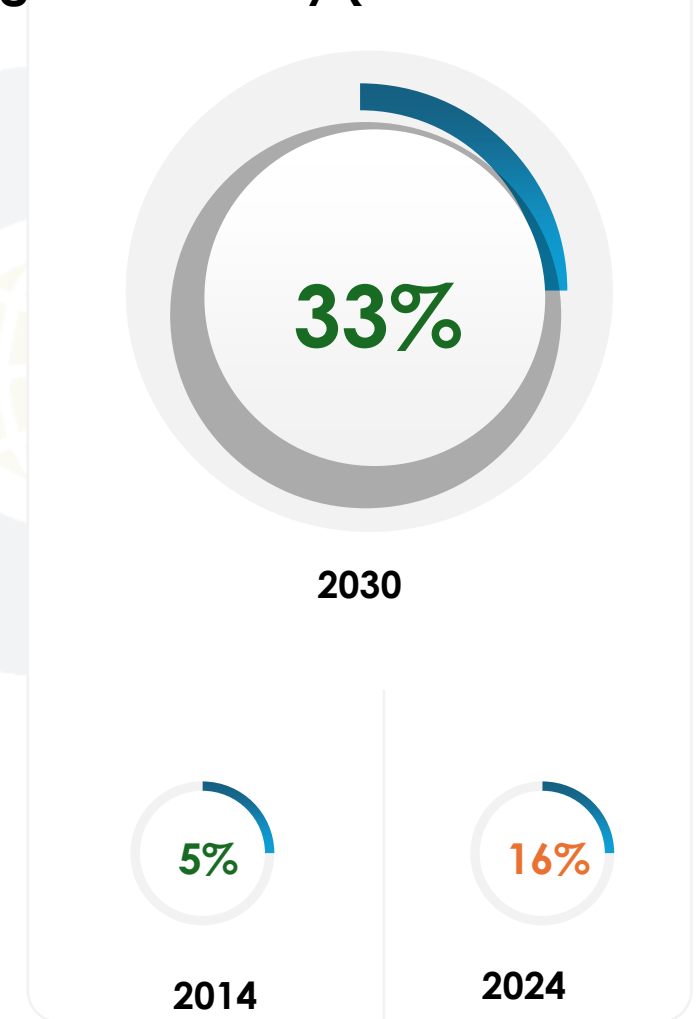
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85% OF GLOBAL BUSINESSES TO BE DIGITIZED BY 2030

Digital Economy Outlook



Digital Economy (% of Global GDP)



Increase in Patent (last Decade)

10-fold

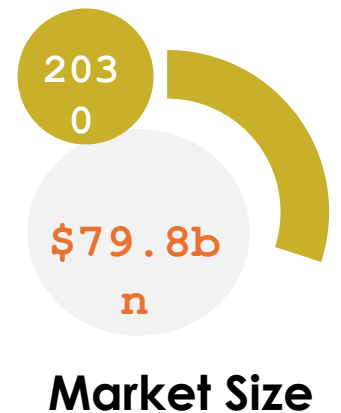
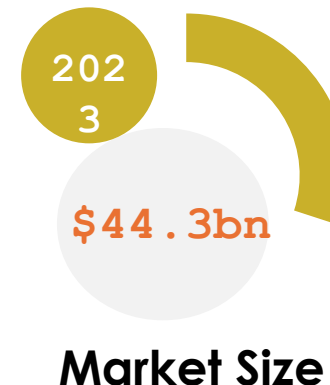
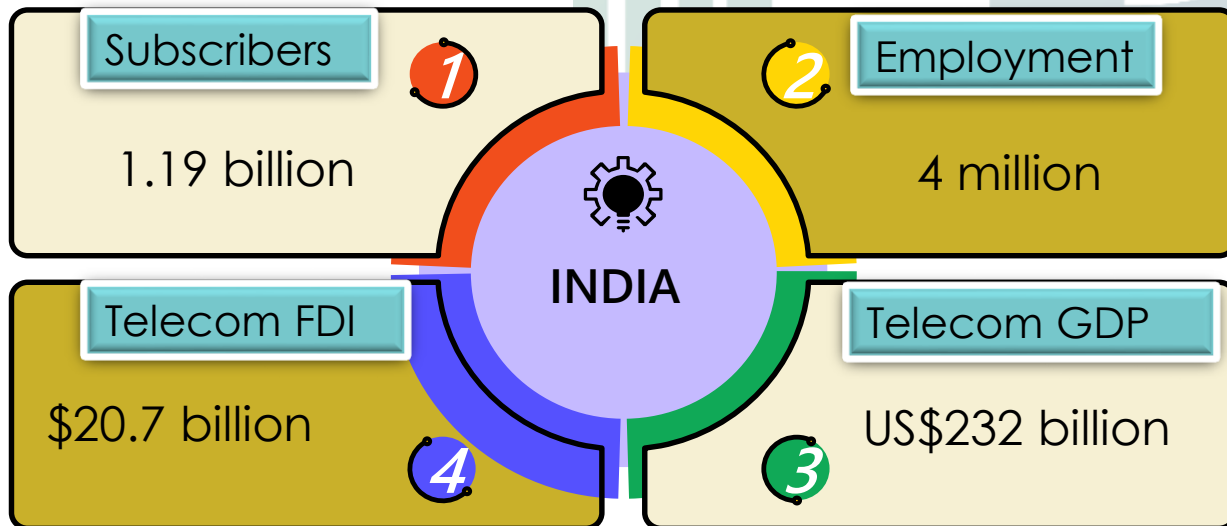
ICT

2-fold

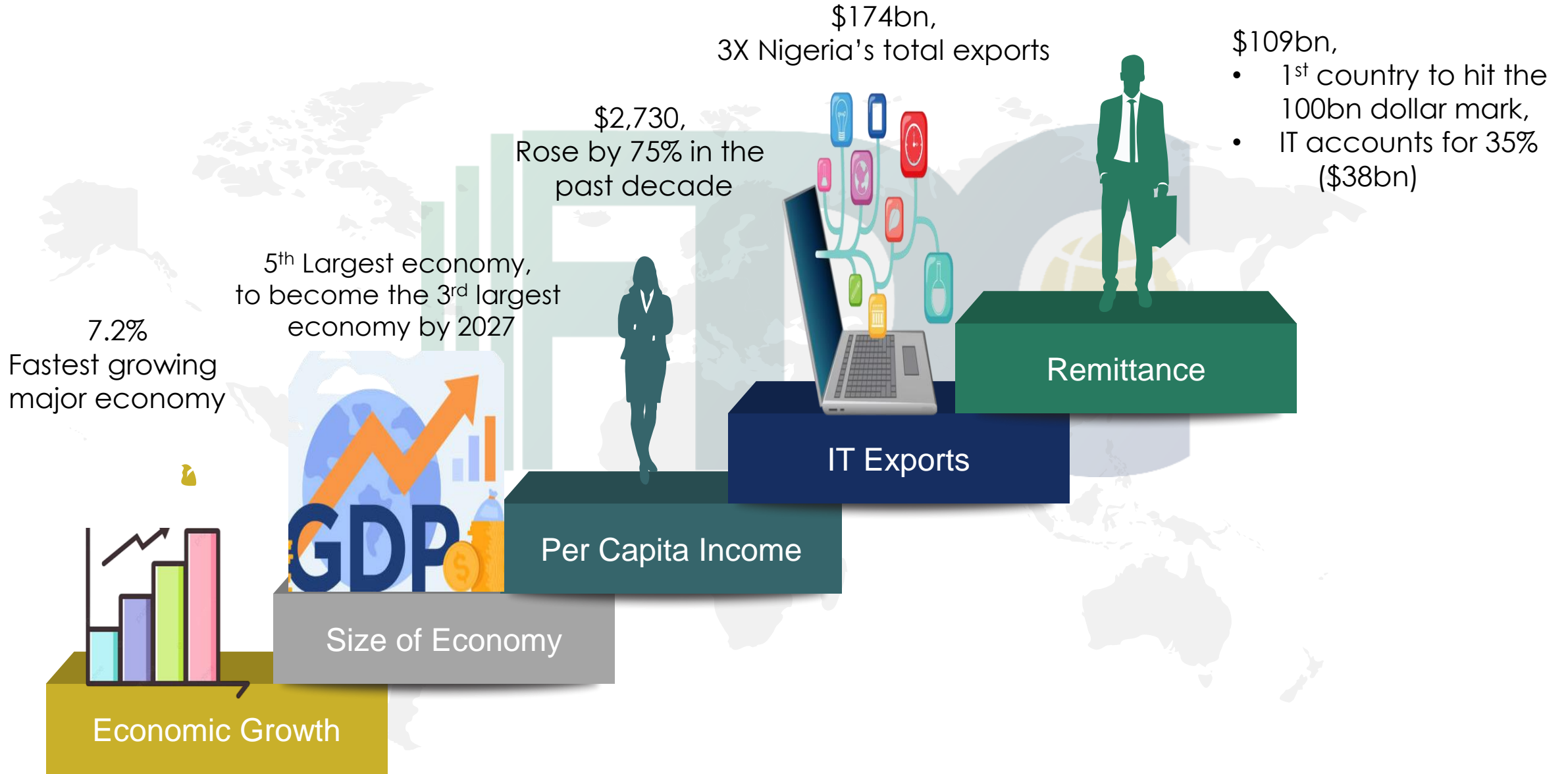
Non-ICT

THE INDIAN MAGIC WAND IS TELECOM INVESTMENT

- India is the second largest telecom market in the world with a market size of \$44billion
- Massive reforms and investments in the sector supported the growth of the sector
- 2021 spectrum auctions alone fetched a record-breaking amount of approximately \$10.5 billion, indicating the high level of investment and competition in the sector.
- National Digital Communications Policy (NDCP) aims to attract \$100 billion investment in the telecom sector in four years



SPILOVER EFFECTS OF TELECOM INVESTMENT IN INDIA



INVESTMENT IN TELECOM IS NECESSARY BUT NOT SUFFICIENT

A NECESSARY CONDITION

Investment in telecom
brought about massive growth
in India

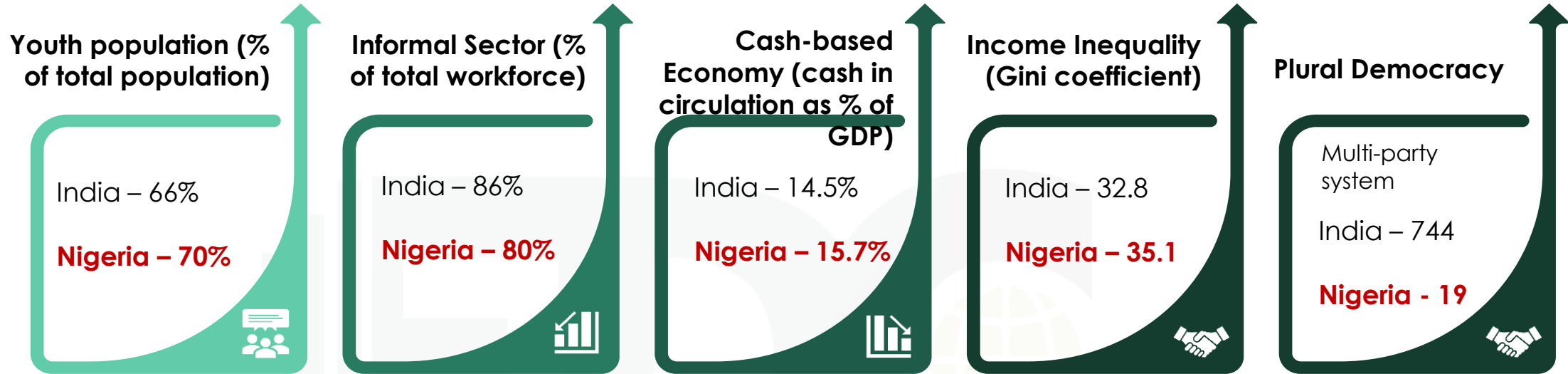


A SUFFICIENT CONDITION

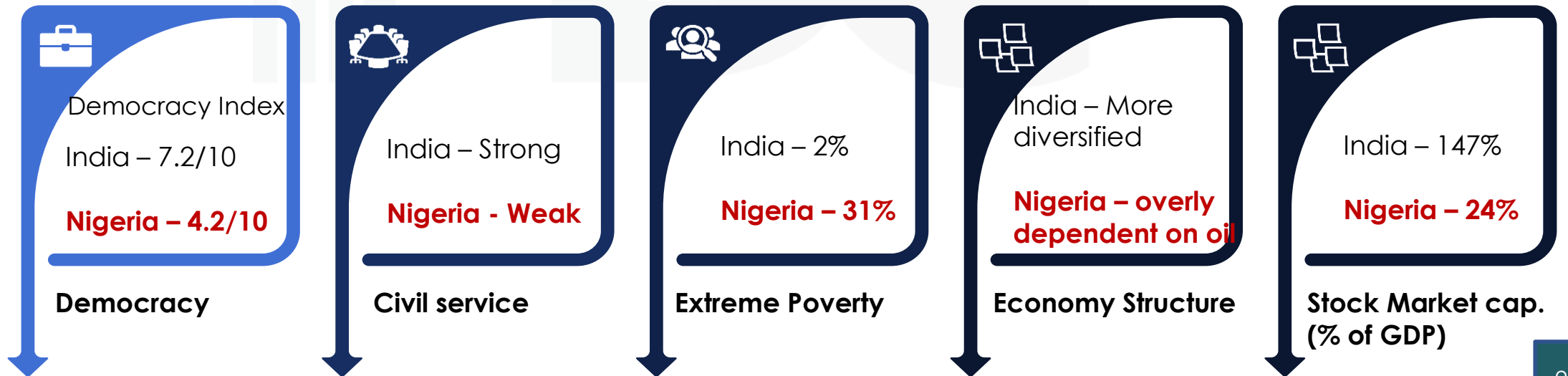
Investment in telecom
was complimented by
human capital
development

