WHISPERS

AUGUST 21, 2024 | VOLUME 14 ISSUE 17

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

CONTENTS

Volume 14 Issue 17

The Whispers Overview

Bright days ahead for the naira

After appreciating in Q2'24 to N1,525/$, the naira has traded within a tight range of N1,500/$ to N1,615/$ over the past two months, indicating its relative stability in the forex market. This reduced volatility is due to several factors, including the reintroduction of the retail Dutch auction system in which $876mn was sold, higher interest rates, tight liquidity, and challenges in selling cumulative inventory.

Additionally, many oil marketers who typically book forward contracts of up to 90 to 120 days have started going short due to concerns that products from the Dangote refinery will soon enter and saturate the market. These combined factors have led to buyer tentativeness and reduced demand for forex.

Looking ahead, if the money markets remain tight, interest rates stay high and the seasonal effect of the import duty waiver diminishes, we expect the naira to appreciate to N1,450/$ and N1,893/£ at Christmas. This appreciation could also be supported by the main crop cocoa harvest and inflows by returning friends and family in December.

From "Hot Money" to "Deep Money" - strategies for foreign direct investment

It is no news that President Tinubu's administration has adopted an investment-led strategy to drive inclusive & sustainable economic growth in Nigeria. The growth strategy is drawing from the examples of the Asian Miracle economies of the 1990s and recently Vietnam & Malaysia. Most noteworthy of the recent success stories is India. FDI in India has grown 31 times over to approximately $70.9 billion in 2022-2023 from $2.2 billion in 1999-2000. Some key policies that aided this growth include deregulation and privatization, removal of tariffs and licensing requirements, and huge spending on infrastructural development. These reforms, which address the business environment, are long-term strategies Nigeria needs to focus on to put the economy on a sustained positive growth trajectory. Growth in FDI inflows into the country promises increased productivity, technology transfer, job creation, and improved human capital.

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.

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Foreign Direct Investment: A Catalyst for Sustainable Growth

Foreign Direct Investment (FDI) is pivotal as an economic growth catalyst in developing nations such as Nigeria. It influences economic growth by encouraging domestic investment, boosting capital formation, and facilitating technology transfer. The benefits of FDI to the host economy can include:

- Enabling the utilization and exploitation of local raw materials, thereby enhancing productivity and increasing exports.
- Introducing an upgraded technique of management and marketing.
- Facilitating technical transfer, which makes new technologies easier to access.
- Financing current account imbalances.
- Increasing the number of jobs and opportunities for on-the-job training, which raises the human capital pool.

In addition, financial inflows from FDI do not necessitate repayment of principal or interest, unlike external debt.

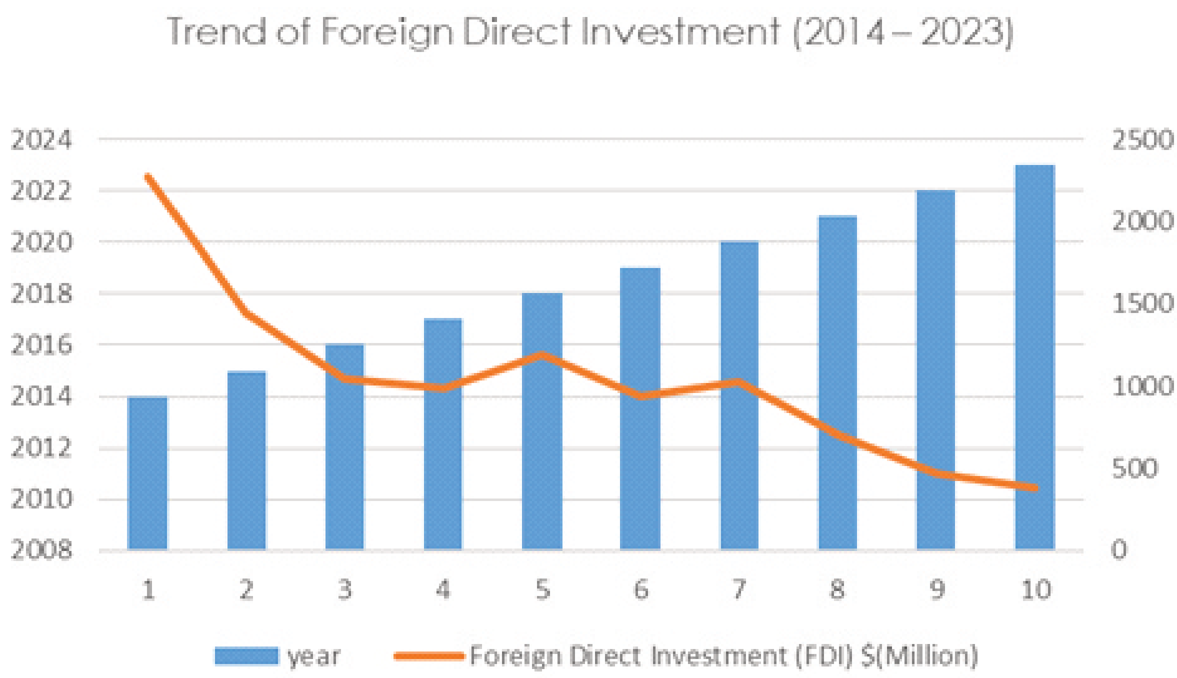
Nigeria's governments have worked to foster an atmosphere that welcomes international investment since the 1990s. The Nigerian Investment Promotion Commission Act of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act of 1995 outlawed discrimination against foreign investors. These laws permit 100% foreign ownership of Nigerian-based companies, enabling current investors to acquire controlling interests.

President Tinubu's current administration aims to increase foreign investment in Nigeria. As of March 2024, they announced that it had successfully secured US$30 billion in foreign direct investment commitments from Qatar. The government plans to continue liberalizing investment by removing FDI bottlenecks, such as repealing restrictive laws, signing protection treaties, enhancing security, offering fiscal incentives, privatizing utilities, and fully equipping export-processing zones.[1] Not much progress has been made.

