

# WHISPERS

JUNE 26, 2024 | VOLUME 14 ISSUE 13



WHEN WE SPEAK, THE WORLD UNDERSTANDS



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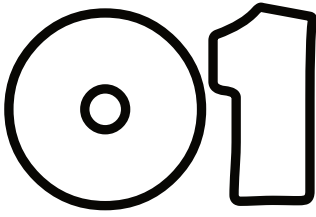
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# THE WHISPERS OVERVIEW

## **Nigeria's debt is rising, heightening fears of a debt trap**

The total public debt in Q1 2024 increased by 30.4% to N121.67 trillion from N97.34 trillion in Q4 2023. However, in dollar terms, the total debt burden fell 15.5% to \$91.46 billion due to the naira's sharp depreciation of 38% to N1,339.19/\$ in Q1 2024. The apparent relief in dollar terms belies the stark reality of Nigeria's economic challenges. There are mounting concerns about the country's ability to manage and service its rapidly growing debt.

## **Mounting debt, climbing interest payments and declining revenues**

Moody's has warned that Nigeria's debt interest payments could consume up to 36% of the federal government's revenue in 2024. More concerning is that Nigeria's high and rising debt levels have not translated into meaningful economic growth and development. Nigeria risks prolonged economic stagnation and heightened fiscal vulnerability without effective strategies to bolster revenue, reduce borrowing costs, and optimize debt management in the near term.

## **Global interest rate cuts offer potential relief**

There is a chance that Nigeria's external debt servicing costs, which gulped 70% of revenues in Q1'24, could moderate in the medium term. This is because global central banks are cutting interest rates. The Bank of Canada and the European

Central Bank reduced rates by 25bps to 4.75%p.a. and 3.75%p.a., respectively. The UK's May inflation hit the Bank of England's target of 2%, potentially prompting a rate cut at the next meeting in August. The US Fed is also considering a rate reduction by year-end, as inflation (3.3%: May 2024) remains above target (2%).

## **Harnessing diaspora dollars for revenue growth**

Although lower borrowing costs could free up cash to provide critical infrastructure, it remains insufficient to alleviate Nigeria's revenue woes substantially. This indicates the need to diversify the government's revenue base. One such option is harnessing and improving diaspora remittances, which have grown 27% in the last 2 years and contributed to dollar revenues. In 2022, Nigeria accounted for 38% (\$20.1 billion) of the total remittance inflows to sub-Saharan Africa (\$53 billion). Personal remittances into Nigeria are projected to reach \$26 billion by 2025. However, challenges such as high transfer costs hinder Nigeria's ability to tap into the benefits of buoyant remittance inflows. In this light, Nigeria can learn from Senegal and Ethiopia, which leverage remittances for infrastructure, education, healthcare, and entrepreneurship. The lessons learnt will be foundational to effectively mobilizing the upcoming Diaspora bond issuance.

In this latest edition of Whispers, the FDC Think Tank takes a deep dive into recent economic developments and their impact on your business and corporate strategy.

# Dangote Sugar has a **NEW LOOK**

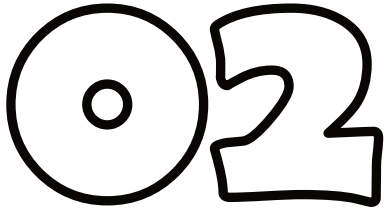


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## UNLOCKING THE POTENTIAL OF DIASPORA REMITTANCES: A CATALYST FOR GROWTH IN NIGERIA

In recent years, diaspora remittances have become a significant lifeline for many developing countries, including Nigeria. These financial inflows, sent by Nigerians living abroad to their families and communities back home, play a pivotal role in bolstering household incomes, improving livelihoods, and stimulating economic development. As Nigeria seeks to diversify its economy and achieve sustainable growth, harnessing the full potential of diaspora remittances is paramount. Diaspora remittances have steadily increased over the years, reflecting the growing number of Nigerians living and working abroad. In 2022, Nigeria accounted for 38% (\$20.1 billion) of the total remittance inflow of \$53 billion to sub-Saharan Africa,<sup>1</sup> making it one of the region's largest recipients of such funds. Personal remittances are projected to increase further to \$26 billion by 2025.<sup>2</sup> This influx of capital supports recipient families and contributes to overall macroeconomic stability and resilience.

One of the most significant impacts of diaspora remittances is their role in poverty alleviation. Many

households in Nigeria rely on these funds to meet basic needs such as food, education, healthcare, and housing. Remittances serve as a vital safety net, particularly in times of economic hardship or crisis, helping families cope with financial shocks and maintain a decent standard of living.

Moreover, diaspora remittances have multiplier economic effects, generating positive spillover impacts across various sectors. When recipients use remittances to invest in productive activities or start small businesses, they create employment opportunities, stimulate consumer spending, and contribute to economic growth. This, in turn, helps to diversify the economy away from its overreliance on oil revenues and fosters greater economic resilience. Many remittance recipients, particularly in rural areas, may not have access to traditional banking infrastructure. By channeling remittances through formal channels such as banks and mobile money services, individuals can build a financial history, access credit, and participate more fully in the formal economy.