INDIA VS NIGERIA – COMPARISONS

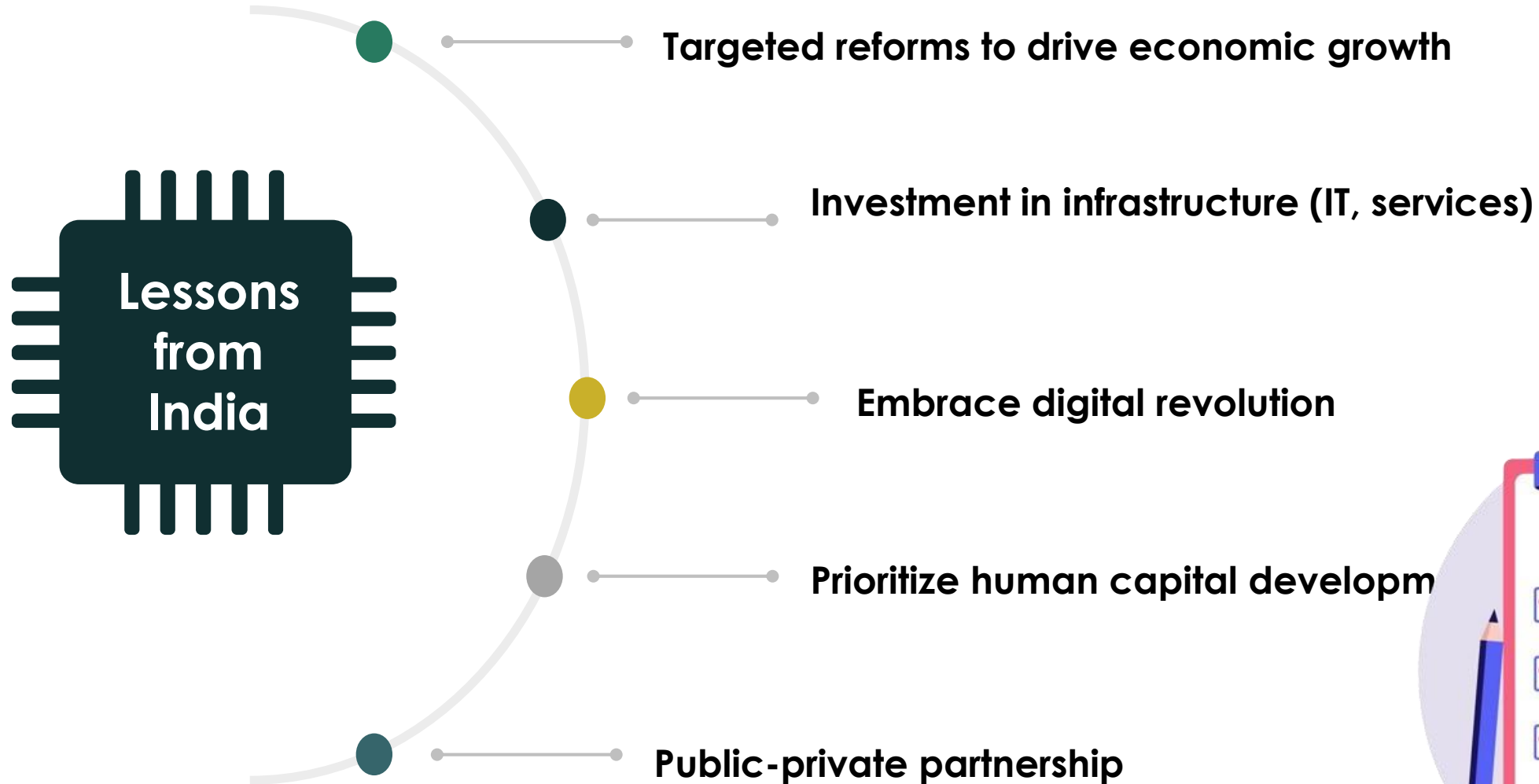
Similarities



Differences



LESSON TO LEARN FOR NIGERIA



DOING NOTHING - NOT AN OPTION

COST OF DOING NOTHING

- Telecom sector suffers
- Consumers suffer
- Businesses suffer

- Digital economy goes into hibernation
- The entire economy suffers

COST OF DOING THE WRONG THING

- Telecom sector suffers
- Consumers suffer
- Businesses suffer

- Digital economy goes into hibernation
- The entire economy suffers

DOING THE RIGHT THING

- Investment rises
- Quality of service improves
- Consumers benefit
- Businesses benefit

- Telecoms benefit – profits
- The entire economy gains
- Accelerated growth guaranteed



WHAT MUST BE DONE!

Immediate Increase of
tariffs
To cover marginal cost

Ensure consumer
protection agency is
effective

Deregulate prices and
regulate performance

**Economy on the brink
a clear choice
Adapt or collapse 2.0**



**RESETTING THE NIGERIAN ECONOMY-
IMPACT, OUTLOOK & CONSEQUENCES**

REFORM AGENDA – 1.0 (2023)

Solving the revenue problem

Neglecting the growth and
investment agenda



Leo

on WhatsApp

Chat on +234-903-000-2455

Check Account Balance?

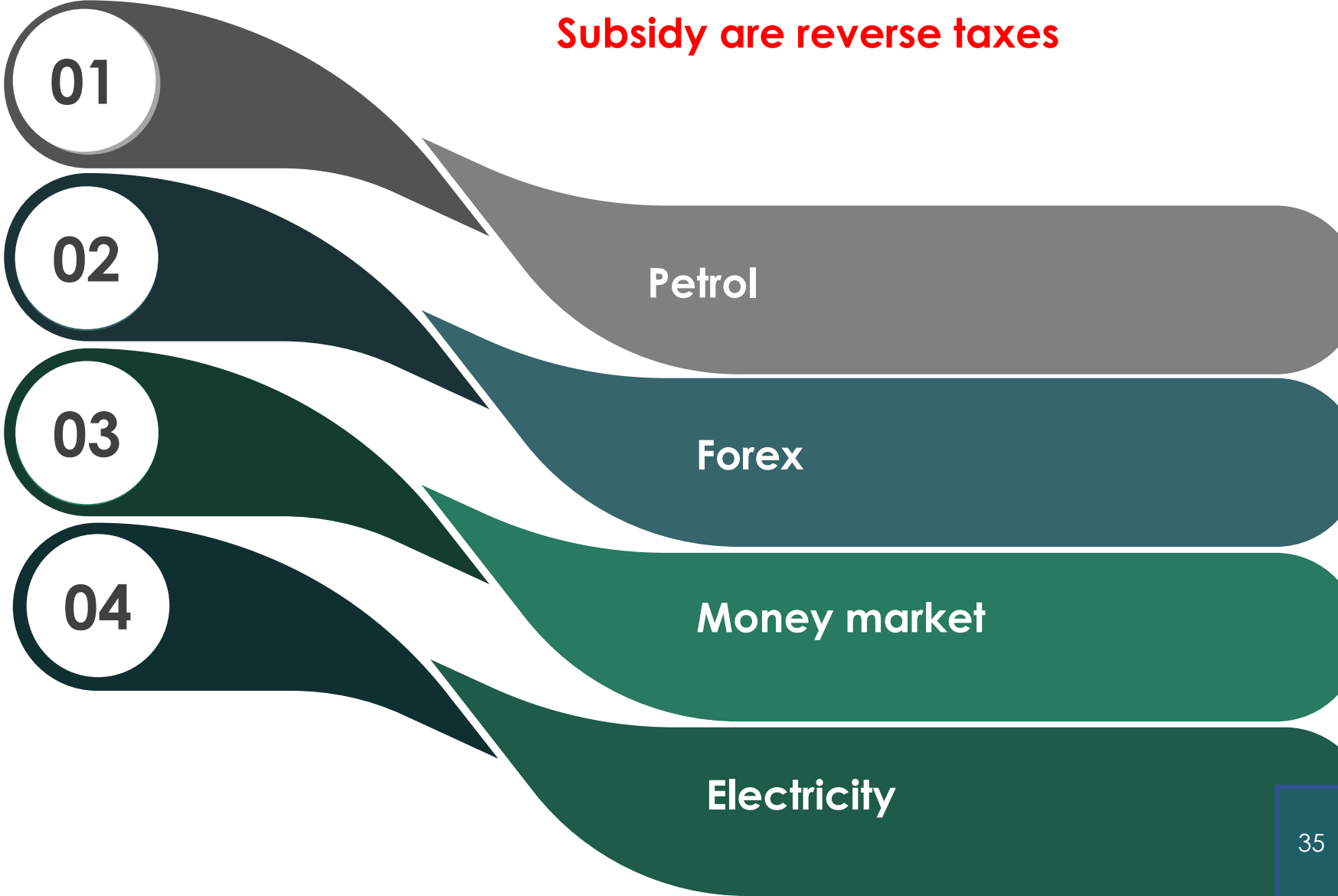
Top up your airtime?

Bank Transfers?

Bills Payment?

<https://m.me/ubachatbanking> Leo@ubagroup.com [CFC \(+234-1-2807400\)](tel:+23412807400)

RESETTING THE BUTTON – REFORM AGENDA 2.0



Subsidy are reverse taxes

01

Petrol

02

Forex

03

Money market

04

Electricity



WHAT IS RESET?

“Restarting or restoring a device or system to its original state”

Steve Jobs

“The process of restoring a device or system to its original settings, erasing all data and configurations”

Tim Cook

“The implementation of quick changeover techniques to reduce setup times and enable flexible production scheduling, thereby improving productivity, and efficiency”

Shigeo Shingo



CIRCULAR FLOW OF INCOME

- The economy operates in a circular flow
- Households receive income from both businesses and government for services rendered
- Household and businesses pay taxes to government
- The impact of reform on the economy will depend on how it impacts the circular flow
- **Subsidies are reverse taxes**
- Both subsidies removal and exchange rate devaluation are leakages to the household and businesses
- To guarantee equilibration, government spending (injection) will have to offset the leakages



CONSUMPTION VERSUS INVESTMENT FUNCTIONS

CONSUMPTION FUNCTION

$$C = C_0 + mpc(Yd)$$

Autonomous
Consumption

Marginal
propensity to
consume

Deposable
Income

$$S = I$$

Savings

INVESTMENT FUNCTION

$$I = I_0 + MEI(R)$$

Autonomous
Investment

Marginal
Efficiency of
Investment

Interest Rates

Investment

- The consumption is a function of disposable income
- Investment is a function of interest rates
- At equilibrium, savings equal investment
- As savings increase, consumption falls and investment rises
- Increased government revenue from reforms can lead to higher public spending, boosting both consumption and savings
- Increased government revenue can stimulate private investment opportunities.

MEASURES TO CURB INFLATION AND STABILIZE FX MARKET

Increase in interest rate
Cumulative 750bps

Fiscal stimulus

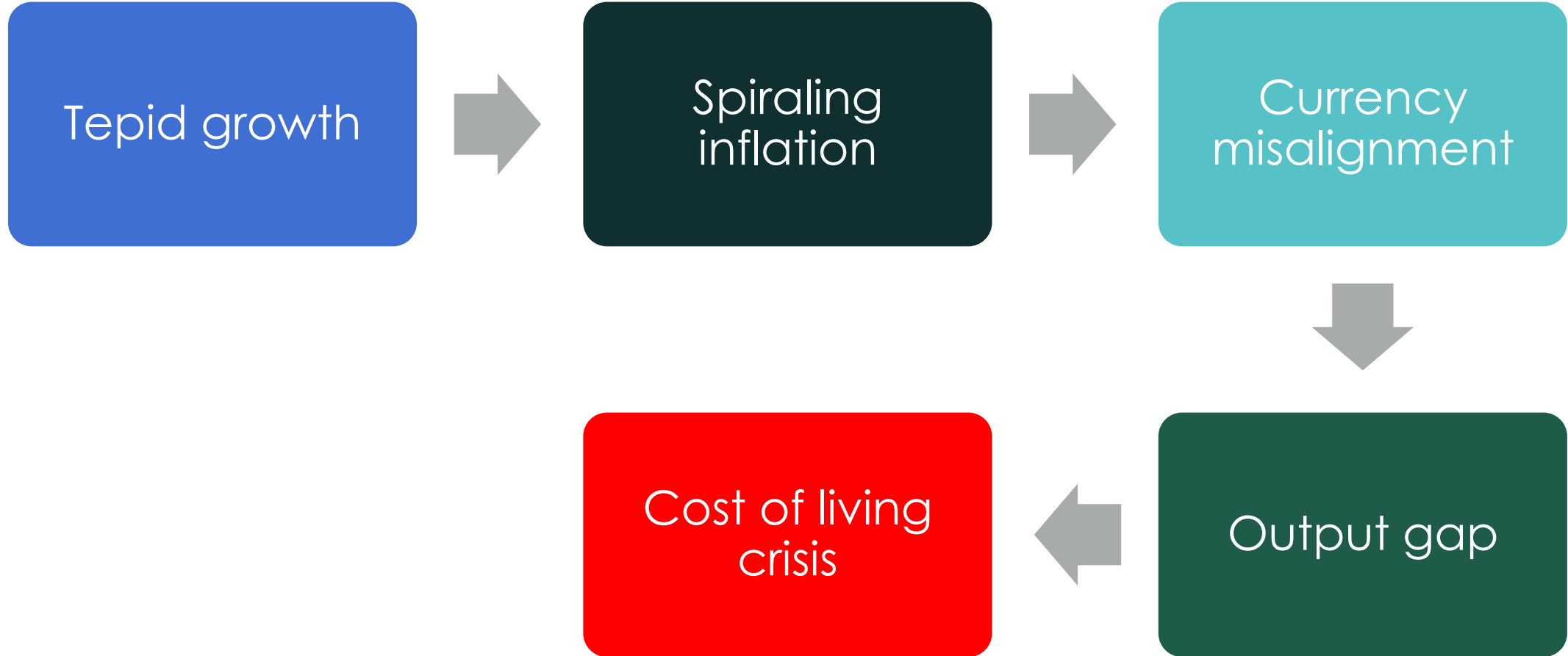
Interest rate Impact on the economy

- Decreased Consumer Spending
- Dampened Inflationary Pressures
- Currency Appreciation
- Savings Incentives
- Reduced Borrowing and Investment