1 Economic Intelligent Unit. 2024. "Political/commercial background: foreign investment, economic Intelligent Unit. Political/commercial background: Foreign investment | Country Commerce | EIU

Historically, Nigeria has had difficulty turning previous investment commitments into actual investments.[2] In the last few years, FDI has declined significantly. According to the Nigeria Bureau of Statistics (NBS), FDI in Nigeria was $1,027.68 million in 2020 and has steadily declined since then to $698.78 million in 2021, $468.08 million in 2022, and $377.38 million in 2023.

Foreign investors are exiting the country due to systemic issues that pose significant business and economic threats. Contributing factors include decades of underinvestment, which have led to the deterioration of public infrastructure, imposing high transaction costs on businesses and reducing competitiveness. Additionally, the inability to build strong domestic institutions that support long-term growth and development further hinders the effective conversion of investments.[3] More recently, elevated production costs, insecurity, the abrupt elimination of the fuel subsidy and the sharp increase in electricity tariffs have exacerbated the problem. These challenges, among others, led to the exit of companies such as Procter and Gamble, GlaxoSmithKline, Sanofi, Equinor in 2023 and several others.



A look to India for inspiration

Before 1990, India's trade policy focused on import substitution with the imposition of import restrictions. Import substitution is an economic policy designed to lessen reliance on foreign products by substituting imported goods with those produced domestically. It often involves protective measures like tariffs, subsidies, and import quotas to encourage local production. This was done to achieve self–reliance, but this made Indian producers uncompetitive in the world market.[4]

Policies aimed at substituting imports may have conflicting consequences for FDI. Due to higher costs, less competition, and unpredictable policies, they can discourage efficiency-seeking FDI and high-quality investments even while drawing market-seeking FDI intended to produce within

2 Economic Intelligent Unit. 2024. "Political/Commercial background: Foreign investment". Political/commercial background: Foreign investment | Country Commerce | EIU
3 Ngozi Okonjo-Iweala and Philip Osafo-Kwaako, 2007. Nigeria Economic Reforms; progress and challenges. Brookings Global Economy and Development. https://www.brookings.edu/wp-content/uploads/2016/06/20070323okonjo_iweala.pdf
4 Foreign Trade during 1950-1990 Trade policy: Import Substitution https://www.geeksforgeeks.org/foreign-trade-during-1950-1990trade-policy-import-substitution/

the protected market.[5] This can contribute to an unfavorable economic environment that makes investment risky and uncompetitive, eventually leading to a lower FDI.

In 1991, India liberalized its economic policy to attract investment and implemented trade reforms to reduce tariffs, quantitative restrictions, and foreign exchange controls, addressing the anti-import bias. Favorable policies, including Make in India, the Production Linked Incentive (PLI), and the Gati Shakti logistics and industrial development initiatives, significantly boosted FDI in the country.[6] India recorded a significant FDI inflow over the last decade, from $45.15 billion (2014/15) to $74.39 billion in 2019-2020.

The Make in India initiative was launched in 2014 to attract investment in manufacturing, foster infrastructure development, encourage start-ups and innovation, enhance skills training, and create a competitive environment for manufacturing companies. The initiative was built on four foundational pillars: new processes, new infrastructure, new sectors, and a new mindset. It aimed to transform India's economy into a modern, technology-oriented, and future-focused country. Between 2014 and 2020, India received a total FDI inflow of $358.30 billion, marking a 53% increase.[7]

The PLI scheme, launched in 2020, was introduced to enhance the Make in India campaign significantly. It offers incentives for domestic production in key growth sectors where India holds a competitive edge. The scheme aims to boost domestic manufacturing, strengthen supply chains, improve the competitiveness of Indian industries, and stimulate export opportunities. As of September 2022, the PLI scheme for large-scale electronics manufacturing has attracted an investment of INR 4,784 crore ($598 million) and resulted in total production worth INR 2.04 lakh crore ($25.48 billion), including exports of INR 80,769 crore ($10.1 billion). The scheme has created 40,916 jobs, reducing the level of unemployment. By 2026-2027, it is expected to generate additional direct and indirect employment opportunities for about 250,000 people.[8]

Launched in 2021, the Gati Shakti logistics and industrial development initiative aimed to harmonize efforts across government agencies, driving investment and operational efficiencies in infrastructure, particularly in the transport and logistics sector. This initiative involves the creation of a digital information-sharing platform and a governance framework to ensure coordinated planning of major infrastructural projects. A key aspect of Gati Shakti is a governance mechanism that facilitates collaboration among 16 ministries to plan and implement core infrastructure projects. Enhanced coordination and increased transparency among stakeholders in project execution are expected to bolster the confidence of global investors further.[9]

Since implementing these investment-led reforms, India has experienced a significant increase in FDI, attracting major global investors such as Amazon, Walmart, and Google. The increase in FDI inflows has significantly supported output growth. Between 1999 and 2022, India's real GDP grew 283.30% to $2.95trn from $770.92bn. Additionally, the IMF predicts this upward growth and declining price momentum will continue in the short to medium term, increasing the prospects for sustained economic development. In 2022, India secured the 10th position globally in terms of FDI attraction.[10]

5 Christiansen, H., C. Oman and A. Charlton. 2003. "Incentives-based Competition for Foreign Direct Investment: The Case of Brazil". OECD Working Papers on International Investment, 2003/01, OECD Publishing. http://dx.doi.org/10.1787/631632456403

6 Partners Corporate Advisors. 2023. "India's Foreign Direct Investment- what are the top factors to look at?" https://saspartners.com/indias-foreign-direct-investment-what-are-the-top-factors-to-look-at/

7 Press information Bureau, Government of India, Ministry of commerce and Industry, 2021. https://pib.gov.in/Pressreleaseshare.aspx?PRID=1694804

8 PLI Scheme on ICT Products – Explained. https://icc-tca.org.tw/wp-content/uploads/2023/05/Quarterly-Report_PLI.pdf

9 Saurabh Suneja, 2024. India drives Investment in Logistics to promote Higher-quality growth. OMFIF https://www.omfif.org/2023/12/india-drives-investment-in-logistics-efficiency/#:~:text=The%20Gati%20Shakti%20initiative%20is%20a%20significant%20step%20forward%20for,the%20transport%20and%20logistics%20sector.