However, despite their potential benefits, diaspora remittances face challenges that hinder their full utilization and impact. One such challenge is the high cost of remittance transfers, affecting the overall value of funds sent. Addressing this issue requires concerted efforts to reduce

1. Johnstone Kpilaakaak, Sep 26, 2023. "Sub-Saharan Africa's top 10 remittance recipients in 2022." Benjamindada.com. <https://www.benjamindada.com/top-remittance-recipients-in-ssa-africa/>

2. Michael Akuchie, August 2023. "Nigeria's remittance inflow to hit \$26 billion by 2025 as Japa wave continues." Technext. <https://technext24.com/2023/08/07/nigeria-remittance-26billion-2025-report/>

transaction costs, enhance competition among remittance service providers, and promote the use of digital remittance platforms.

### Some Lessons to Learn from Senegal and Ethiopia

Senegal is one of the countries in West Africa that has experienced a significant influx of remittances over the years. Remittances amounted to approximately \$2.5 billion in 2020, and they fluctuated between \$2.58 billion and \$2.66 billion in 2021 and 2022.<sup>3,4</sup> The Senegalese government has recognized the importance of remittances as a source of income for many households and has implemented policies to leverage these funds for economic development. One notable initiative is the "Diaspora Bonds" program launched in 2014, which allows Senegalese living abroad to invest in infrastructure projects back home. These investments have been channeled into the energy, transportation, and telecommunications sectors, contributing to infrastructure development and job creation in Senegal.

Ethiopia is another African country that has seen significant remittance inflows in recent years. According to World Bank data, personal remittances received by Ethiopia in 2020 were estimated at \$504 million.<sup>5</sup> In the 2020/2021 fiscal year, the Ethiopian diaspora remitted \$3.6 billion and further increased to \$4.2 billion in 2022.<sup>6</sup> The Ethiopian government has undertaken various initiatives to maximize the impact of remittances on the economy. One

such initiative is the establishment of the Ethiopian Diaspora Trust Fund (EDTF) in 2018, which aims to mobilize diaspora contributions for social and economic development projects in Ethiopia. The EDTF supports initiatives in sectors such as education, health, agriculture, and entrepreneurship, focusing on enhancing livelihoods and promoting sustainable development in the country.

### Key Takeaways for Nigeria

Firstly, Nigeria can learn from Senegal and Ethiopia's approaches to strategically investing remittance inflows into priority sectors such as infrastructure, education, healthcare, and entrepreneurship. By identifying critical areas for investment, Nigeria can ensure that remittance funds are utilized effectively to drive economic growth and development.

Secondly, Senegal and Ethiopia actively engaged their diaspora communities through initiatives such as Diaspora Bonds and Trust Funds. Nigeria can similarly explore avenues to mobilize diaspora contributions for development projects, fostering a sense of ownership and involvement among Nigerians living abroad. Also, the government plans to issue diaspora bonds to offset the country's budget deficit. Which is expected to rise due to the impact of the Russia-Ukraine conflict on commodity prices.<sup>7</sup>

Senegal and Ethiopia have prioritized inclusive development by channeling remittance funds into projects that benefit many stakeholders, including vulnerable populations and marginalized communities. Nigeria can adopt

3. ACE Money Transfer, 02 Jun 2023. "The Impact of Taxation Policies on Remittances to Senegal." Ace Money Transfer-Blog. <https://acemoneytransfer.com/blog/the-impact-of-taxation-policies-on-remittances-to-senegal>

4. ACE Money Transfer, 01 Nov 2023. "Unleashing the Future Growing Remittance Patterns to Senegal from Abroad." Ace Money Transfer-Blog. <https://acemoneytransfer.com/blog/unleashing-the-future-growing-remittance-patterns-to-senegal-from-abroad>

5. World Bank Staff. "Personal remittance received (% of GDP) – Ethiopia." World Bank. <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=ET>

6. Huaxia, May 13, 2024. "Ethiopia records more remittances from diaspora." Xinhua-AFRICA. <https://english.news.cn/africa/20220723/fact8f9f9ced4cd8bbc384af28838cbc/c.html>

7. Whitney Schneidman et al. May 27, 2022. Diaspora bonds: An innovative source of financing? Brookings. <https://www.brookings.edu/articles/diaspora-bonds-an-innovative-source-of-financing/>

a similar approach to ensure that remittance inflows contribute to poverty reduction, job creation, and improved livelihoods across the country.

Finally, Senegal and Ethiopia demonstrated the importance of policy innovation in maximizing the impact of remittance inflows. Nigeria can explore innovative policy measures, such as tax incentives for diaspora investments, streamlined remittance channels, and public-private partnerships, to enhance the effectiveness of remittance utilization and promote sustainable development.

”

Senegal and Ethiopia demonstrated the importance of policy innovation in maximizing the impact of remittance inflows.