Fiscal stimulus Impact on the economy

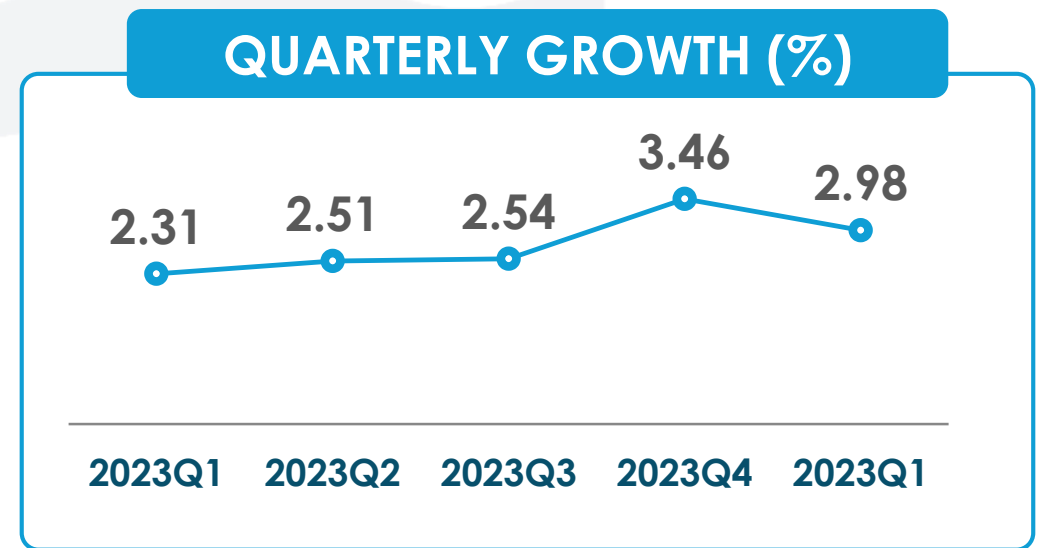
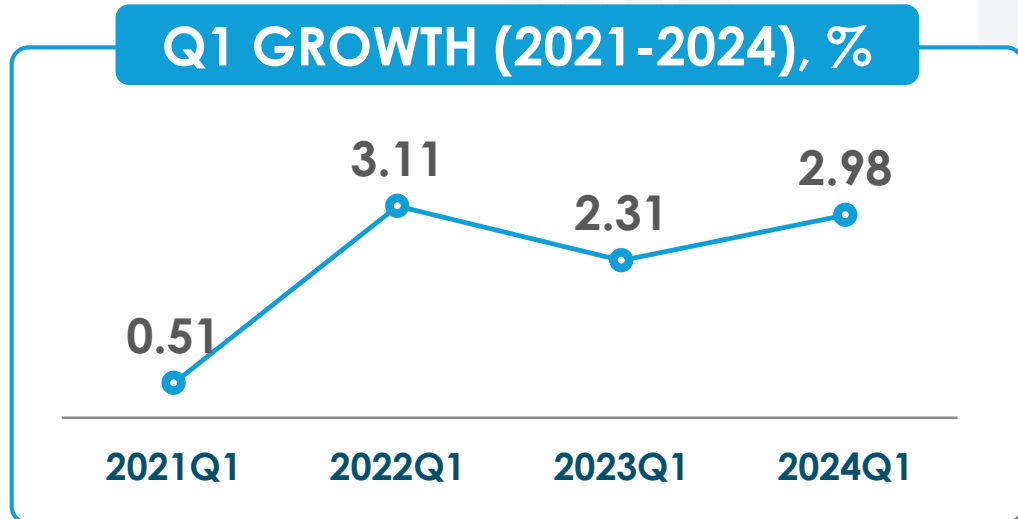
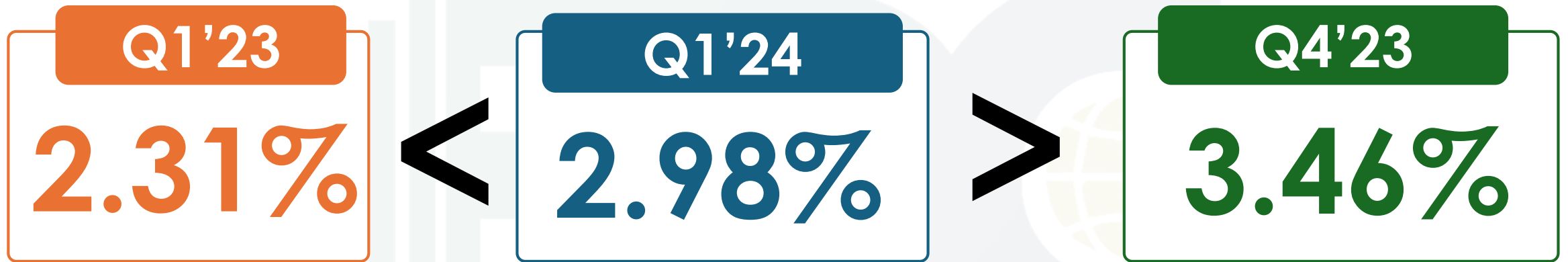
- Lead to lower prices for consumers
- Promotion of local industries
- Business growth and expansion
- Improve cash flow
- Increase consumption
- Increase revenue generation
- Lead to increased import and export activities
- Attract foreign investors

THE OUTCOMES – UNINTENDED CONSEQUENCES



TEPID GDP GROWTH MASKS STRUCTURAL VULNERABILITIES

- Q1'24 real GDP growth is positive but tepid



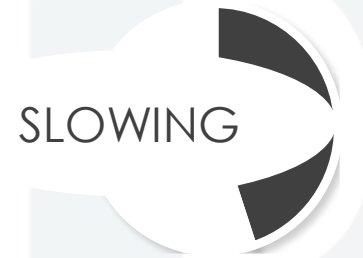
SECTOR PERFORMANCE DIVERGES

- Most of the employment-elastic sectors are either slowing or contracting
- Only 14 (30.4%) sectors expanded
- Contraction in construction during the dry season raises
- Slowdown in trade (wholesale & retail) was bookended by decline in real consumer income



13 (28.3%)

- Oil Refining
- Textile
- Electricity
- Construction
- Air Transport



19 (41.3%)

- Trade
- Crop Production
- Creative Art & Entertainment
- Telecom
- Hospitality



14 (30.4%)

- Forestry
- Metal Ores
- Rail Transport
- Water services
- Financial Services



OUTPUT GAP - POTENTIAL GDP OUTPACES REAL GDP – RECESSION GAP

- Nigeria's real GDP of 2.98% is much lower than the real potential GDP of 5.4% (EIU)
- Potential GDP Growth (5.4%) – Real GDP Growth (2.98%) = output gap (2.42%)
- Economy operating below its potential level of output, indicating underutilization of resources

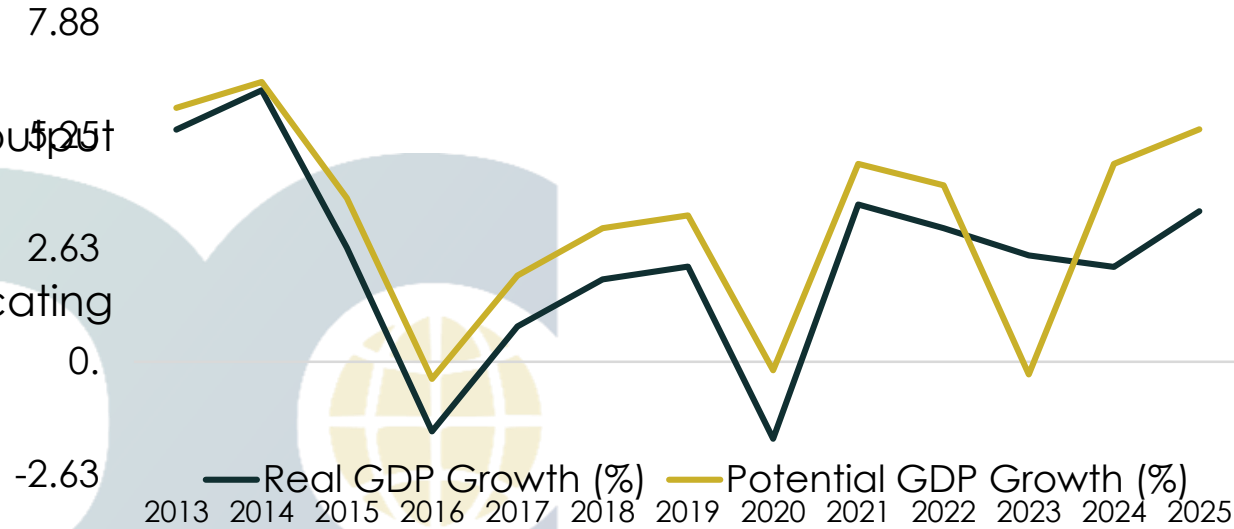
This can create;

- Inflationary pressures
- increased unemployment
- decreased consumer spending
- economic slowdown

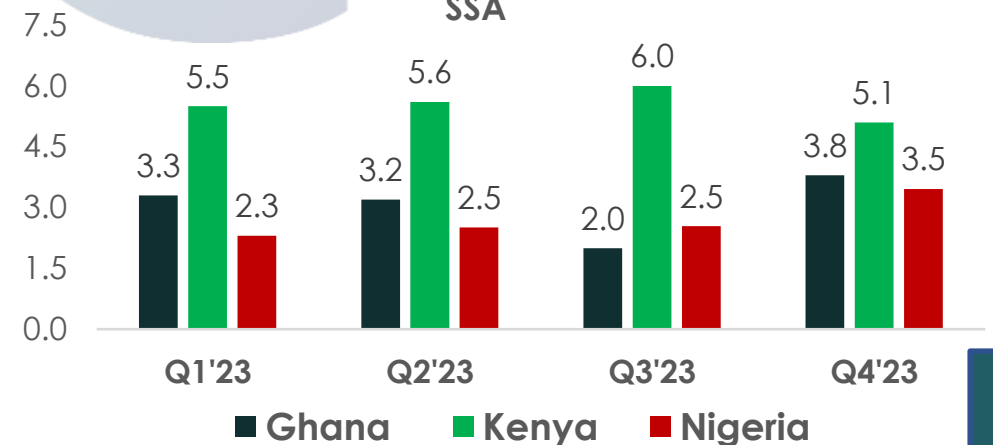
Nigeria needs massive investment in infrastructure, power, and the oil sector

- to realize its true potential and keep up with its SSA peers

Real Vs Potential Growth (%)

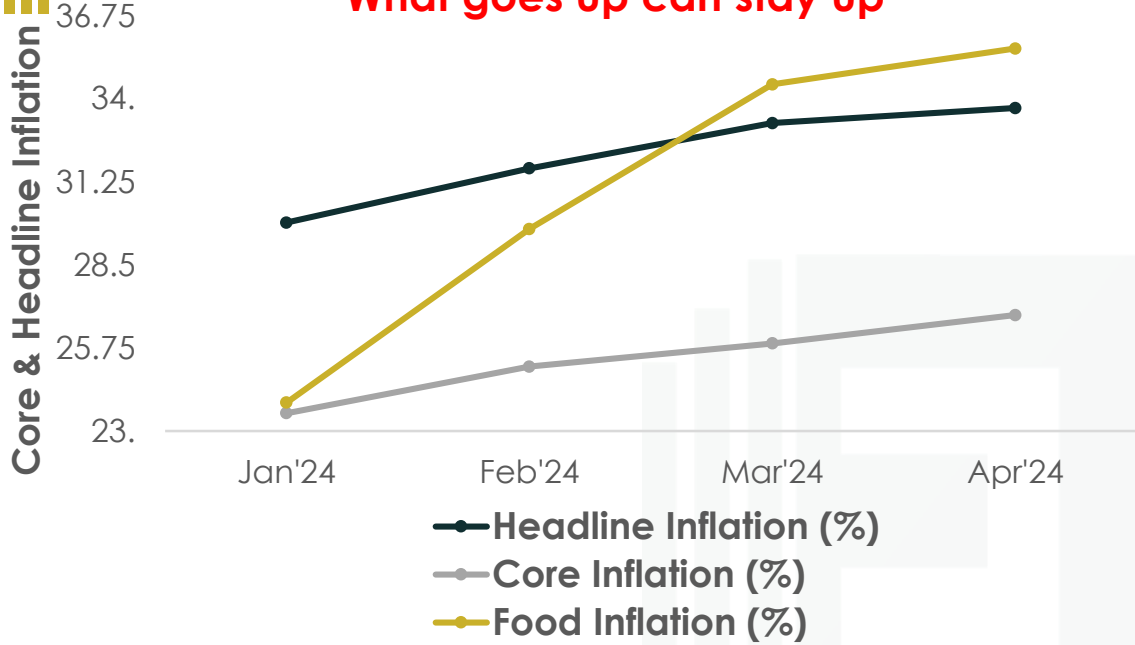


Quarterly GDP growth: Nigeria vs. selected SSA

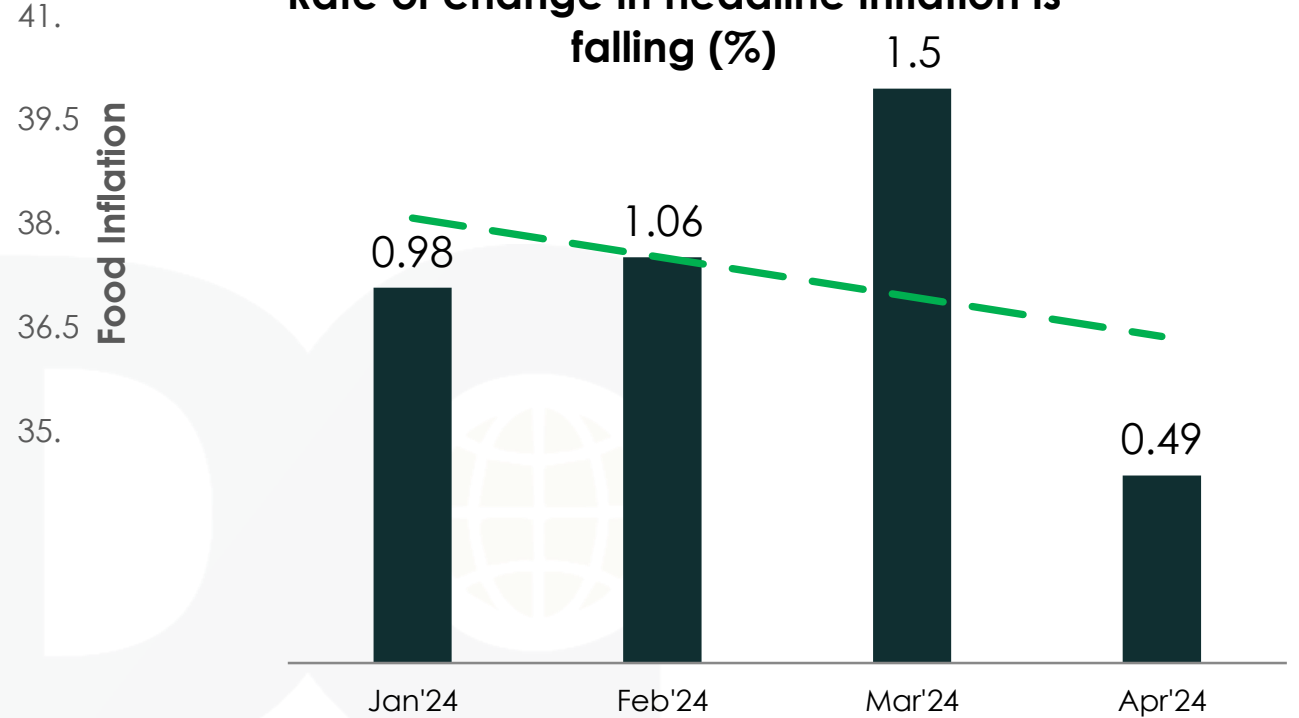


SPIRALING INFLATION

What goes up can stay up



Rate of change in headline inflation is falling (%)