10 Marcus Lu, Pallavi Rao, Miranda Smith; Charted: India's FDI Inflows Over the Last 20+ Years. Visual capitalist. https://www.visualcapitalist.com/indias-fdi-inflows/

Drawing lessons from India's 1991 economic reforms and policies, Nigeria is urged to adopt initiatives similar to Make in India, the PLI, and the Gati Shakti logistics and industrial development initiative to address infrastructural challenges and improve the ease of business. The government should strategically invest in and promote growth sectors where Nigeria has a comparative advantage, such as agriculture, manufacturing, and energy. Enhancing FDI in these sectors will boost GDP, increase tax revenue, reduce imports, and encourage exports. This is expected to have a ripple effect on the exchange rate, contributing to the stabilization of the economy.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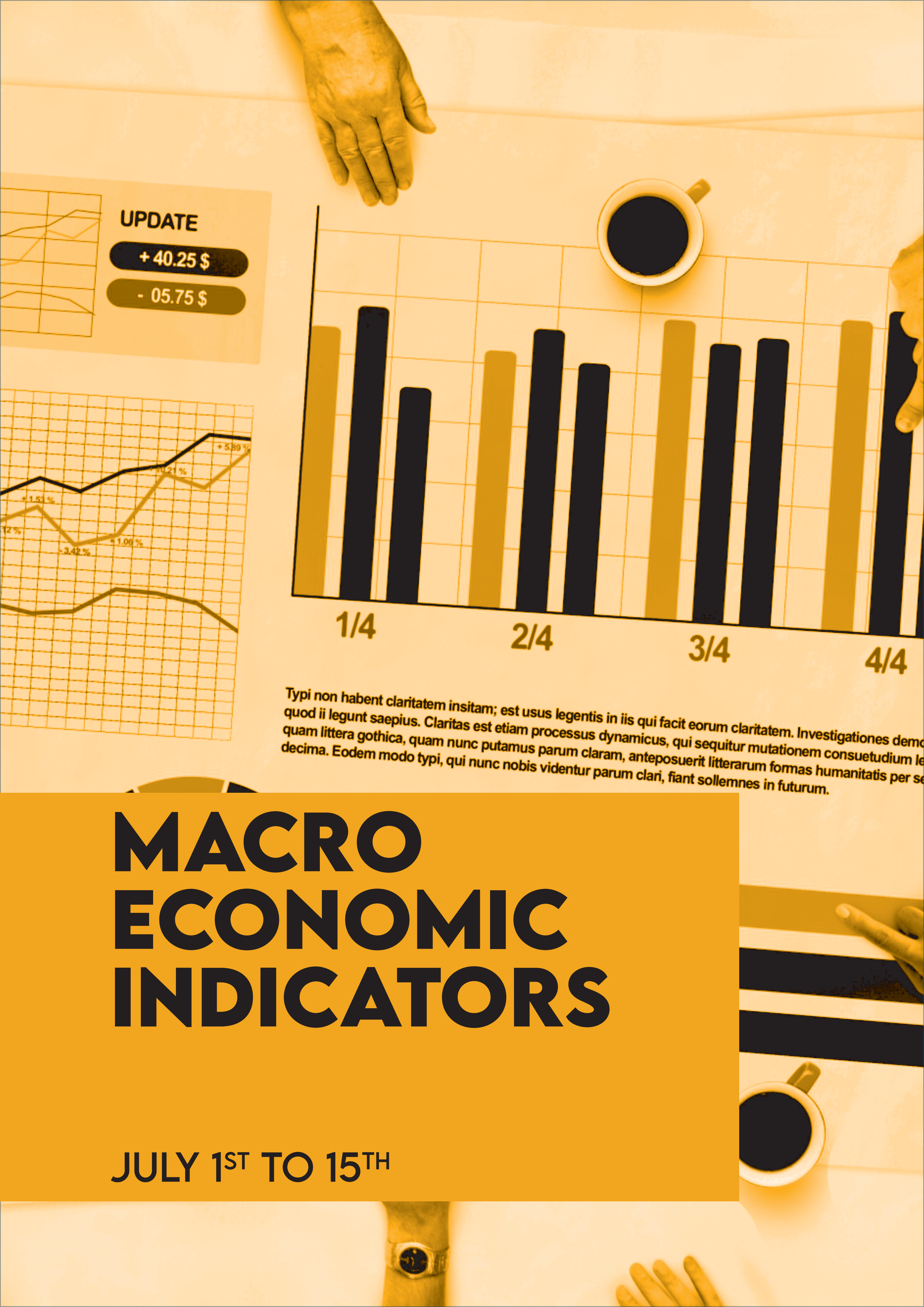


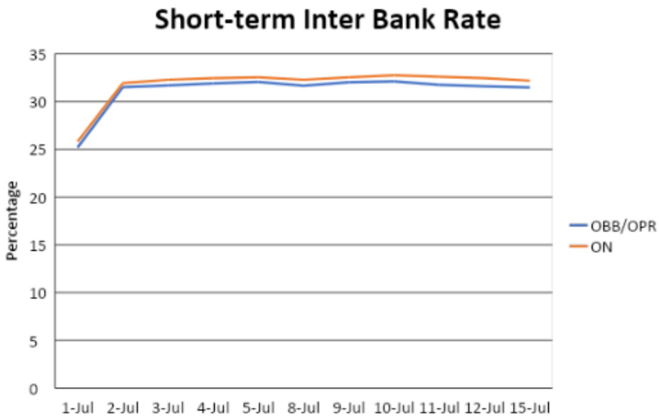
MACRO ECONOMIC INDICATORS

JULY 1ST TO 15TH

MONEY MARKET

The bank's average position was N1.00trn short in the first half of July, compared to N13.85bn long in the first half of June. One OMO sale and repayment were made between the 1st and 15th of July. Short-term interbank rates (OPR, O/N) averaged 31.49% p.a., up 199bps from 29.50% p.a. in June.

One primary market auction was conducted in the first half of July, with N207.27bn allotted. This is 37.88% lower than the N333.65bn allotted in the same period in June. On the other hand, primary market repayment during the review period amounted to N182.45bn. Primary market rates increased by 56bps at 364-day tenors while remaining flat at the 91-day and 182-day tenors. At the secondary market, yields increased at the 91-day, 182-day, and 364-day tenors in the first half of July.