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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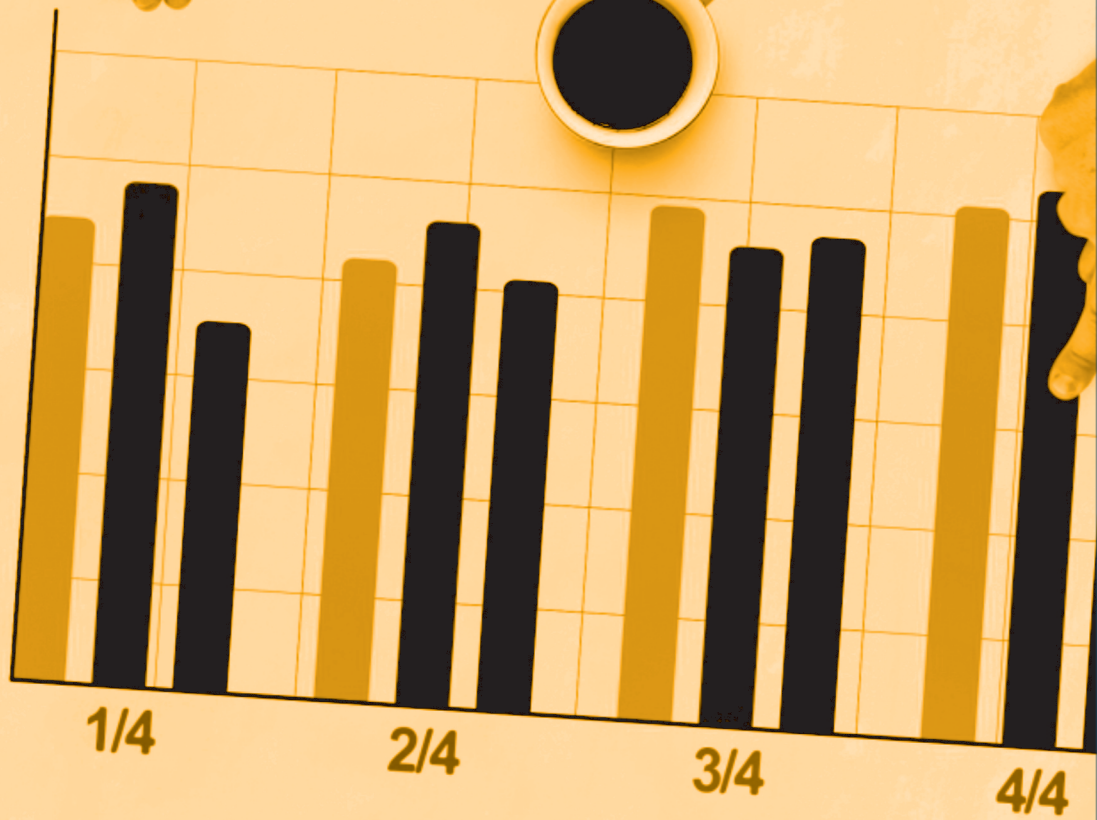
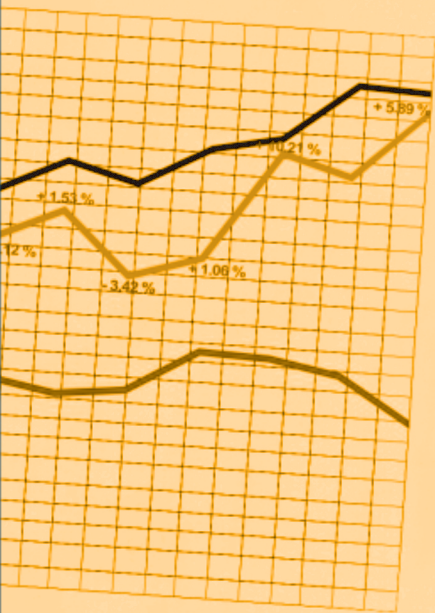
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*Typi non habent claritatem insitam; est usus legentis in iis qui facit eorum claritatem. Investigationes demum quod ii legunt saepius. Claritas est etiam processus dynamicus, qui sequitur mutationem consuetudinum le- quam littera gothica, quam nunc putamus parum claram, anteposuerit litterarum formas humanitatis per se decima. Eodem modo typi, qui nunc nobis videntur parum clari, fiant sollemnes in futurum.*

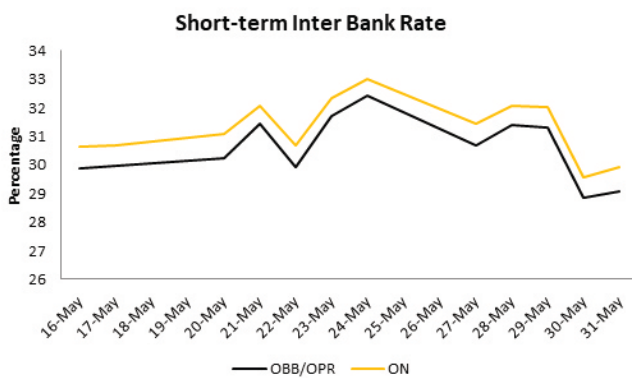
# MACRO ECONOMIC INDICATORS

MAY 16<sup>TH</sup> TO 31<sup>ST</sup>

# MONEY MARKET

Banks' average opening position was N353.98bn in the second half of May, 122.77% higher than the average of N158.9bn in the second half of April. One OMO sale was made during the period, with no OMO repayments. Short-term interbank rates (OBB/OPR, O/N) averaged 30.94% p.a. in the review period, 54bps up from the average of 30.4% p.a. in April.