33.69%

Headline inflation

- From 33.2% in March
- Driven by renewed pressure on the naira
 - Heightened food prices

40.53%

Food inflation

- From 40.01% in March
- Planting season
 - Post-harvest losses
 - Insecurity challenges
 - Poor storage

26.84%

Core inflation

- From 25.09% in March
- More due to structural factors

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DISTILLERS LIMITED**

first choice quality drinks

COST OF LIVING CRISIS

FOOD BASKET

NONFOOD BASKET



↑ **143%**

Rice (50kg)
 May 2023: N35,000
 May 2024: N85,000



↑ **68%**
Garri (50kg)

May 2023: N28,000
 May 2024: N47,000



↑ **175%**
Tomato (50kg)

May 2023: N40,000
 May 2024: N110,000

Domestic flights



**Lagos to Abuja
 (Ibom Air)**

May 2023: N38,000
 May 2024: N80,000

International flights



Lagos to London

May 2024: N1.4mn

↑ **111%**

**Minimum wage N30,000 = 20.34/\$
 N187.5/ 13 cent per day**

Transport fare (Interstate)



**Lagos to Abuja
 (ABC Transport)**

May 2023: N20,000
 May 2024: N33,500

↑ **68%**



↑ **300%**
Beans (50kg)

May 2023: N30,000
 May 2024: N120,000



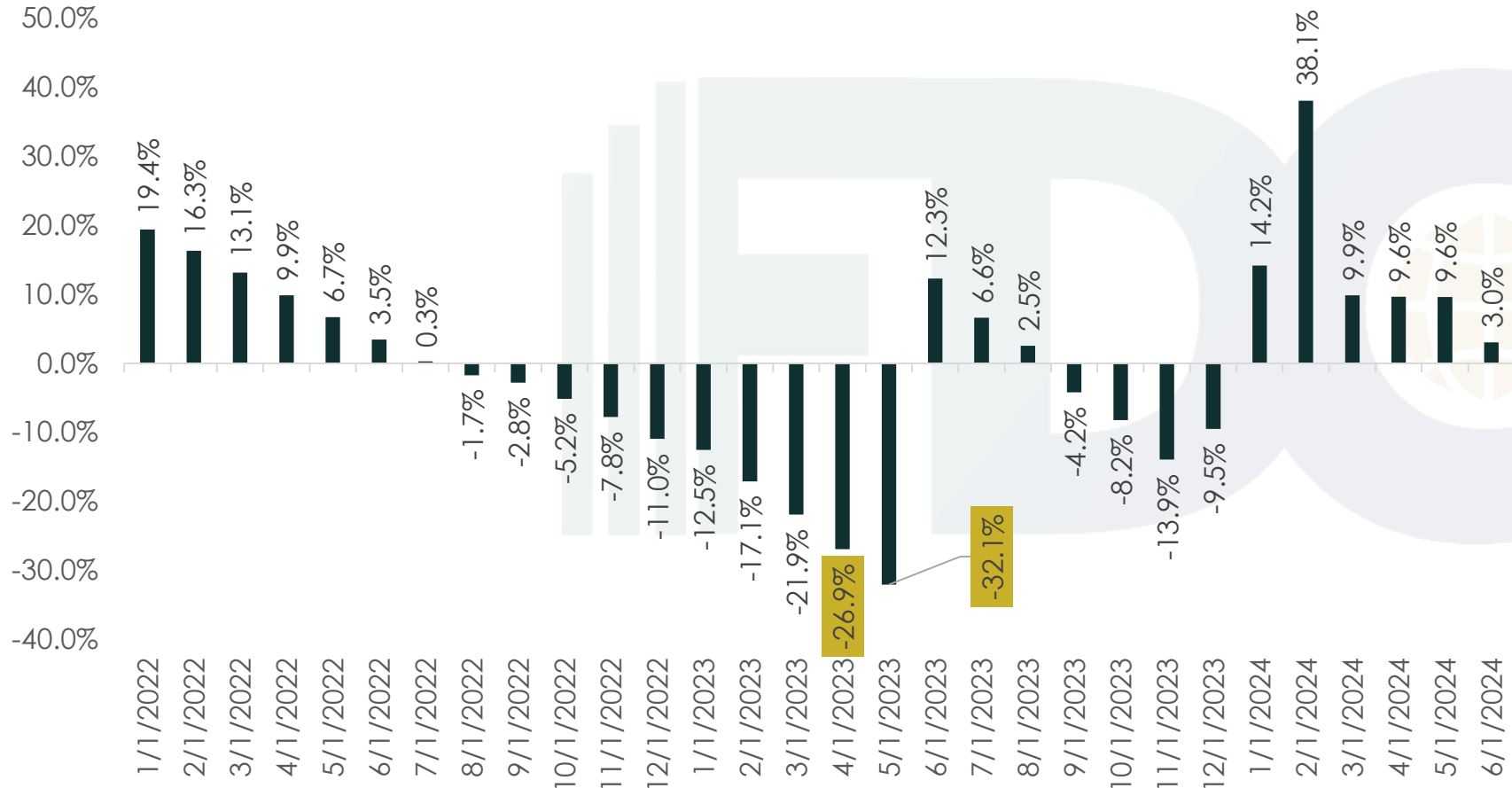
↑ **650%**
Yam (3 Tubers)

May 2023: N2,000
 May 2024: N15,000



CURRENCY MISALIGNMENT

Exchange rate Misalignment



- The recent appreciation in the currency market does not reflect market fundamentals
- Naira's best performance in April 2024 was only a charade
- Reflecting substantial overvaluation

PPP - NAIRA IS THEORETICALLY UNDERVALUED

Purchasing Power Parity			
		Jun-24	
	=N=	US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	350	0.83	421.69
Heinekin Beer (60cl)	900	1.33	676.69
Hamburger (Burger King)	8,200	5.49	1493.62
Indomie (1 unit)	200	0.66	303.03
Nestle Bottled Water (60cl 1 unit)	300	0.50	600.00
Big Loaf Bread	1,500	2.92	513.70
Corrola (2023 Model)	38,500,000	21700.00	1774.19
Irish Spring Soap (1 cake)	1,650	0.75	2200
Chicken Breasts (1 kg)	5,600	8.76	639.27
Trolley	2,500	6.02	415.28
Peak evaporated milk (pack of 10)	13,500	18.99	710.90
Uncle Ben's rice (5.44kg 1 pack)	21,240	18.29	1161.29
Eggs (30 large eggs)	4,000	3.98	1005.03
Average PPP			916.51
Naira Price at NAFEM			1476.12
PPP (%)			
Decision: Naira is		Undervalued	-37.91%
Spot Rate (Parallel)			1,478
Outcome: Compared to NAFEM rate of N1476.12/\$1, the Naira is undervalued by 37.91%			

Parallel Market Rate

N1,478/\$

Official Rate

N1,476.12/\$

PPP

N916.51/\$

Hamburger

N1,493.62/\$

- The naira is currently undervalued by 37.91%

GAME CHANGER – CBN NEW DIRECTIVE TO IOCs

- The forex market is about to witness a turnaround as the CBN continues its efforts to bring stability in the market
- Recently, the CBN permitted IOCs to sell 50% of repatriated export proceeds directly to authorized FX dealers and eligible users of foreign exchange
- This move is aimed at increasing forex availability in the market, thereby aiding in exchange rate stabilization
- The naira is likely to appreciate to N1,350-N1,450/\$ through June
- However, due to the lags, the impact is likely to be more pronounced towards the end of the year



CORRECTIVE MEASURE - OUTLOOK

Institutional Reform

Fiscal stimulus package

New money and investment

Minimum wage review

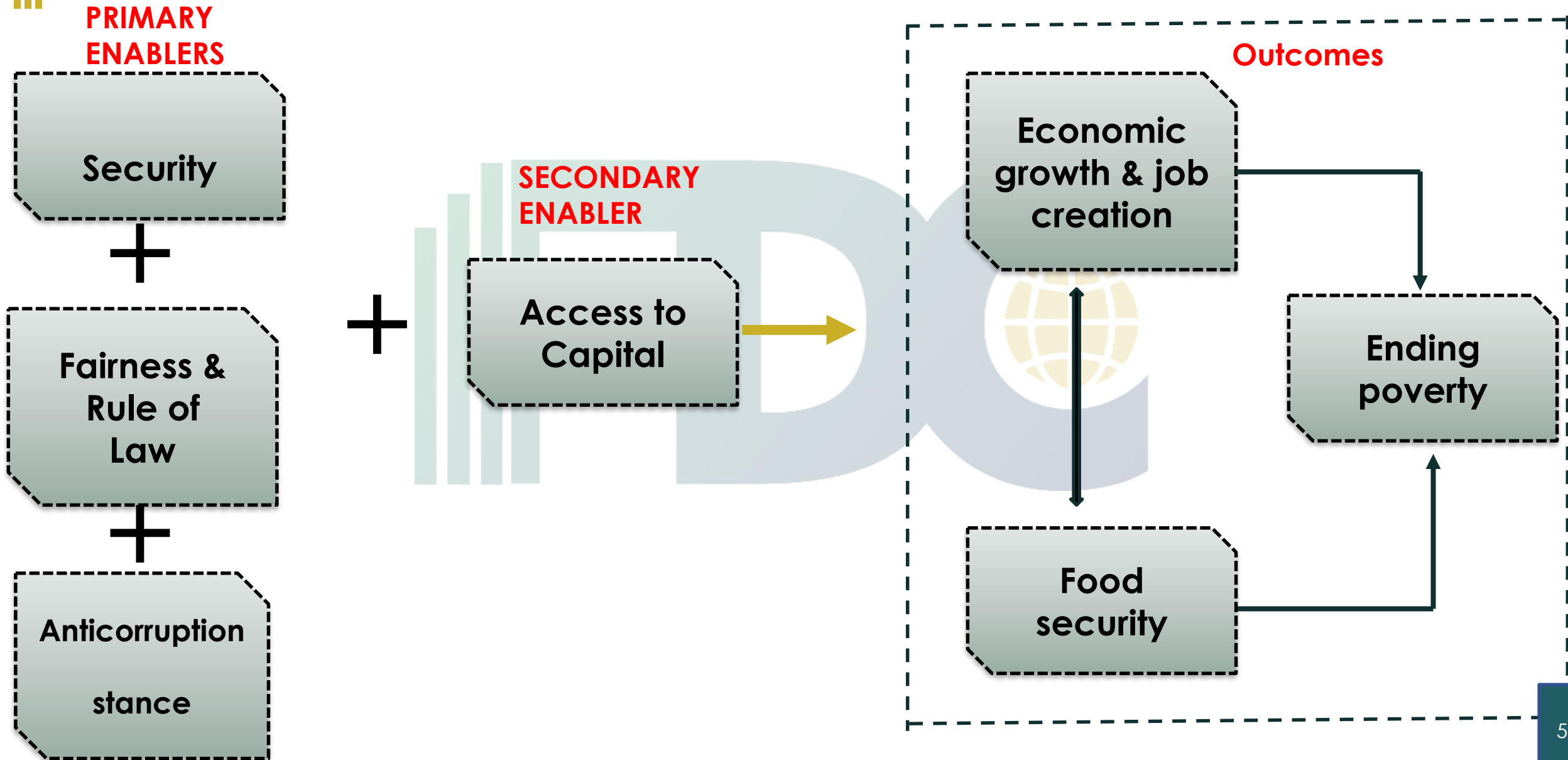
Increasing the agric production index



FISCAL STIMULUS FOR ECONOMIC RECOVERY

- Monetary policy adjustment and tightening are having unintended consequences
- Including higher borrowing costs leading to corporate mortality and bankruptcy
- FGN is expected to target the vulnerable with an accelerated revenue of N6.6trn
- The amount to disburse (N6.6trn) comes to 22.94% of the 2024 budget
- It should be accommodated in the supplementary budget
- The goal is to act as a safety net for the underprivileged and small businesses
- The proposed plan will be presented to the NEC which includes all state governors
- Amount to be expended comes to 22.94% of GDP with a multiplier effect of N18.48 trillion
- In addition to output growth is the creation of 1,628,000 new direct jobs and 3,366,000 indirect jobs in the short term

MAIN AREAS OF PRIORITY - FLOW DIAGRAM



CONSEQUENCES OF NOT PRESSING THE RESET BUTTON

Likely opportunities if we press the button

Positive

- 01 downward pressure on interest rates
- 02 Price stability
- 03 Increased purchasing power
- 04 Reduced unemployment as businesses become more profitable
- 05 Stimulate economic activity, leading to increased production and trade

Consequences if we don't press the button

Negative

- 01 Continuous increase in price instability
- 02 Food insecurity
- 03 Reduced purchasing power
- 04 Potential for social unrest
- 05 Economic recession



NEW MINIMUM WAGE – TOUGH BARGAINING

- Minimum wage review is a tough bargaining and acrimonious debate, but we are getting close the finish line
- In real terms, purchasing power may remain unchanged or even decrease

2019 N30,000 = \$75

US cumulative inflation 2019 -2024 = 22.55%

Minimum wage
2024 $\$75 + \16.875 (22.55% of \$75) = \$91.875

Therefore \$91.875
= N125,000

Minimum wage fair value becomes;
N125,000

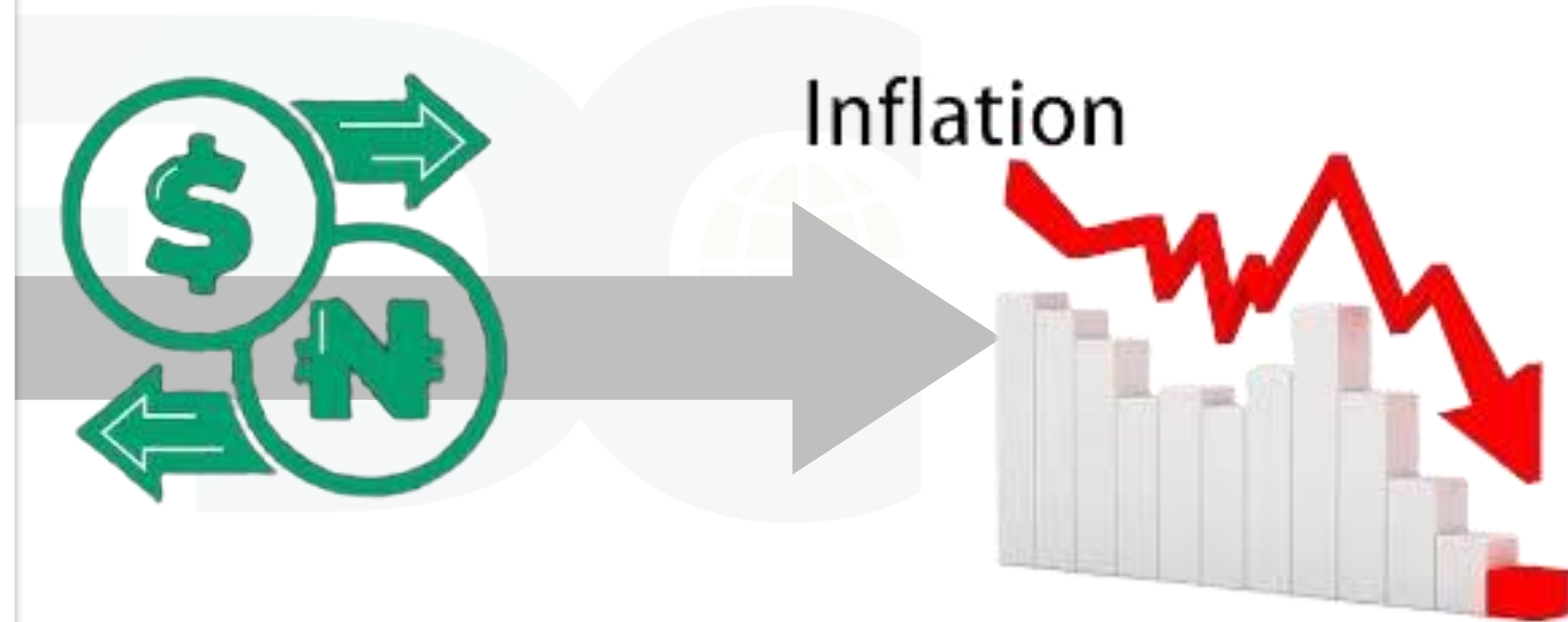
- Compensated for exchange rate depreciation and US inflation
- Can private sectors/informal sectors and state government pay?