Source: FDC Think Tank

Tenor	Primary market (Jun 26th 2024) (%)	Primary market (Jul 10th 2024) (%)	Secondary market (Jul 1st 2024) (%)	Secondary market (Jul 15th 2024) (%)
91-day	16.30	16.24 ⟷	19.02	20.00 ▲
182-day	17.44	17.00 ⟷	20.15	22.01 ▲
364-day	20.68	21.24 ▲	20.30	20.43 ▲

Source: FMDQ, FDC Think Tank

Outlook and Implication

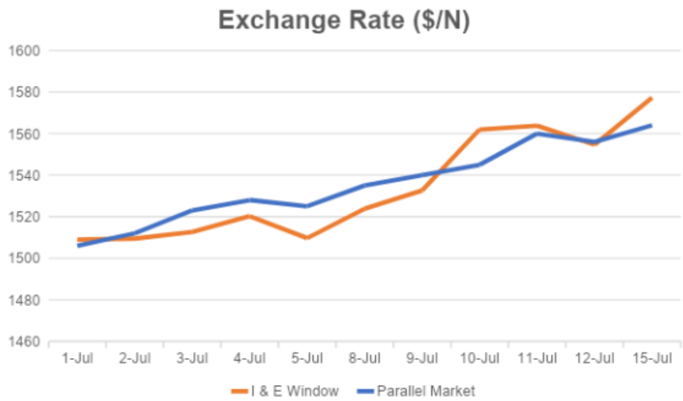
Short-term interbank rates are expected to stay elevated due to an anticipated decline in market liquidity. The CBN's adjustment of the asymmetric corridor from +100/-300 to +500/-100 signals an increase in interest for commercial banks deposits with the CBN, which could reduce money market liquidity and drive up short-term rates.

FOREX MARKET

Transparency and liquidity in the forex market has improved following reforms by the CBN in the past year. The official and parallel market rates now trade around similar levels and International Oil companies can now sell 50% of repatriated export proceeds which is favourable for liquidity. Some key factors affecting the exchange rate include balance of payments, capital inflows, and trade balance.

EXCHANGE RATE

At the Investors' and Exporters' Foreign Exchange window, the naira depreciated by 4.33% against the dollar closing at N1577.29/$ on July 15 from N1508.99/$ on July 1. The decline was driven by heightened demand, amidst supply shortages. Similarly, in the parallel market, the naira depreciated by 3.71% to N1564.00/$ on July 15, from N1506.00/$ at the start of July, due to increased demand for foreign exchange, especially for summer travel.



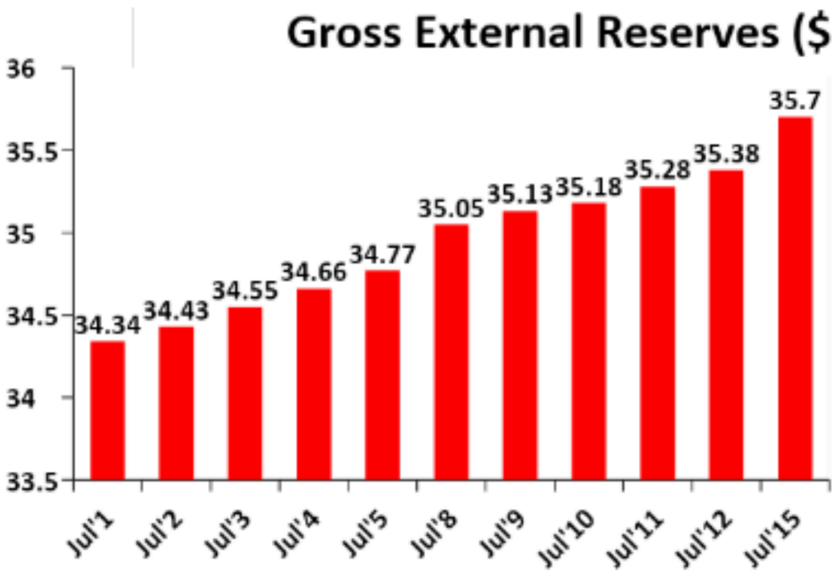
Source: FDC Think Tank

Outlook and Impact

Following the re-introduction of the retail Dutch auction which saw the forex sales amounting to $876 million, we anticipate that the naira will remain stable in the near term as forex supply improves in the forex markets. This could result in the naira trading between N1,550/$ and N1,615/$ in the coming weeks. The naira's stability will be supported by the expected increase in foreign portfolio investment following the MPC's hike in interest rates by 50 basis points to 26.75% p.a.

EXTERNAL RESERVES

Nigeria's external reserves rose by 3.96% to close at $35.70bn on July 15, the highest since March 24, 2023, from $34.34bn at the beginning of the period (July 1). On average, gross external reserves increased by 5.95% ($1.96bn) from $32.99bn in the same period in June. This steady increase in gross external reserves can be attributed to the inflow of US$2.25bn from the World Bank to help stabilize the economy. However, according to the IMF, $8bn of the reserves are unencumbered while the net reserves is $28.8bn as at July 15.



Source: CBN, FDC Think Tank

Outlook and Impact

We expect a steady increase in external reserves in the near term, due to increase in oil prices and improved diaspora remittances. A sustained increase in external reserves will likely stabilize the naira by enabling the CBN to intervene in the forex market as needed.