One primary market auction, with N638.98bn allotment, was conducted in the second half of May. This is 35.41% lower than the total sum of N989.27bn allotted in the same period in April. Meanwhile, primary market repayment amounted to N5.7bn. Yields stayed the same at the primary market but increased across all tenors at the secondary market.



Source: FDC Think Tank

Tenor	Primary market (May 8th, 2024) (%)	Primary market (May 22nd, 2024) (%)	Secondary market (May 16th, 2024) (%)	Secondary market (May 31st, 2024) (%)
91-day	16.24	16.50 ▲	16.36	18.50 ▲
182-day	17.00	17.45 ▲	18.24	18.44 ▲
364-day	20.70	20.70 ↔	20.03	20.30 ▲

Source: FMDQ, FDC Think Tank

## Outlook and Implication

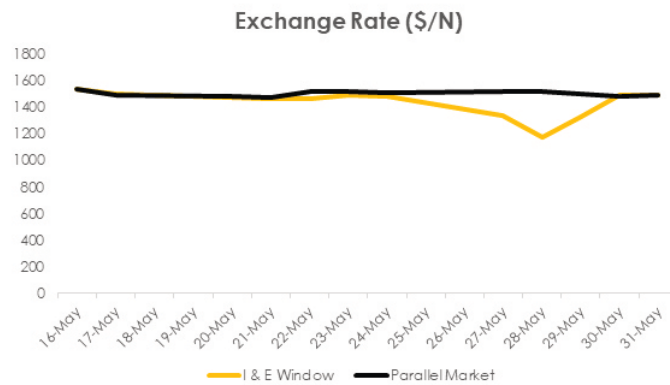
Short-term interbank rates are expected to remain elevated due to higher interest rates.

# 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 3.23% against the dollar to close at N1,485.99/\$ on May 31 from N1,533.99/\$ on May 16, driven by an increase in forex turnover. Similarly, at the parallel market, the currency appreciated by 3.38% to N 1,480.00/\$ on May 31 from N1,530.00/\$ at the beginning of the review driven by lower demand pressures.



Source: FDC Think Tank

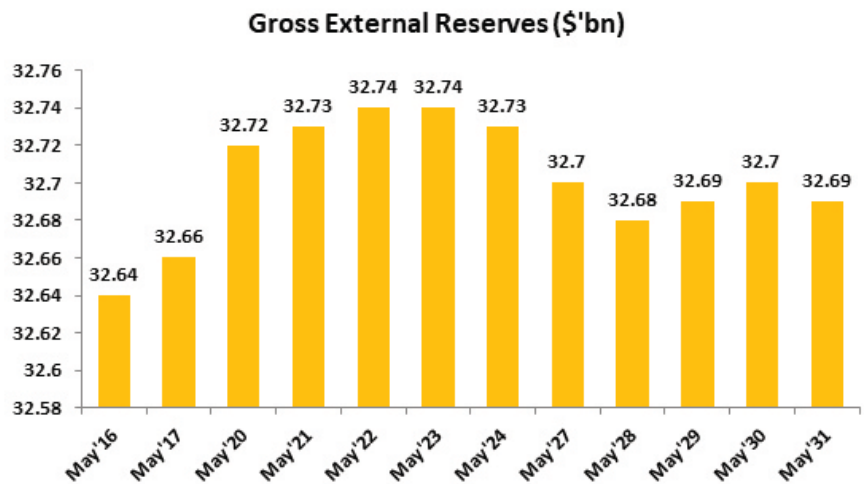
## Outlook

The naira is expected to stabilize in the near term due to the CBN's latest move to allow international oil companies to sell 50% of their retained profit of repatriated exports proceeds, in the Nigerian Foreign Exchange Market. Also, this will be supported by the \$2.25bn approved World Bank loan, which will boost dollar supply.



# EXTERNAL RESERVES

The country's external reserves rose by 0.15% to close at \$32.69bn on May 31, up from \$32.64bn at the beginning of the period (May 16). On average, gross external reserves increased by 1.71% (\$0.50bn) from \$32.15bn in the same period in April. This steady increase in gross external reserves can be attributed to the slight increase (4.6%) to 1.28 mbpd in Nigerian crude oil production in May, as the global oil price was also stable.



Source: CBN, FDC Think Tank

## Outlook

In the near term, we expect the external reserves to improve steadily, supported by the \$500m World Bank loan secured by CBN to bolster Nigeria's electricity distribution sector.

## Impact

A sustained increase in external reserves will help stabilize the naira by providing the CBN with the means to intervene in the forex market when needed. It will also boost investors' confidence in the economy.