IF OUTCOMES ARE POSITIVE AND NAIRA APPRECIATES

Impact on inflation

- Reduces the cost of imported inputs for domestic production
- Cost of living crisis for consumers decreases
- Potentially leads to increased consumer spending, which could stimulate economic activity
- Leads to lower prices for imported goods
- Reduces the cost of imported inputs for domestic production



- A 1% appreciation in exchange rate significantly reduces inflation rates by **-0.038%**
- Exchange pass-through can import inflation from one country to another through the general price level

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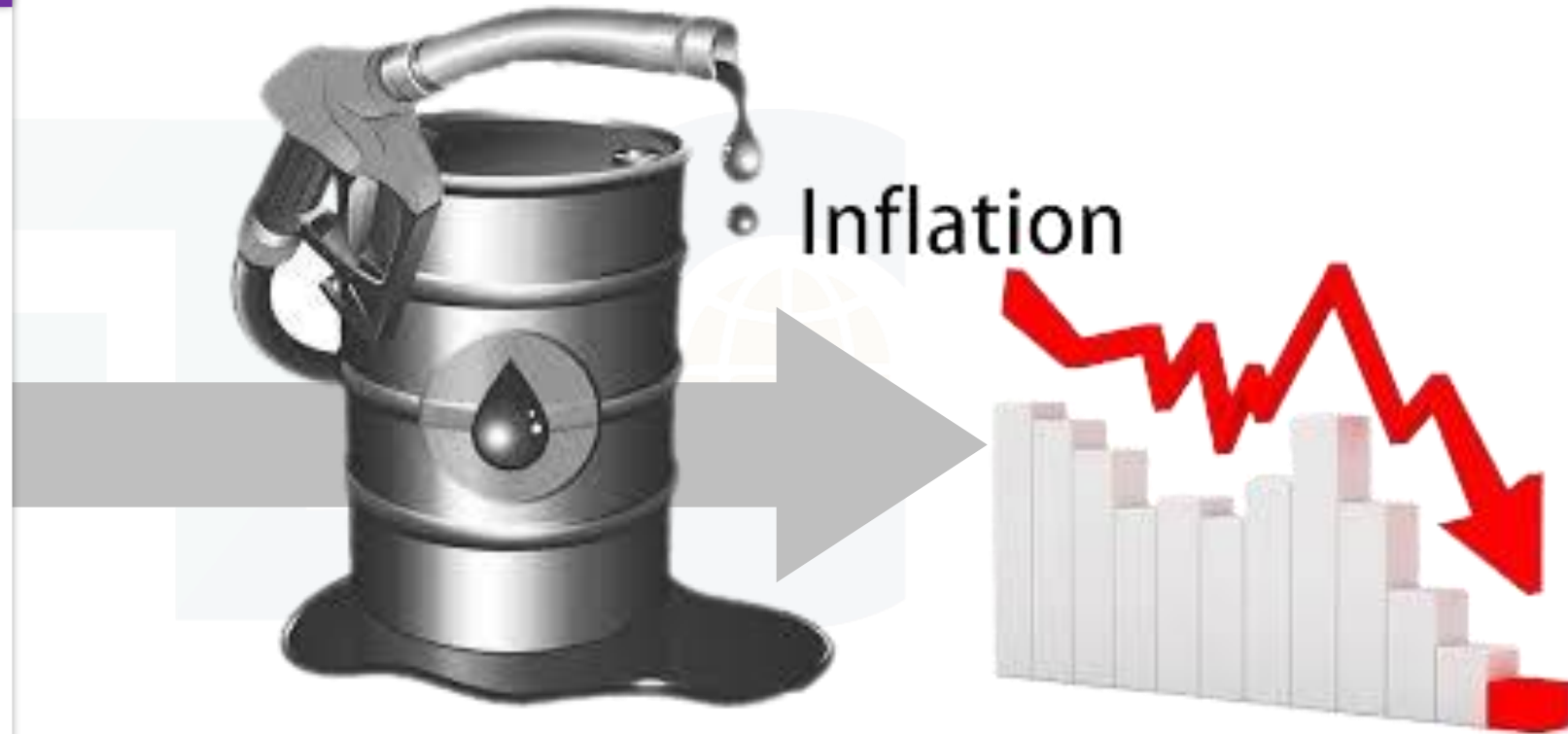
CHOOSE QUALITY, CHOOSE DANGOTE SALT

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IF OUTCOMES ARE POSITIVE AND DIESEL PRICE DECLINES

Impact on inflation

- Reduces transportation costs for businesses, leading to lower production and distribution costs
- Leading to lower prices for their products
- Frees up disposable income, which consumers may choose to save or spend on other goods and services
- Consumers will adjust their behaviour accordingly leading to lower inflation expectations



- A 1% decrease in diesel price significantly reduces inflation rates by **-0.60%**
- Diesel is 30% of firm's production cost which influences the general price level



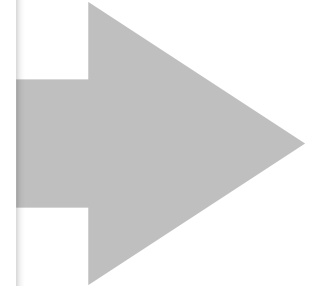
IF OUTCOMES ARE POSITIVE AND INFLATION DECLINES

Impact on Non-performing loan

- Leads to decreased borrowing costs for consumers and businesses
- Potentially reducing financial stress on borrowers
- Improved asset quality for banks, as fewer loans become delinquent or default
- Leads to lower default rates and improved loan performance

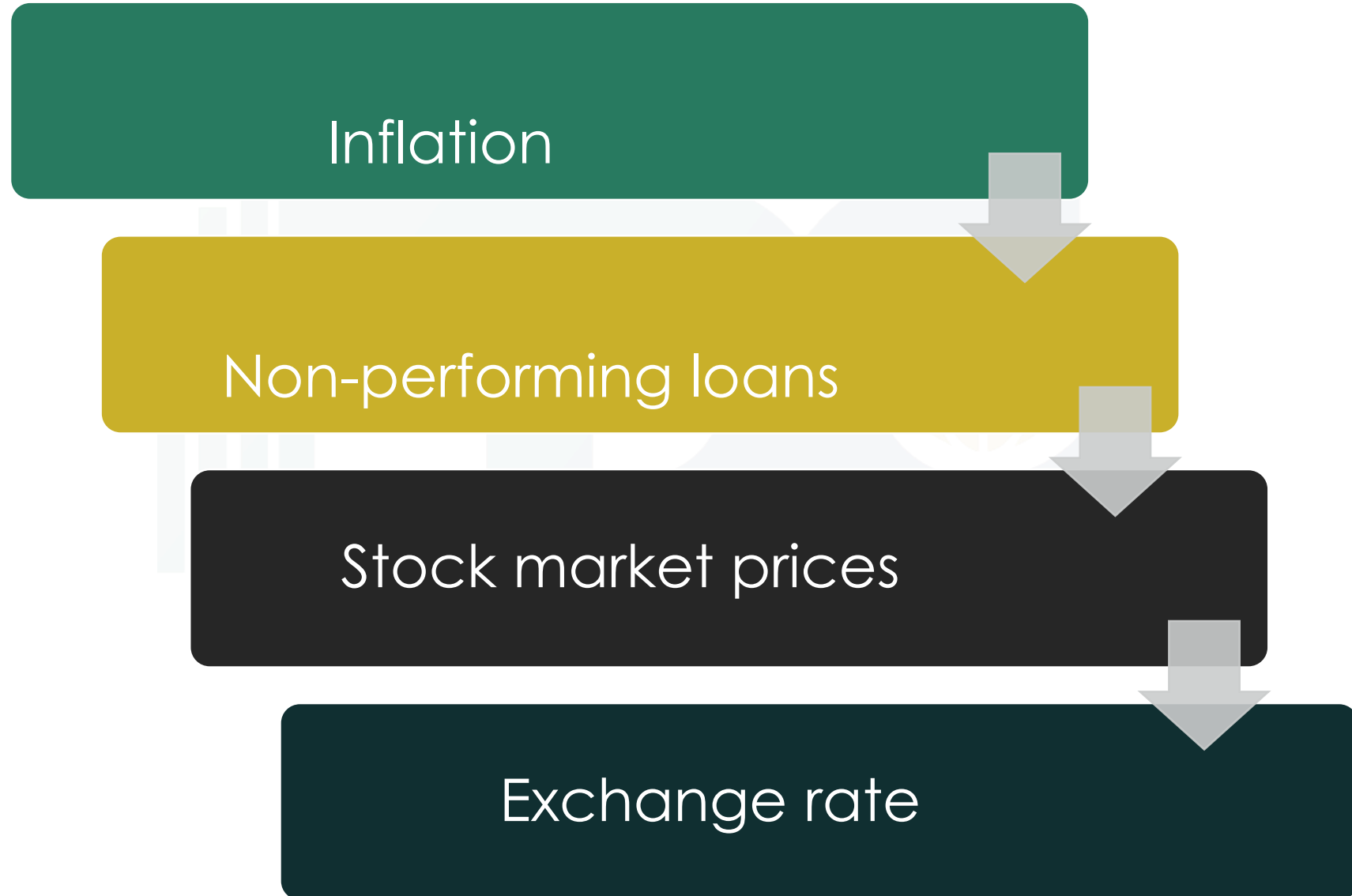
Impact on Bank performance

- Positively impacts asset quality by improving borrowers' ability to service their debts
- Reduced operating costs for banks
- Boosts investor confidence in banks, leading to higher stock prices and improved valuations
- Reduced demand for loans from both businesses and consumers
- When interest rates decline, the net interest margin can compress, reducing banks' profitability





WHAT IS THE IMPACT OF HIGH-INTEREST RATE ON THE ECONOMY

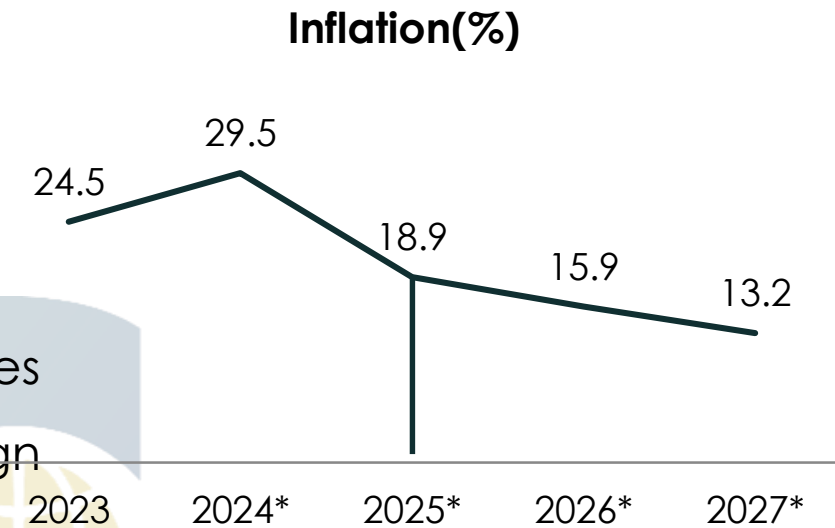


INFLATION VS INTEREST RATE NEXUS

$$\text{INFL} = F(\text{INTR})$$

$$\text{INFL} = -0.40 \text{INTR}$$

- Interest rate inflation differential shows that once interest rate increases and marginal propensity to save increases the demand for foreign currency increase
- A 1% increase in interest rate could lead to -0.40% decline in inflation rate
- I.e., to reduce inflation by 2% will require a cumulative interest rate hike of 5%p.a
- Interest could tame inflation through savings, consumption, credit, and currency channels
- May not be sufficient to address cost-push and structurally embedded inflation



Where;
INFL= Inflation
INTR= Interest rate

INTEREST RATE VS NON-PERFORMING LOANS

Interest Rate Effect on Banks Non-Performing Loans

Changes in interest rates influence the level of non-performing loans

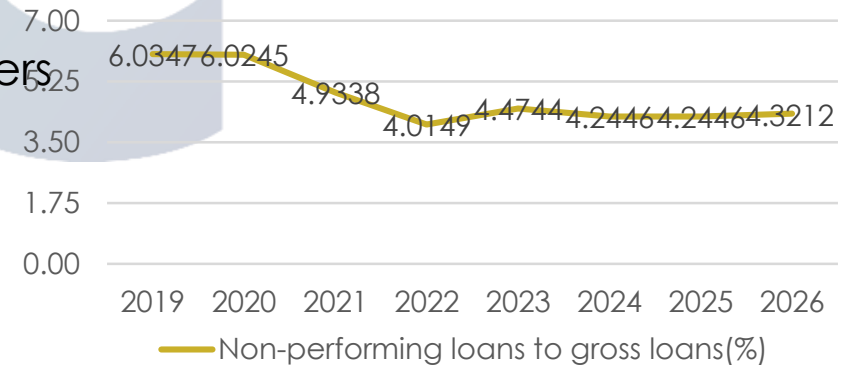
Thus; $NPL = f(INTR)$

$$NPL = 0.006 INTR$$

Where;
 NPL= Non-performing loan
 INTR= Interest rate

- A 1% increase in interest rate significantly increases non-performing loans by 0.6%
- It suggests that higher interest rates can put financial stress on borrowers
- This strain can lead to an increase in non-performing loans
- Banking profitability will fall sharply as impairment increases
- Interest rate impact NPLs by 5%