COMMODITY EXPORTS

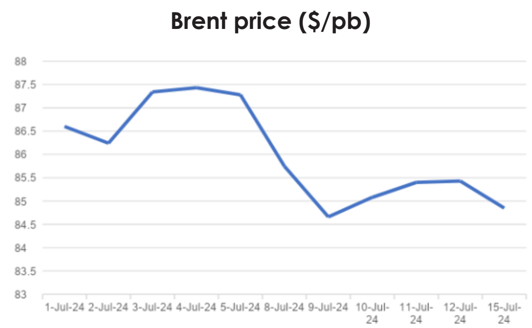
Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

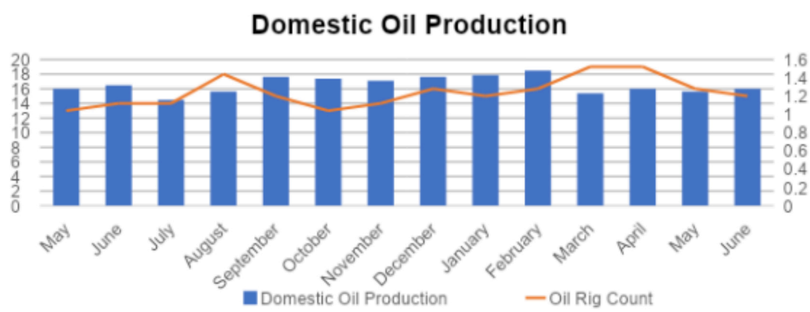
OIL PRICES

In the first half of July, Brent's price fell by 2.6% to close at $84.85 per barrel on July 15, down from $86.6 per barrel on July 1. This decline was primarily driven by optimism about a Gaza ceasefire deal, which would likely ease supply concerns, and weak demand from China. China's GDP shrank to 4.7% in Q2'24 from 5.3% in Q1'24, further impacting prices. On average, Brent rose by 6.80%, reaching $86.01 per barrel in the first half of July, compared to $80.53 per barrel during the corresponding period in June.

OIL PRODUCTION

In July, domestic oil production increased by 2.4% to 1.28 million barrels per day, up from 1.25 million barrels per day in May. Additionally, the number of oil rigs in the country decreased to 15 units in June from 16 in May. OPEC's average production in June was 26.57 million barrels per day, a decrease of about 80,000 barrels per day compared to May 2024. Specifically, Nigeria and Venezuela saw increased production, while production in Saudi Arabia and the republic of Congo experienced a decline.





Source: Bloomberg, FDC Think Tank

Outlook

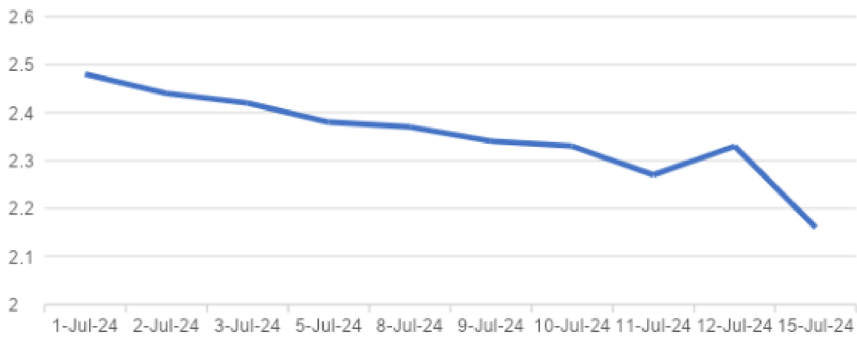
The EIU expects oil prices to remain volatile, forecasting an average of $83.7 per barrel for Brent crude in 2024 and $80.6 per barrel in 2025. Any threats to oil shipments, especially from potential conflict between Iran and Israel, could push prices above $100 per barrel. In the near term, oil prices are anticipated to be bullish due to escalating Middle East tension after Israel Killed Hamas and Hezbollah Leaders Ismail Haniyeh and Fuad Shukr on July 31. Additionally, Israel has vowed to eliminate Hamas new leader Yahya Sinwar, who they believed masterminded the October 2023 attack on Israel.

Implication

The increase in oil prices will positively impact Nigeria's oil revenue and increase external reserves, stabilizing the exchange rate.

NATURAL GAS

In the first half of July, the price of natural gas sharply declined by 12.90%, dropping from $2.48/MMBtu on July 1 to $2.16/MMBtu on July 15. This decrease was driven by weak Chinese demand and rising U.S. output. On average, the price of natural gas during the first half of July plunged by 18.40%, to $2.40/MMBtu, compared to an average of $2.88/MMBtu in the corresponding period in June.



Source: Bloomberg, FDC Think Tank

Outlook

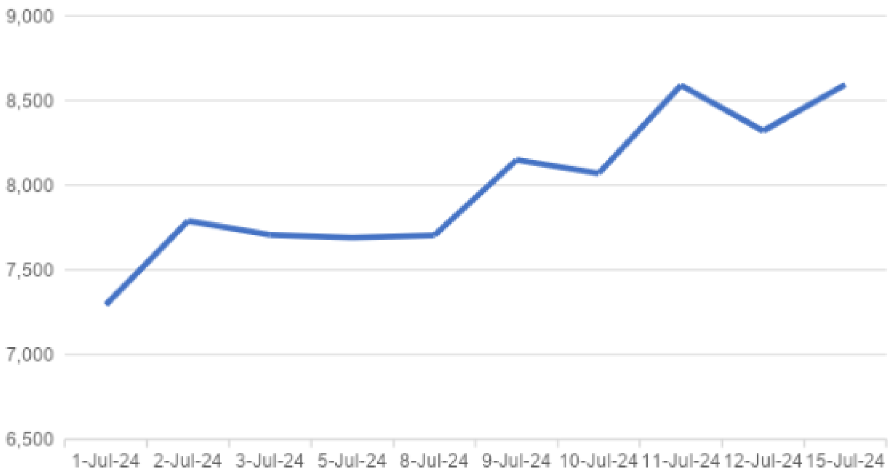
Gas prices are expected to increase in the near term due to improved demand as more countries turned to demand for the first time. The decision by U.S. natural gas producers to cut output will further support prices.

Implication

A rise in LNG prices will increase Nigeria's foreign reserves and export earnings. However, the increase in domestic demand for Natural gas amidst low production, will offset the gains from its earnings.

COCOA

The price of cocoa surged in the first half of July to $8,595/mt, up 17.85% from $7,293/mt on July 15. This increase in cocoa prices is mainly due to production concerns among top cocoa growers in the Ivory Coast and Ghana. Additionally, increased demand from global chocolate suppliers supported the price. On average, the prices plummeted by 16.10% to $7,991/mt in the first half of July compared to $9,524/mt during the same period in June.