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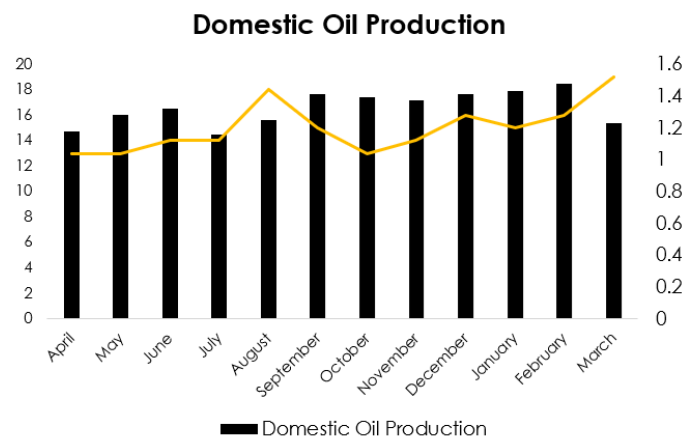
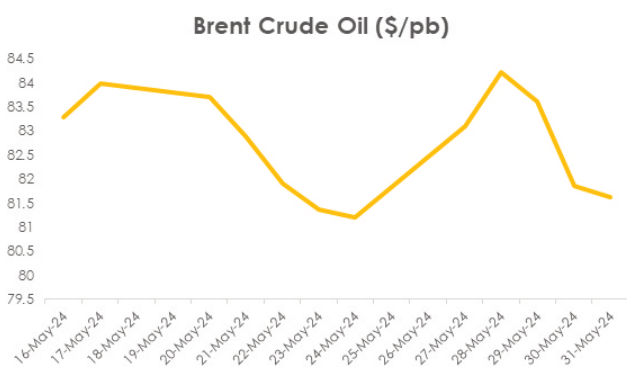


# COMMODITY EXPORTS

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, Brent's price dropped by 1.98% to close at \$81.62 per barrel on May 31 from \$83.27 per barrel on May 16. The decline was primarily driven by the anticipation of higher U.S. interest rates, which could dampen fuel demand and increase oil stockpiles. On average, Brent fell by 6.17% to \$82.73 per barrel in the latter half of May compared to \$88.17 per barrel in April.



Source: Bloomberg, FDC Think Tank

## Outlook

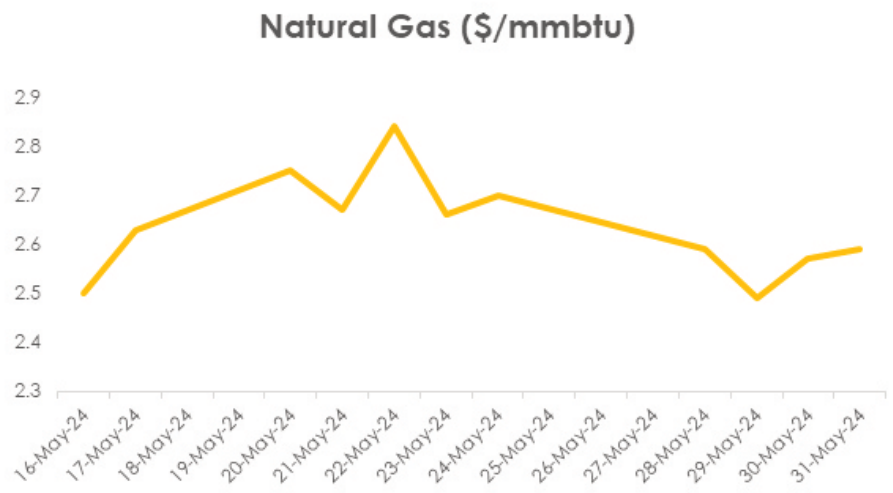
Oil prices are expected to rise on escalating Middle East tensions and a robust demand outlook by the Energy information Administration.

## Implication

An increase in oil prices will impact Nigeria's foreign earnings and boost external reserves. However, Nigeria's oil production, which declined in May 2024 by 2.34% to 1.25 million barrels per day, will offset the gains from higher oil prices, thereby reducing foreign earnings from oil. Hence, Nigeria should increase oil production and minimize illegal refineries and oil theft to the barest minimum.

# NATURAL GAS

In the period under review, natural gas was up by 3.60% to \$2.59/MMBtu on May 31 from \$2.50/MMBtu on May 16. The increase can be attributed to supply shortages amid the Russian-Ukraine war and rising demand from Asia. On average, natural gas gained 49.15% in the review period to \$2.64/MMBtu, compared to the average of \$1.77/MMBtu in the corresponding period in April.



Source: Bloomberg, FDC Think Tank

### Outlook

Gas prices are expected to remain bullish in the near term due to strong demand in Asia and ongoing geopolitical tensions.