Non-performing loans to gross loans(%)



INTEREST RATE VS STOCK MARKET PRICES

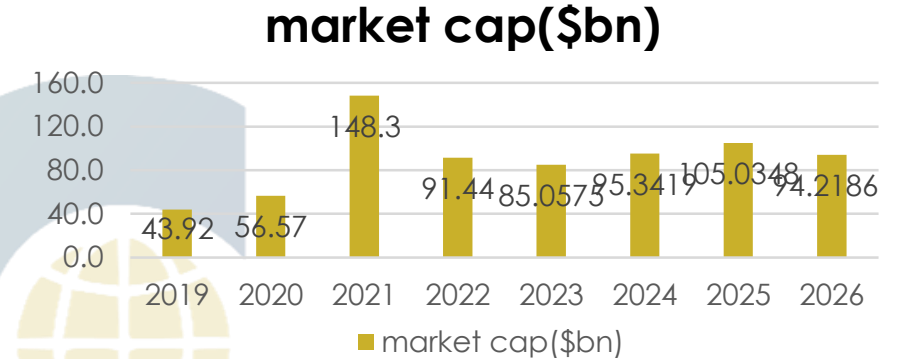
Where;
SP= stock prices
INTR= Interest rate

There is an inverse relationship between stock prices and interest rate

Therefore; $SP = f(INTR)$

$$SP = -0.017 INTR$$

- A 1% increase in interest rate will lead to 0.017% decline in stock prices
- Higher interest rates have a negative impact on stock prices
- This higher discount rate reduces the present value of those future cash flows
- Leading to a decrease in the fundamental value of stocks
- At this point, people move their funds to fixed-income assets



INTEREST RATE VS IMPACT ON EXCHANGE RATE

Changes in interest rates influence the level of exchange rate within an economy

Thus; $EXR = f(INTR)$

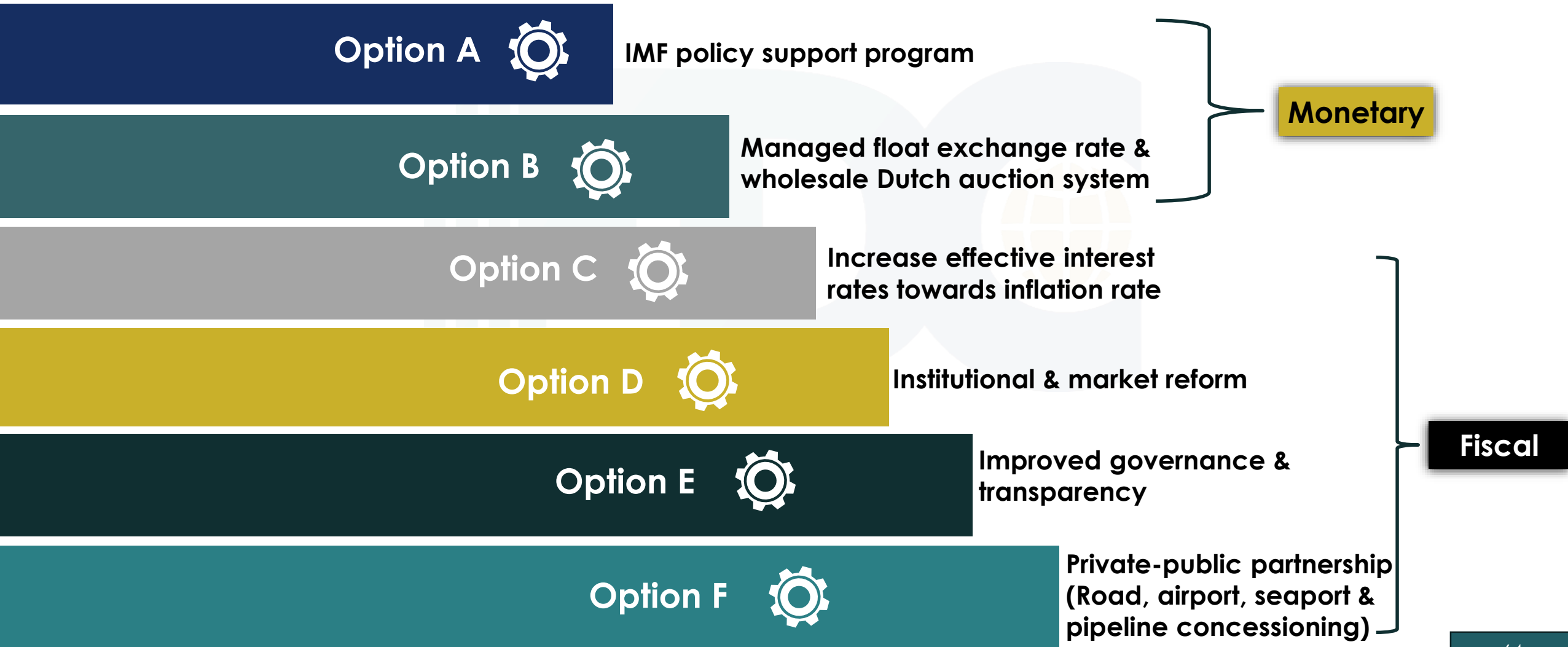
$$EXR = 0.12INTR$$

Where;
EXR= exchange rate
INTR= Interest rate

- A 1% increase in interest rate will lead to an appreciation in exchange rate by 0.12%
- Higher interest rates tend to attract foreign investment because they offer better returns
- As a result, there is increased demand for the country's currency with higher interest rates
- This increased demand causes the currency to appreciate relative to other currencies



WHAT NEXT? POLICY RECOMMENDATIONS





KEY GLOBAL TRENDS



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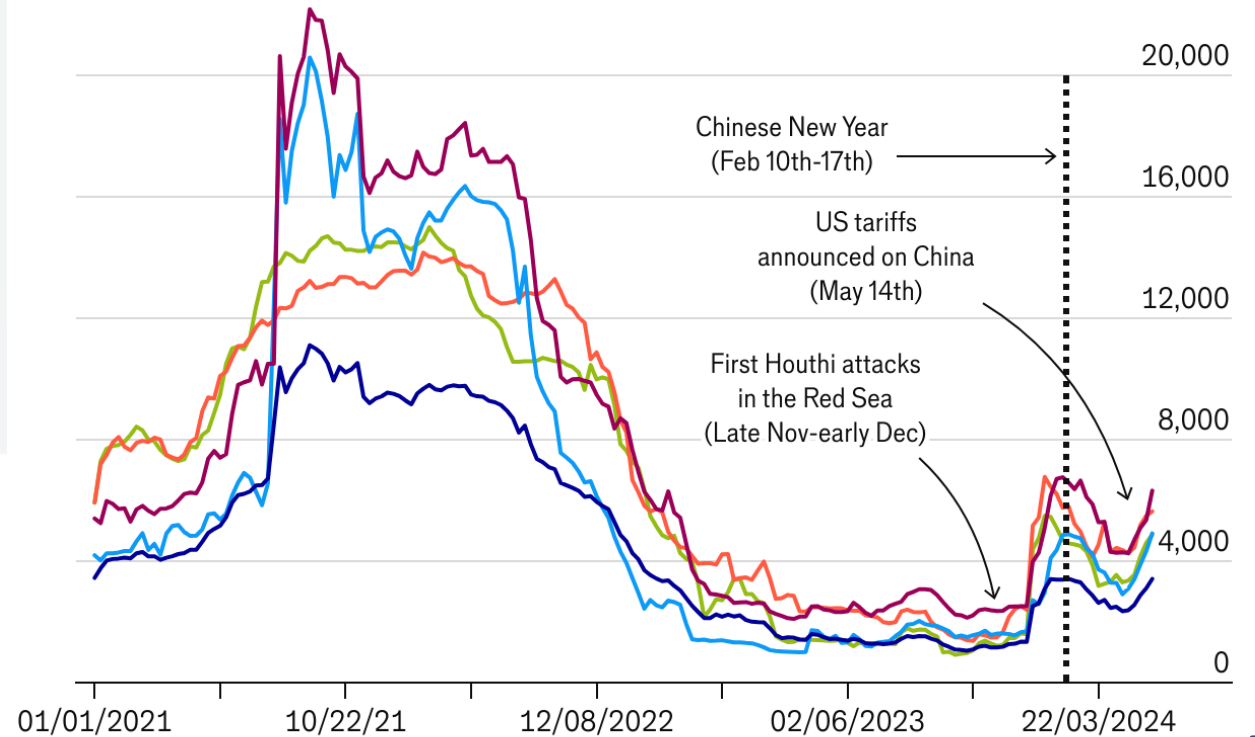
FREIGHT RATES ARE CLIMBING AGAIN - EIU

- Global sea freight rates are rising due to increased demand.
- Recovery in Asian export growth is a major driver of price trends.
- Expect sea freight prices to peak in the third quarter of 2024.

Global sea freight rates are ticking back upwards after a brief period of stabilisation

US\$/40-ft equivalent containers

— Global — China/East Asia to Mediterranean — China/East Asia to North America (west coast)
— China/East Asia to North America (east coast) — China/East Asia to northern Europe



Source: Freightos Baltic Index; EIU.

Data include a statistical adjustment made by FBX in mid-2021.
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Volume
\$20
Point Value
\$0.0003
Auto Close

BUY

SELL

at opening

HIGHER
50%

5s

1d

3h

30m

15m

5m

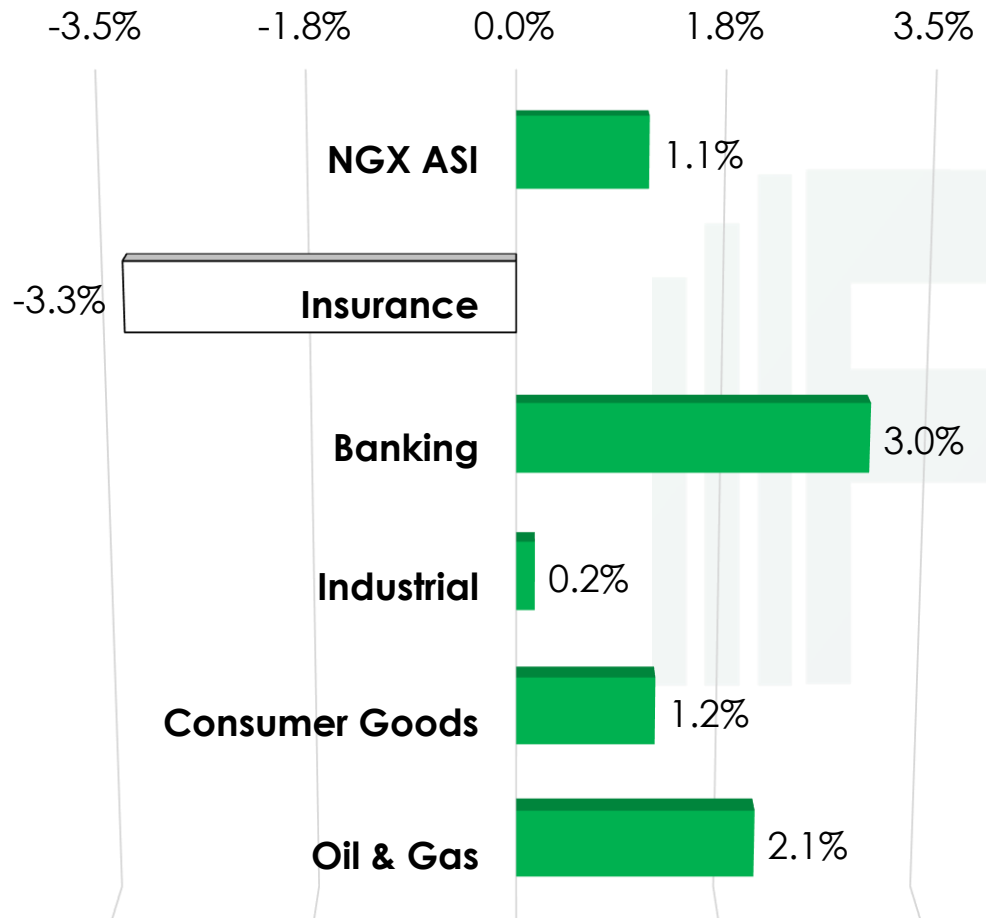
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STOCK MARKET PERFORMANCE & OUTLOOK

NGX PERFORMANCE

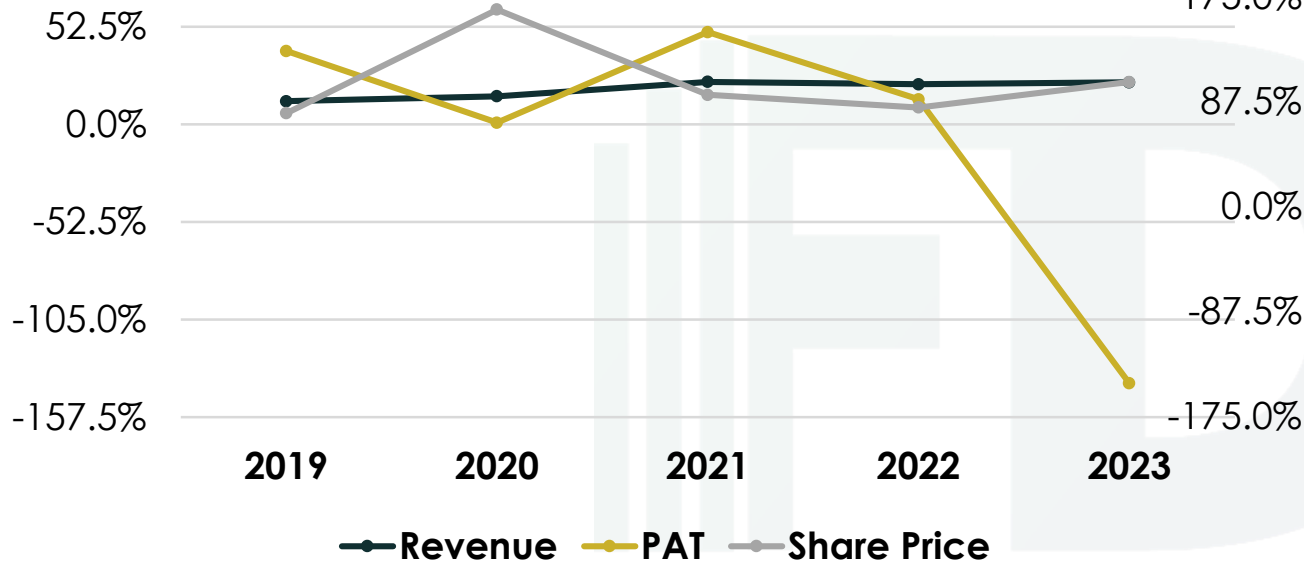


- The Nigerian equities market manages to tilt back to positive territory to close the month
- Following weeks of consecutive losses
- The gains were buoyed by buying interest in banking stocks
- Only the insurance sector recorded a loss due to profit-taking activities