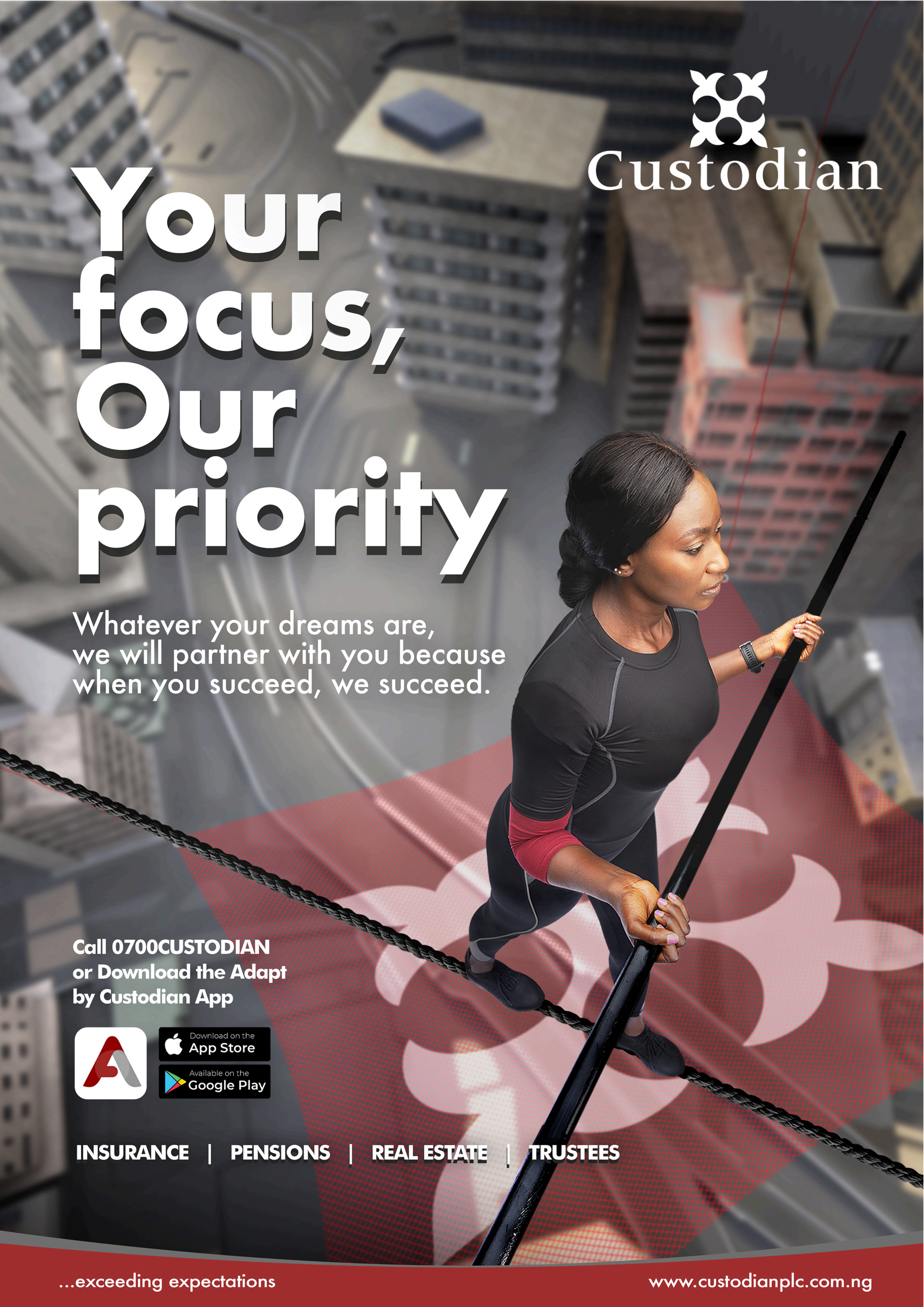
Source: Bloomberg, FDC Think Tank

Outlook

In the short term, cocoa prices are anticipated to rise due to concerns that a global cocoa shortage will persist. Low cocoa production in Ivory Coast and Ghana, the world's largest cocoa producers, will support cocoa prices. Signs of more robust global chocolate demand will also support cocoa prices.

Implication

Increased cocoa price will enhance foreign earnings and non-oil export revenues, thereby improving external reserves. Additionally, higher cocoa prices will woo investors' confidence in cocoa farming and increase cocoa farmers' incomes.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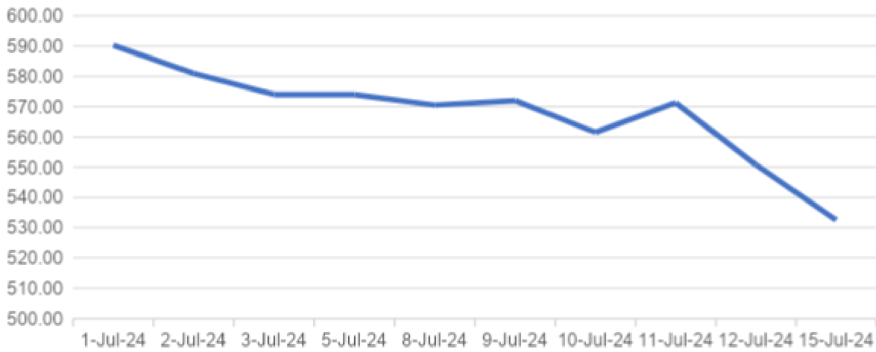
COMMODITY IMPORTS

WHEAT

In the first half of July, the price of wheat fell by 9.78% to $532.50/bushel on July 15 from $532.50/bushel on July 15. This decline was triggered by bumper harvests in the U.S. and India, as favourable weather conditions helped increase production. The price was also supported by cheap exports from Russia. On average, wheat prices slipped by 10.75% to $567.78/bushel during the review period from an average of $636.20/bushel in the first half of June.