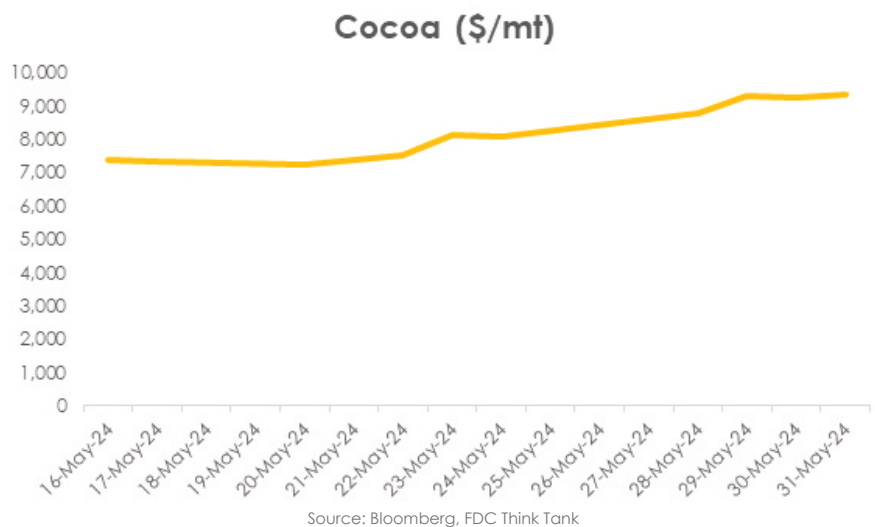
### Implication

Increasing LNG prices will boost Nigeria's foreign reserves and export earnings. However, Nigeria needs to ramp up gas production to benefit from the bullish gas prices, by increasing investment and having policies that will woo investors.



# COCOA

In the second half of May, cocoa gained 26.21% to \$9,331/mt on May 31 from \$7,393/mt on May 16. The rise in cocoa prices is due to unfavourable weather conditions in the top-growing region in West Africa (Ivory Coast, Ghana, Nigeria and Cameroon) contracting cocoa supply. On average, the price of cocoa plunged by 21.63% to \$8,159/mt in the second half of May from \$10,411/mt in the same period in April.



### Outlook

In the short term, cocoa prices are expected to increase, primarily driven by global supply tightening. Additionally, this increase will further be supported by stronger-than-expected global cocoa demand, especially by the chocolate industries.

### Implication

Higher cocoa prices will increase Nigeria's foreign exchange earnings from non-oil exports. In Q1 2024, cocoa earnings from exports surged by 138.58% to N408.66bn from N171.29bn in Q4 2023 driven by an increase in cocoa prices.

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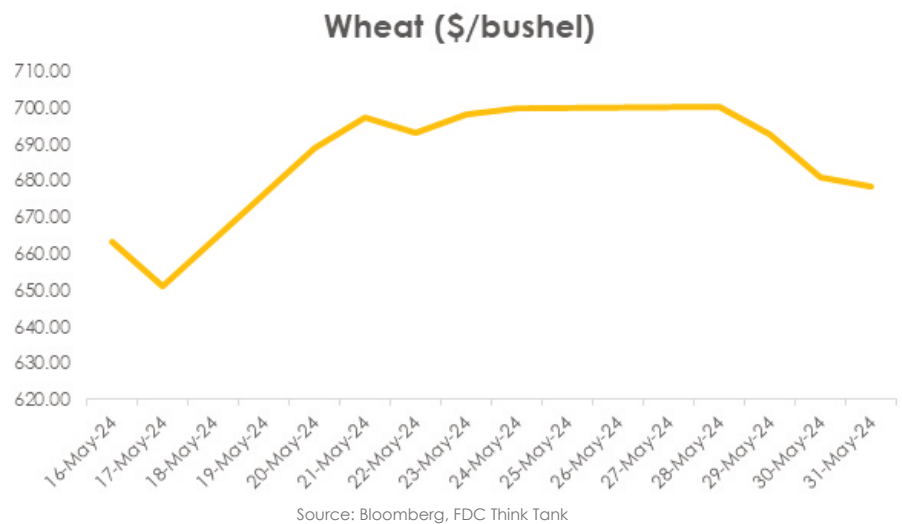
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# COMMODITY IMPORTS

# WHEAT

In the review period, the price of wheat rose by 2.30% to \$678.50/bushel on May 31 from \$663.25 on May 16. The increase was triggered by weather concerns in the top producing regions (Russia and the U.S.) and supply risks stemming from the Russian-Ukrainian war. On average, wheat prices soared by 16.16% to \$685.82/bushel within the review period, up from the average of \$590.41/bushel in the second half of April.