NIGERIAN TELECOMS EARNINGS AND STOCK PRICE MOVEMENT

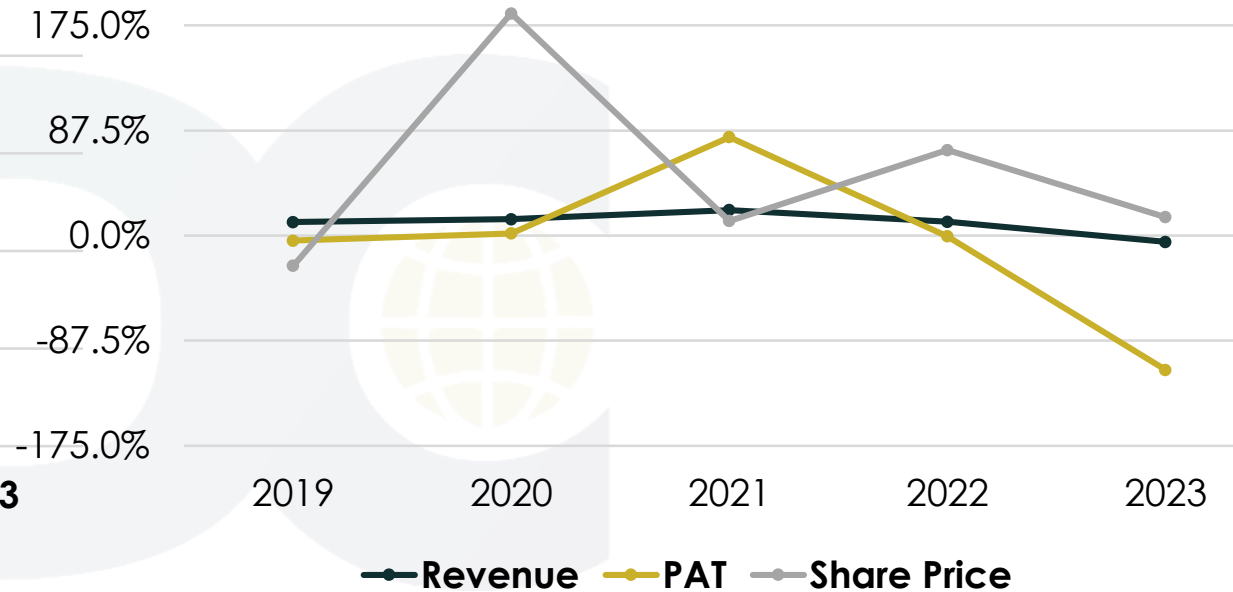
MTN

Revenue, PAT and Stock Prices



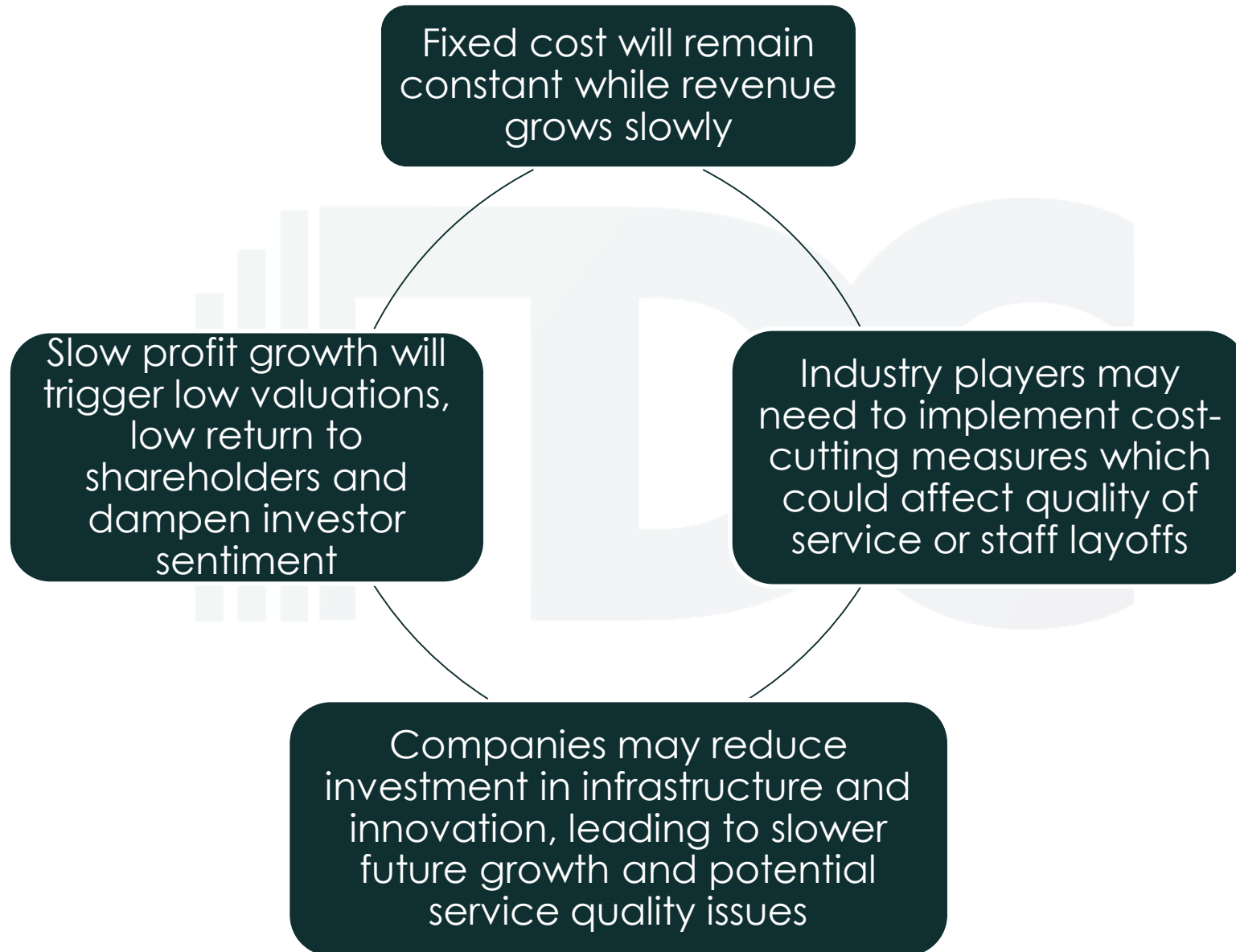
airtel
262.5%

Revenue, PAT and Stock Prices



- Industry players have consistently shown positive top-line performance over the years but have experienced slower growth in the last two years.
- Bottom-line performance hampered by huge FX losses and squeezed margins
- Slow pace of profit growth gradually weighs on shareholder's value and investor sentiment

TELECOM REVENUE – IMPACT ON MARGINS AND STOCK PRICES

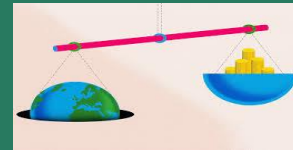


NIGERIAN STOCK MARKET OUTLOOK- JUNE 2024



Interest rates

- High-interest rate will trigger high borrowing costs and weigh on corporate profits
- High yields on fixed-income instruments will remain a more attractive alternative for investors
- Speculative investors will exit the stock market after dividend payments to hunt for higher yields



Economic Vulnerabilities

- High rate of inflation remains a major challenge for Nigerian companies and their operating margins
- FX woes will bedevil Nigerian companies and profits due to huge finance cost and high cost of goods
- FX volatility will dampen investors' interest in local stocks



Company-specific Activities

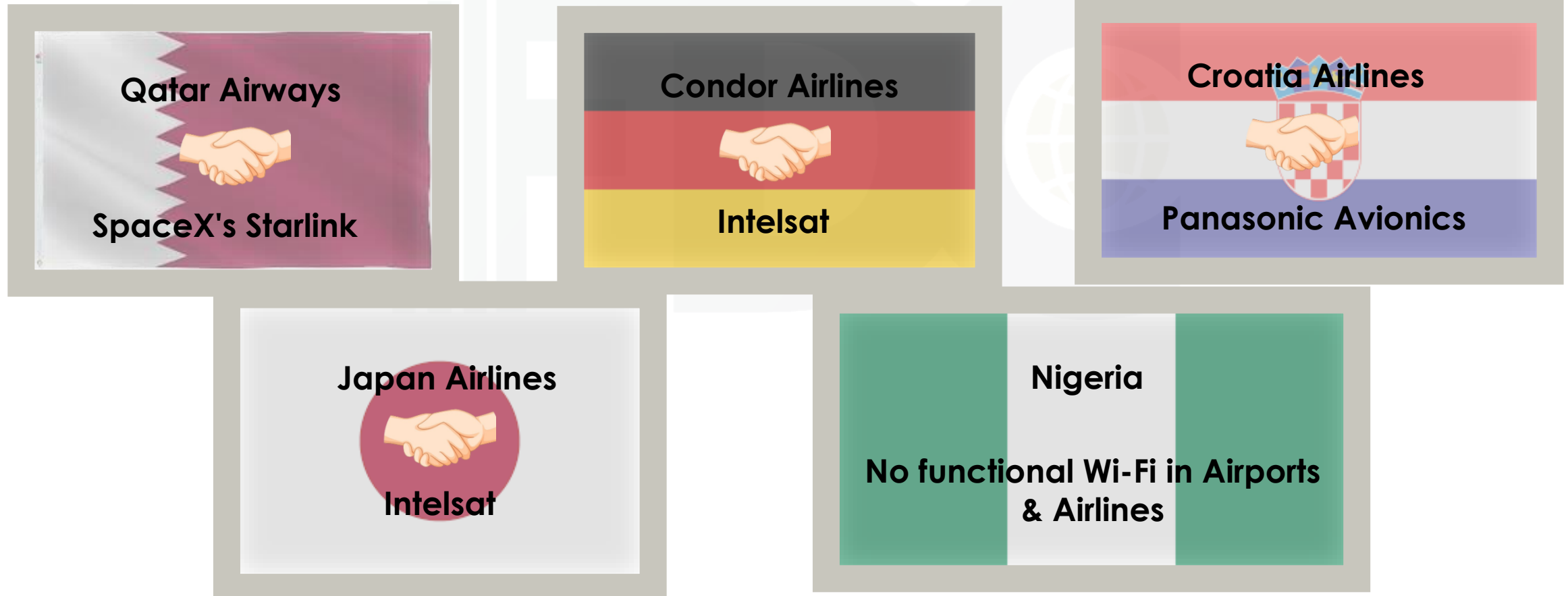
- Capital raising activities will flood the Nigerian equities market in June
- Companies affected by huge FX losses and loss of shareholder value will recapitalize
- There will be greater supply of shares leading to a general share price decline



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DOMESTIC UPDATE- BUREAUCRACY IMPEDES PUBLIC INFRASTRUCTURE

- FG plans to review the concession of the two major airports to ensure transparency
 - Estimated revenue from the concession of the two airports is over \$4 billion
- Government also pledges more support for local airline operators
 - to facilitate aircraft acquisition under dry lease agreements.
 - to invest in airports and MRO infrastructures

**Swift concessions of the airports
will unlock the potential of
Nigeria's aviation industry**

Plans = A+
Results = ?

REGIONAL UPDATE - FOREIGN INTEREST REMAINS STRONG

SAUDI ARABIA

Nigeria & Saudi Arabia have agreed to resume cargo operations between the 2 countries

UNITED ARAB EMIRATES (UAE)

Emirates Airlines plans to resume services to Nigeria on October 1, 2024

KENYA

Kenya Airways increases flight frequencies to Lagos from 7 to 10

This will lead to

- ❖ improved logistics,
- ❖ faster delivery times, and
- ❖ expanded trade opportunities

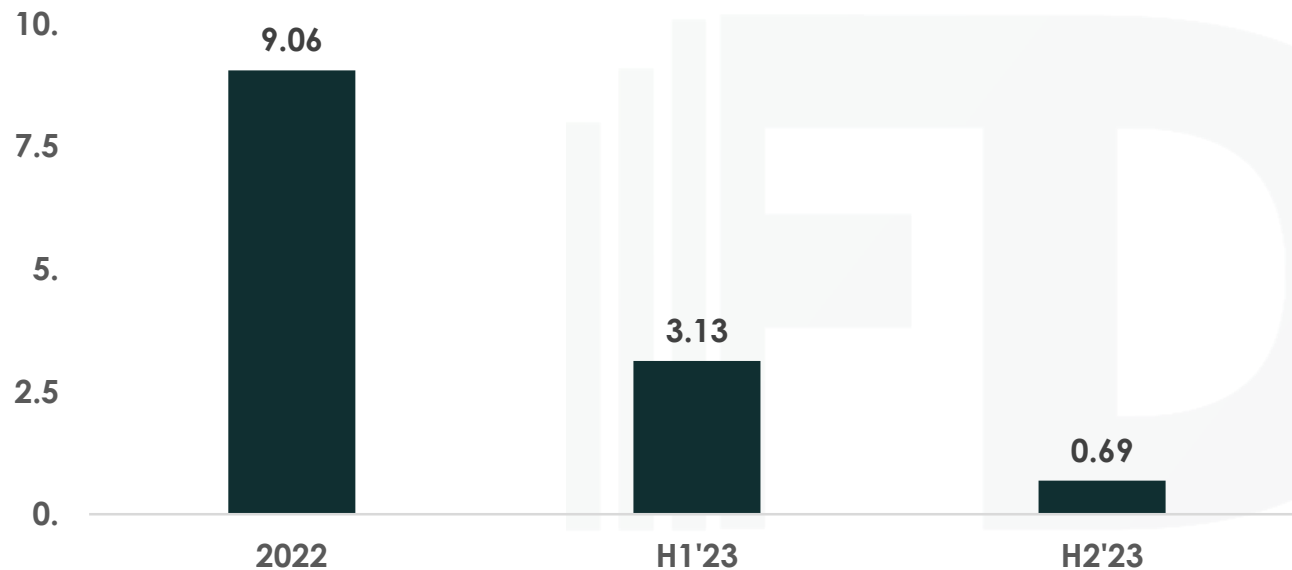
- ❖ Aided by clearing of forex backlogs and international airlines' profit repatriation

- ❖ To increase travel between Kenya and Nigeria and tap Nigeria's 200mn-population market

TOURISM UPDATE – MEDICAL TOURISM SPENDING FALLS BY 58%

- In 2023, Nigerians spent \$3.82 million on foreign healthcare services, down from \$9.06mn in 2022

Medical Tourism Spending (\$mn)



- Exchange rate depreciation made foreign medical treatment less affordable

- Reduced medical tourism may lower the number of Nigerians traveling abroad.
- High outflow of funds for medical tourism can be redirected to improve domestic healthcare services.
- Better healthcare infrastructure can reduce the need for foreign treatment.
- Enhanced services can also attract inbound medical tourists.