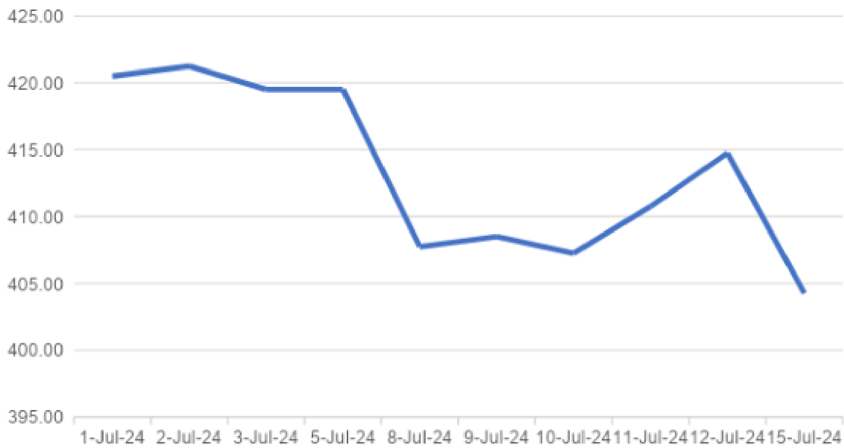
Source: Bloomberg, FDC Think Tank

Grains- Outlook

Grain prices are expected to decline in the near term, driven by ample supplies from leading producers, such as the U.S., Russia, Brazil, and India, as improved weather conditions boost supplies. The U.S. has reported great progress in its harvest compared to the 2023/2024 season. Similarly, the local price of grains will likely decline in Nigeria following the government's directives to waive import duty. The price of 50kg of wheat flour has remained flat at N59,000 over the past month and could start to decline in the near term.

CORN

In the first half of July, the price of corn fell by 3.86% from $420.50/bushel to $404.25/bushel on July 15. This decrease in corn price was driven by ample corn supply from the U.S., Brazil and Argentina. On average, corn prices stood at $413.40/bushel in the first half of July, marking an 8.99% decrease from $454.23/bushel in the first half of June.



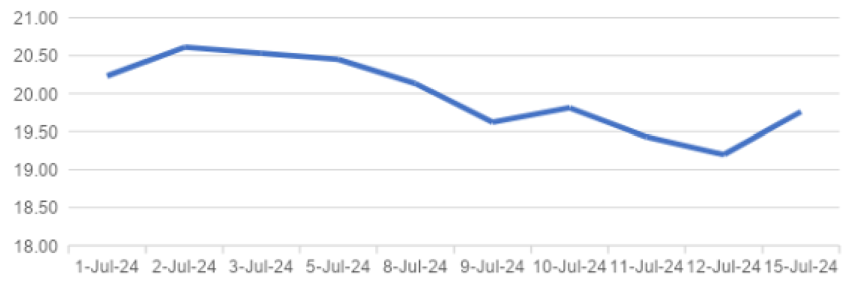
Source: Bloomberg, FDC Think Tank

Grains-Impact

The fall in grain prices is anticipated to lower import costs, positively impacting manufacturers' production expenses and the prices of grain derivatives like cornflakes, wheat flour, and bread. However, this could alleviate inflationary pressures.

SUGAR

During the first half of July, the price of sugar dropped by 2.32% to $19.76/pound on July 15 from $19.04/pound on July 1. This decrease was driven by an increase in Brazil and India's sugar output due to improved weather conditions. On average, the price of sugar stood at $19.98/pound in the first half of July, indicating a 4.94% increase compared to the average of $19.04/pound in the second half of June.



Source: Bloomberg, FDC Think Tank

Outlook

Favourable weather conditions in Brazil and India, the top global producers of sugar are expected to boost supply. This will likely taper global sugar prices in the near term.

Implication

The fall in sugar prices will lower Nigeria's import bill and improve its trade balance. Additionally, it could lower inflationary pressures as prices of sugar derivatives decline.

Terms of Trade

In Q1'24, the country's terms of trade decreased by 0.12% and are expected to remain negative in the near term. This is due to the 2.34% decline in Nigeria's oil production to 1.25 million barrels per day in May from 1.28 million barrels per day in April. Similarly, falling cocoa prices below $8,000/mt and low output will further deteriorate the trade balance.

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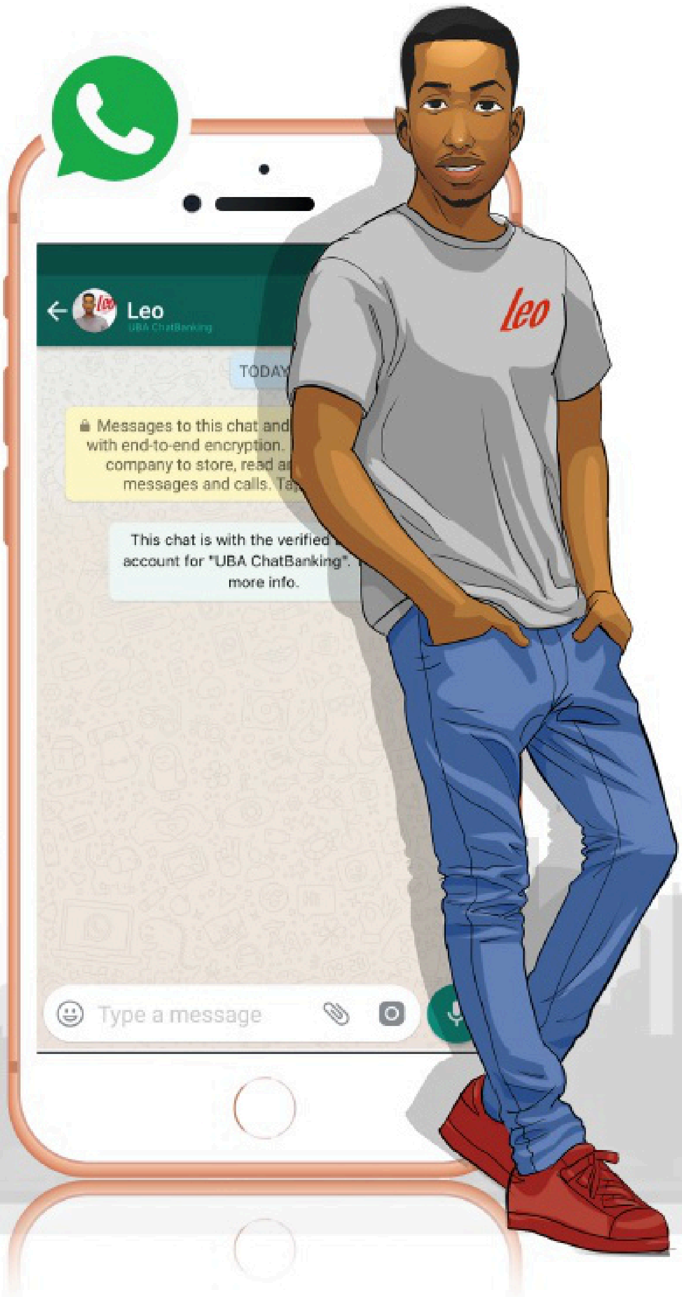