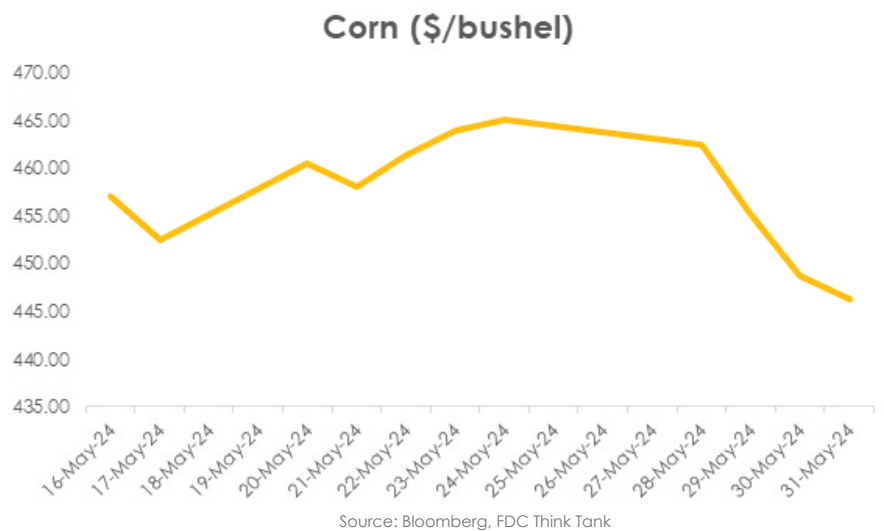


## Outlook

The price of wheat is expected to rise on supply shortages due to poor weather conditions in Russia and the U.S.

# CORN

The price of corn fell by 2.35% in the review period, to \$446.25/bushel on May 31 from \$457.00/bushel on May 16. The decline in corn prices is attributed to favorable weather forecasts for the U.S. growing season and an uptick in production. Corn price averaged \$457.36/bushel in the second half of May, up by 2.43% from the average of \$446.52/bushel in the second half of April.



## Outlook

The price of corn is expected to remain bearish in the near term, as lower exports offset reduced production in major corn-producing countries.

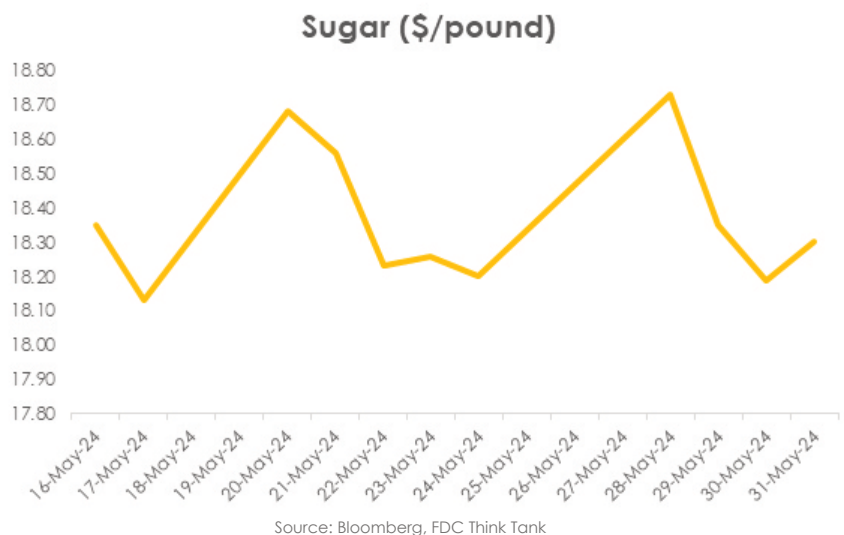
## Impact

The drop in corn prices is anticipated to lower importation expenses and decrease manufacturing costs in Nigeria. As a result, the prices of grain derivatives like cornflakes, wheat flour, and bread will decline. This is expected to alleviate inflationary pressures. However, an increase in wheat price will counterbalance the effect of the lower corn prices.



# SUGAR

During the review period, the price of sugar dropped by 0.27% to \$18.30/pound on May 31 from \$18.35/pound, driven by improved sugar production in Brazil. On average, the price of sugar stood at \$18.36/pound in the review period, indicating a 5.75% decrease compared to the average of \$19.48/pound in the second half of April.



### Outlook

The price of sugar is expected to remain bearish in the near term, supported by weakness in the Brazilian Real, encouraging exports by Brazil's sugar producers, and an outlook for ample global supply.

### Implication

A decrease in sugar prices will lower Nigeria's import bill and improve its trade balance. It will also ease the price of sugar derivatives.

### Terms of Trade

The country's terms of trade in Q4'23 increased by 0.22%. However, it is expected to be negative in the near term due to a decrease in Nigeria's oil production, dropping 2.34% to 1.25 million barrels per day in May from 1.28 million barrels per day in April. Similarly, cocoa prices falling below \$8,000/mt and low output will further worsen the trade balance.