OUTLOOK

- Ongoing reforms in the aviation sector are favorable; however, the impact may be delayed
- The airports' concessions are expected to occur in the near term and will spur investment in the industry
- Exchange rate stability and forex market transparency will boost investor sentiment
- High cost of living and elevated inflation would continue to weigh on demand for air travel
- However, the minimum wage review and fiscal stimulus could bolster domestic travel
- As the economy consistently grows in the medium term, alongside transformation in the sector and increasing consumer purchasing power, Nigeria will be a regional central hub for business and leisure tourism



MARKET PROXIES



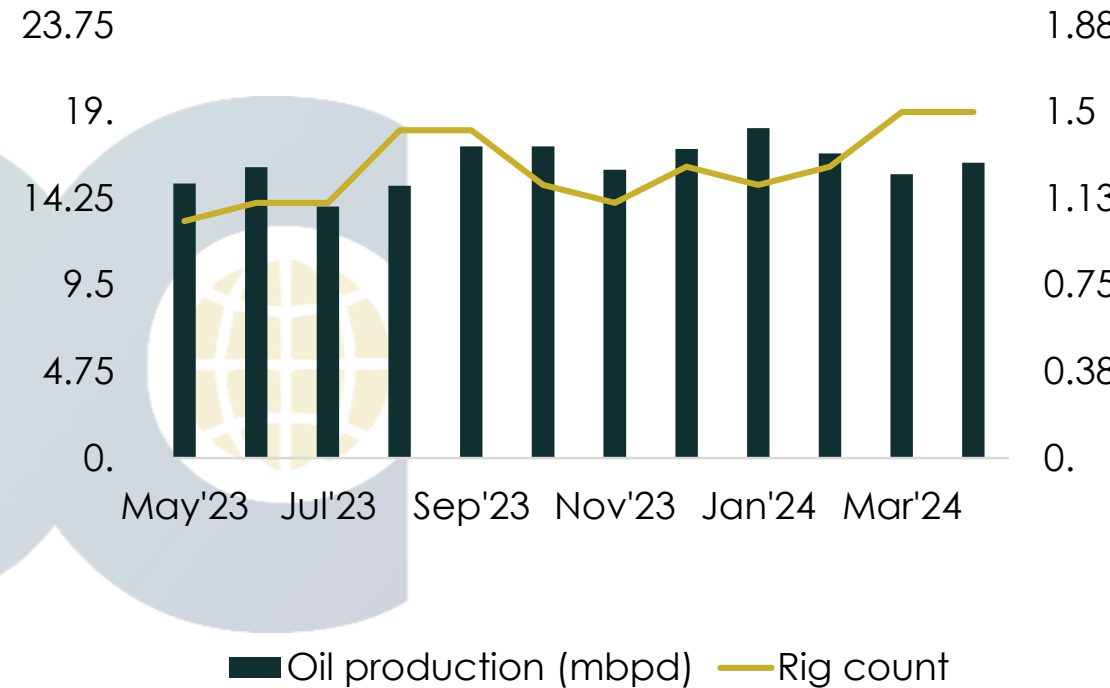
DOMESTIC UPDATES

- PMI has increased to 52.1, signs of expansion in Q2
- Transaction flows are singing in line with activity growth
- Banking system liquidity has fallen sharply
- The short position in the interbank market rose to N89.68bn negative
- Overnight rates stayed flat at 30-32%p.a.
- The T/Bill rates have been relatively flat at 20.7% p.a. and 17% for 180 days
- Oversubscription rose to 311.12 times on average in the month of May

OIL PRODUCTION

- Nigeria's oil production marks the first uptick in April after two consecutive months of decline in February and March 2024
- The operational oil rig count remained unchanged at 19
- Nigeria tops Africa's oil production with 1.28mbpd in April
- Oil production increased by 4.07% to 1.28mbpd from 1.23mbpd in March
- The main drivers of the increase were the 20% and 6% output rises at the Bonga and Qua Iboe terminals, respectively
- This increase could continue in May due to the resolution of the Trans Niger pipeline issues and oil company maintenance

Domestic Oil Production (mbpd)



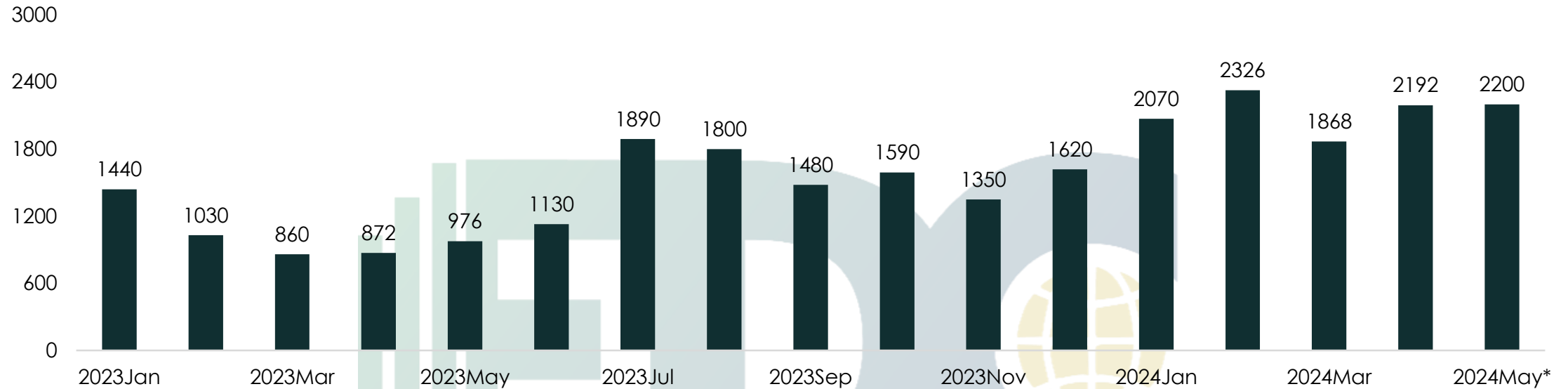
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EXCHANGE RATE GAINS TO INCREASE FAAC REVENUE

FAAC (N'bn)



- FAAC revenue up by 17.34% to N2.19trn in April from N1.87trn in March
- Supported by exchange rate gains and increases in CIT revenue, excise duty & oil royalties
- About 55% (N1.21trn) of the total revenue was disbursed to the three tiers of government in May
- An increase of 8%, from N1.12trn in the previous month
- Rise in FAAC to support state & local government financial obligations



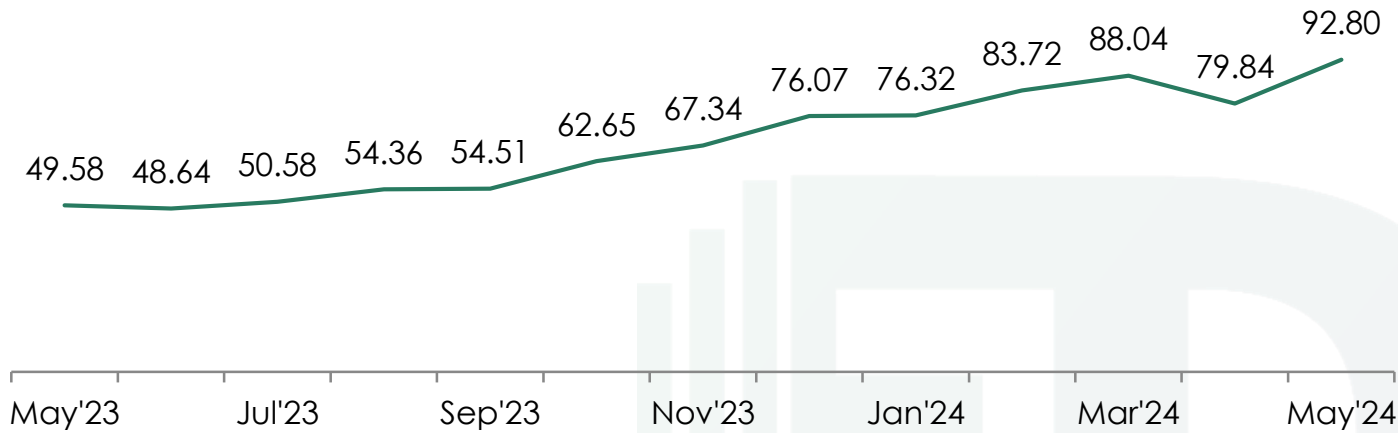
SHIPS AWAITING BERTH

Ports	Apr'24	May'24
Lagos-Apapa	1	5
Lagos-Tincan	9	2
Calabar Port	6	1
Warri Port	4	11
Onne Port	1	1
Rivers Port	1	0
Lekki Deep Sea Port	1	6
Total	23	26

- The total number of ships awaiting berth rose by 13% to 26 in May from 23 in April
- Warri port was the most congested port in May
- As the exchange rate depreciation drives trade activities

FESTIVE DEMAND DRIVES VALUE OF TRANSACTIONS NORTHWARDS

Value of Transactions (N'trn)



Mode of Payment	Apr'24 (N'bn)	May'24 (N'bn)	Change (%)
NIP	75,322.04	87,484.03	16.15
POS	811.77	868.66	7.01
NEFT	3,422.94	4,140.96	20.98
CHEQUES	290.36	308.72	6.32
Total	79,847.11	92,802.38	16.23

- The value of transactions across the payment channels increased
 - Summing up to a total of N92.80trn in May
 - A 16.23% increase compared to N79.84trn in April
- The uptick in the value of transaction reflects increased spending ahead of the Muslim celebration in June
- The increase was supported by the convenience and speed of digital payments channels
- We expect total value of transaction to increase further in June due to the aforementioned reasons

A pair of brown-rimmed glasses is placed on a white document. Below the glasses, there are three stacks of gold coins of varying heights. In the bottom right corner, a portion of a white keyboard is visible. The document features a blue bar chart at the bottom and a red line graph that trends upwards. A semi-transparent grey banner is overlaid across the middle of the image, containing the text 'POLITICS AND ECONOMY' in white, uppercase letters.

POLITICS AND ECONOMY



POLITICS – IT'S THE ECONOMY, STUPID? (JAMES CARVILLE)

- The Federal administration is finding out that it is all about the economy
- The macroeconomic scorecard after one year did not paint a pretty picture
- The indicators were more negative than positive
- The outlook for the next 2 quarters is looking marginally positive
- There are calls for an overhaul of the cabinet
- As well as institutional reforms
- The president is going to unveil a stimulus plan and an economic growth package
- The lags between policy and impact have become longer
- Taking its toll on the favorability rating of the APC

POLITICS – IT'S THE ECONOMY, STUPID (JAMES CARVILLE)

- The increasing insecurity is stoking inflation
- The cost-of-living crisis is spreading like wildfire
- The president will make a national speech on June 12
- Will attempt to take back control of the narrative
- The economic reset button will need to be pressed
- The results in the next 180 days have to be tangible
- The election in Ondo State will be characterized by voter apathy
- The APC and incumbent are odds on favorite to win
- In Edo State the Incumbent party is deploying significant resources to community projects



POLITICS – IT'S THE ECONOMY, STUPID (JAMES CARVILLE)

- The Incumbent party has a well-ordered ground game
- There is significant pushback against the PDP and APC
- The ordinary man has become very irritable
- The first mover initiative of the 70K minimum wage in Edo State was well-received
- Zoning, Royalty, resentment, and the non-indigene population are game changers in favour of the Labour Party
- After the off-cycle elections, the realignment of political forces will intensify
- The Northern Zones are pushing back against the Southwest control of political and economic power
- The Southwest will concede some of this control and reach out to the minorities as a counterbalance
- Federal overreach in Kano may be a flash point that needs careful management





JUNE OUTLOOK

- Inflation in May will rise marginally to 34% and food inflation up to 41%
- The CBN will maintain the status quo at the July meeting
- The stimulus package and growth plan will be unveiled - about N6 trillion with a multiplier of 2.8
- The price of diesel will stay flat at N1,100 per liter, thanks to the Dangote refinery
- The Naira will trade at N1350-1450 through June
- Effective interest rates on loans will remain high at 32%p.a.
- The stock market is expected to continue its correction, losing at least 5% of its value



JUNE OUTLOOK

- International airfares out of Nigeria will fall in the face of fierce competition
- Middle-East carriers Qatar and Turkish, and east-African airlines will undercut the market ahead of Emirate's re-entry
- Expect vacancy factors in real estate in Ikoyi, Victoria Island, and Lekki to fall
- As business activity expands and growth kicks in.
- The same trend will emerge in Abuja and Port Harcourt



Power is the ability not to have to please
-Elizabeth Janeway

It is impossible to enjoy idling thoroughly unless one has plenty of work to do
- Jerome K. Jerome

I am a city boy. When I hunt, it's for a parking place, when I fish,
it's for compliments
- Jon carroll

Behind every failure is an opportunity somebody wishes they had missed

- **Lily Tomlin**

The ability to sleep with your eyes open is an essential skill for those in middle or upper management

- **Ralph Noble**

Let your enemies be disarmed by the gentleness of your manner, but at the same time let them feel the steadiness of your resentment

- **Lord Chesterfield**



When speculation has done its worst, two and two still make four

- **Samuel Johnson**

Saving is a very fine thing. Especially when your parents have done it for you

- **Winston Churchill**

I am ashamed to confess that I have nothing to confess

- **Fanny Burney**



Money: the one thing that keeps us in touch with our children
- **Gyles Brandreth**

In politics, what begins in fear usually ends in failure
- **Samuel Taylor Coleridge**

Money may not buy happiness, but it can damn well give it!
- **Freddie Mercury**



Reality is what doesn't go away when you stop believing in it

- **Philip K. Dick**

Politicians are like nappies. They should be changed regularly for the same reason

- **Patrick Murray**

A good listener is a good talker with a sore throat

- **Katherine Whitehorn**



Politics without compromise is like a car without a gear box: it can look quite elegant but you won't get anything out of it

- **Neil Kinnock**

A flaw in the human character is that everybody wants to build and nobody wants to do maintenance

- **Kurt Vonnegut**

*Thank
you*



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Lagos, Nigeria
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