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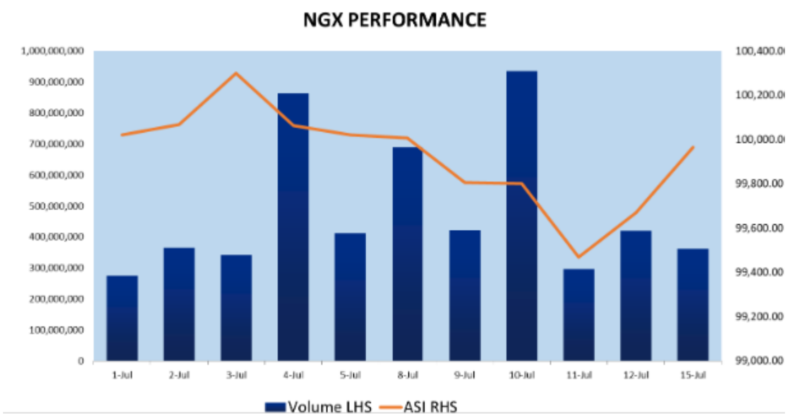
STOCK MARKET REVIEW

JULY 1ST TO 15TH

The Nigerian Stock Exchange closed negatively from July 1st –15th, 2024. It lost marginally by 0.05% to close at 99,966.28 points on July 15th, down from 100,020.83 points on July 1st. However, the market capitalization increased slightly by 0.05% to N56.61 trillion relative to its close of N56.58 trillion on July 1st, as some companies were temporarily suspended.



Source: NGX, FDC Think Tank

The market YTD return was 33.69% in the first half of July. The market breadth was positive at 1.23x, as 49 stocks gained, 65 remained unchanged, and 40 lost. The lacklustre performance of the NGX can be attributed to diminished investor confidence, dampened by profit-taking and dividend-related price adjustments.

The market activity level was positive in the review period. The average volume traded increased by 1.64% to 489.70mn units from 481.79mn units. Similarly, the average value of trades fell by 36.53% to N11.25bn from N8.24bn in the first half of June.

The performance of the sectors was mixed, as three sectors gained while two lost. The Oil and Gas sector recorded a gain of 4.40%, followed by the Banking sector (3.14%) and the Insurance sector (2.12%). Meanwhile, the consumer Goods sector lost 0.72%, followed by the Industrial sector (-0.25%).

SECTOR PERFORMANCE

Banking	Industrial	Insurance	Oil &Gas	FMCG
3.14%	0.25%	2.12%	4.40%	-0.72

TOP 5 GAINERS

Conoil Plc, a Nigerian energy provider in Petroleum exploration, production, manufacturing, and marketing, led the gainers' list with a 30.43% increase in its share price. This was followed by Livestock Feeds Plc (28.65%), Veritas Kapital Assurance Plc (23.71%), Royal Exchange Plc (21.67%), and Caverton Offshore Support Group Plc (21.54%).

TOP 5 LOSERS

The laggards were led by CWG Plc (-18.34%), a Pan African system solution company specialising in IT services. . This was followed by Julius Berger Nig. Plc (-14.80%), Africa Prudential Plc (-13.33%), Linkage Assurance Plc (-12.73%) and Ikeja Hotel Plc (-11.46%).

TOP 5 GAINERS

Company	July-01 (N)	July-15 (N)	Absolute Change	Change (%)
CONOIL	105.00	136.95	31.95	30.43%
LIVESTOCK	1.85	2.38	0.53	28.65%
VERITASKAP	0.97	1.20	0.23	23.71%
ROYALEX	0.60	0.73	0.13	21.67%
CAVERTON	1.30	1.58	0.28	21.54%

TOP 5 LOSERS

Company	July-01 (N)	June-14 (N)	Absolute Change	Change (%)
CWG	8.45	6.90	1.55	-18.34%
JBERGER	98.00	83.50	14.50	-14.80%
AFRIPRUD	9.00	7.80	1.20	-13.33%
LINKASSURE	1.10	0.96	0.14	-12.73%
IKEJAHOTEL	7.85	6.95	0.90	-11.46%

Outlook

We anticipate a bullish market performance in the near term due to bargain hunting activities following the recent market selloff in July (-2.28%). The naira's stability following the retail dutch auction system is also boosting investor sentiment in the equities market.

WHISPERS OUTLOOK

- Oil prices are projected to increase in the near term, supported by persistent tensions in the Middle East and hopes of the Fed cutting rates as U.S. inflation slowed to 2.9% in July 2024.
- Higher oil prices coupled with the increase in Nigeria's oil production in July (up 2.34% to 1.31 million barrels per day from 1.28 million barrels per day in June) will likely bolster foreign exchange earnings and reinforce the CBN's ability to intervene in the forex market.
- Already, the CBN's reintroduction of the Retail Dutch Auction System (RDAS) has brought some stability to the forex market, with the naira currently trading between N1,590-N1,600/$. We expect this trend to continue in the coming weeks as forex supply improves, with a likely RDA early September.
- The naira's expected stability amid the harvest season, the import duty waiver, and base effects will further ease price pressures, until year-end.
- However, inflation risks persist due to underlying factors, including the recent minimum wage increase, insecurity, and poor infrastructure that impede agricultural sector productivity.
- Meanwhile, we expect the Monetary Policy Committee (MPC) to maintain its tightening stance in its September meeting until the ease in inflationary pressures is sustained for a longer period.