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# **STOCK MARKET REVIEW**

**MAY 16<sup>TH</sup> TO 31<sup>ST</sup>**



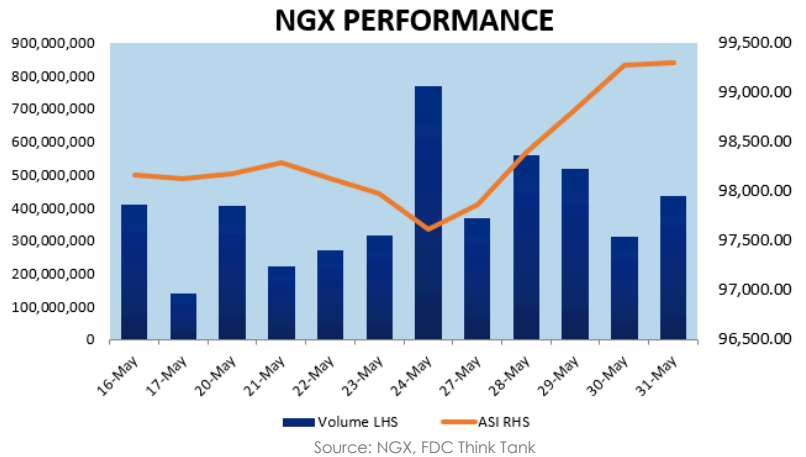
The Nigerian Stock Exchange closed positively from May 16th to 31st, 2024. It gained 1.17% to close at 99,300.38 points on May 31st, up from 98,156.71 points on May 16th. Also, the market capitalization increased by 1.15% to N56.17trn relative to its close of N55.53trn on May 15th. In the review period, ARBICO Plc, a building and civil engineering company, was delisted from the Nigeria Stock Exchange on May 20 with a market capitalization of N74.25bn.

The market YTD return was 32.80% in the preceding period. The market breadth was positive at 0.96x, as 43 stocks gained, 66 remained unchanged, and 45 lost.

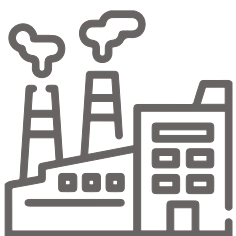
The positive performance was driven by investors' continued strong buying of stocks despite the hike in CBN's monetary policy rate.

The market activity level was mixed in the review period. The average volume traded increased by 9.98% to 393.80mn units from 358.07mn units. Similarly, the average value of trades rose by 4.29% to N7.53bn from N7.22bn in the review period.

The performance of the sectors was mixed, as four sectors gained while one lost. The Oil and gas sector recorded a gain of 9.57%, followed by the consumer goods sector (2.46%), the banking sector (1.84%), and the industrial sector (0.05%). However, the insurance sector lost 2.15%.



## SECTOR PERFORMANCE



Industrial

0.05



Oil & Gas

9.57



FMCG

2.46



Insurance

-2.15



Banking

1.84

## TOP 5 GAINERS

Julius Berger Nigeria Plc, an industrial company offering integrated construction solutions and related contracting services, topped the gainers' list with a 21.46% increase in its share price, driven by strong buying interest in the company's stocks. This was followed by FCMB group Plc (20.30%), Fidelity Bank Plc (18.60%), Oando Plc (18.59%), and Dangote Sugar Refinery Plc (17.50%).

## TOP 5 LOSERS

The laggards were led by Deap Capital Management & Trust, which specializes in Funds management and capital market operations (-24.53%), FTN Cocoa Processors Plc (-20.86%), NPF Microfinance Bank Plc (-18.37%), RT Briscoe Nigeria Plc (-15.79%), and NEM Insurance Plc (-14.44%).

TOP 5 GAINERS				
Company	May-16 (N)	May-31 (N)	Absolute Change	Change (%)
BERGER	12.35	15.00	2.65	21.46%
FCMB	6.65	8.00	1.35	20.30%
FIDELITYBK	8.60	10.20	1.60	18.60%
OANDO	9.95	11.80	1.85	18.59%
DANGSUGAR	40.00	47.00	7.00	17.50%

TOP 5 LOSERS				
Company	May-16 (N)	May-31 (N)	Absolute Change	Change (%)
DEAPCAP	0.53	0.40	-0.13	-24.53%
FTNCOCOA	1.39	1.10	-0.29	-20.86%
NPFMCRFBK	1.96	1.60	-0.36	-18.37%
RTBRISCOE	0.57	0.48	-0.09	-15.79%
NEM	9.35	8.00	-1.35	-14.44%

### Outlook

The market was positive in the second half of May and increased to 99,300.38 points on May 31, driven by investments in some stocks despite the increase in the monetary policy rate. In the near term, we anticipate the market will remain bullish, driven by profit-taking, portfolio rebalancing, and dividend earnings season.

## WHISPERS OUTLOOK

- ★ Oil prices' outlook is bullish due to easing inflationary pressures in the US, which raises the likelihood of the Fed cutting interest rates in 2024, favoring oil demand.
- ★ Elevated oil prices benefit Nigeria's export earnings and external reserves, bolstering the CBN's ability to defend the naira. Nigeria's external reserves has maintained an upward trend in June, gaining 3.67% to \$33.91bn on June 24.
- ★ We expect the pressure on the naira to weaken in the near term as forex liquidity increases, buoyed by the CBN's reforms to attract capital and efforts to obtain foreign loans from bilaterals. This could result in the naira maintaining its current level, trading between N1,450/\$ and N1,500/\$.
- ★ Forex market stability would aid in easing inflationary pressures in the country. Month on month inflation declined for the third consecutive month in May. Headline inflation in May also rose at a slower pace to 33.95% from 33.69%.
- ★ We expect the MPC to maintain status quo in its July meeting to monitor the impact of previous rate hikes on inflation.

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