

WHISPERS

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WHEN WE SPEAK, THE WORLD UNDERSTANDS



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The Whispers Overview

The whole world, including Nigeria, awaits the US Fed decision in September

Nigeria is part of the global financial community that is awaiting the outcome of the US Fed meeting to be held in September. The consensus view is that there will be an interest rate cut, though opinions differ on the magnitude. While some analysts believe that rate will be cut by 25 basis points (bps), others anticipate a 50-bps rate cut. Regardless, an interest rate cut will weaken the US dollar and, by implication, strengthen the naira, which is currently trading at N1,625/\$. Additionally, the global price of oil and other export commodities will rise, improving Nigeria's trade balance and bolstering revenue. This is coming at a time when Nigeria has a debt problem. With a weakened US dollar potentially easing external debt repayment pressures, Nigeria could see some relief in servicing its debt obligations.

Naira is set for a rebound

While a possible rate cut by the US Fed offers positive implications for Nigeria, efforts by the CBN to boost FX liquidity are expected to further support the naira in the coming weeks. A \$500 million diaspora bond has been issued to boost remittances and attract investment. The proceeds from the bond issuance, coupled with the CBN's reintroduction of the retail Dutch auction system, which is expected to hold another auction in September, will stabilize the

naira. A sustained naira stability will ease price pressures, with inflation slowing throughout the remainder of 2024. The slowdown in inflation will be supported by the harvest season, base effects, and an import duty waiver.

It's not yet Uhuru

Despite the projected deceleration in inflation, we expect the MPC to maintain a tightening stance in its next meeting in September. This could pose a threat to the country's growth prospects. The recently released GDP report showed an expansion of 3.19% compared to 2.98% in Q1'24 and 2.51% in Q2'23. However, the stark reality is that 78% of the 46 economic activities tracked by the NBS experienced either a slowdown or contraction during the quarter. This widespread underperformance is particularly concerning as it involves "labour elastic" sectors—industries where changes in economic activity have substantial impact on employment levels.

The slowing sectors, including agriculture (1.41% vs. 1.5% in Q2'23), trade (0.71% vs. 2.41% in Q2'23), and manufacturing (1.28% vs. 2.20% in Q2'23), are struggling with deep-seated structural challenges. These persistent issues not only hinder sectoral performance but also cast a long shadow over job creation and economic stability.

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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The Role of Microfinance in Alleviating Poverty in Rural Nigeria

According to the National Bureau of Statistics, 63% of Nigerians suffer from multi-dimensional poverty. The rural areas experience higher poverty rates at 72% as opposed to the urban areas with 42%. This is because they lack adequate access to education, financial services and funding for their businesses. Microfinance institutions (MFIs) could help with this divide by providing financial services such as microloans, micro leasing, microinsurance, and money transfers to aid the poor in growing or starting businesses. Microfinance also helps provide tutoring on financial skills, which helps people manage money wisely and sustain businesses, which helps the rural residents have a consistent source of income, this improves their capacity to provide the basic needs for themselves and their families, alleviating poverty.

However, Nigerian MFIs often overlook rural communities due to perceived high risks and low returns. As a bigger problem, only 20% of rural households can access microfinance services. Also, MFIs lack adequate support from

the government organizations as the government can aid in subsidizing the interest rates or provide insurance for the loans given. MFIs often have high interest rates. Interest rates on microloans can reach as high as 30% annually because of the cost of running microfinance operations, which makes it challenging for small enterprises to succeed. Lastly, the employees of Nigerian MFIs are often not sufficiently skilled or committed to running these businesses in a way that minimizes poverty, this is because of the assumed trade off between prioritizing profit and alleviating poverty. These compounding problems leave many Nigerians without access to essential financial services, hindering national development, compounding the problem of regional inequalities, and perpetuating a cycle of deprivation that stifles economic growth and social progress. For MFIs to indeed contribute to addressing Nigeria's multidimensional poverty problem, they need to take a different approach.

Lessons from Bangladesh – Grameen Bank

Grameen Bank from Bangladesh is perhaps the most cited example of excellence in microfinance, and with reason. Established by

¹ Daily Trust. September 29, 2021. "Immigration Realities: Nigeria's loss, West's gain, Neighbours' win". <https://dailytrust.com/immigration-realities-nigerias-loss-west-gain-neighbours-win/>

² (Unicef Migration Profiles)/(United Nations Department of Economic and Social Affairs, Population Division)

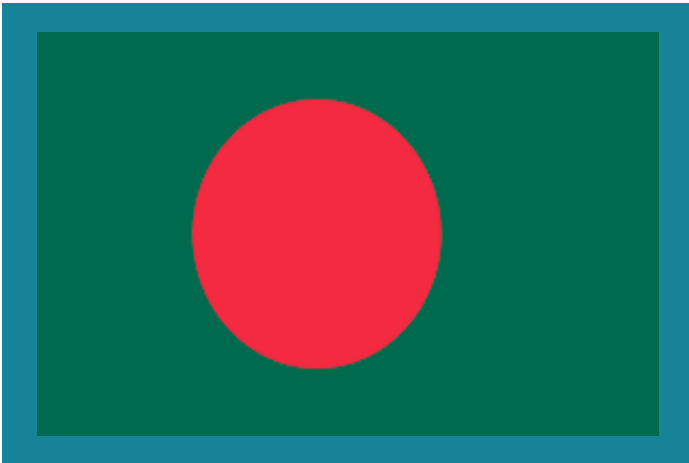
³ International Centre for Investigation Reporting. 2022. "Nigeria has the highest number of migrants to the UK – Report". <https://www.icimigeria.org/nigeria-has-highest-number-of-migrants-to-the-uk-report/>

⁴ Bunmi Bailey . August 24, 2023. "UK student visas to Nigerians surge 73% in one year". Business Day. <https://businessday.ng/news/article/uk-student-visas-to-nigerians-surge-73-in-one-year/>

⁵ Julia Homstein. December 8, 2023. Nigerian students critical to ongoing success of Canada's international education sector. CIC NEWS. <https://www.cicnews.com/2023/12/nigerian-students-critical-to-ongoing-success-of-canadas-international-education-sector-1241466.html#gs.4yn7uv>

⁶ Ayo Oyoze Baje , October 8, 2023. "Nigerian universities and the brain-drain challenge" Business day. <https://businessday.ng/backpage/article/nigerian-universities-and-the-brain-drain-challenge/>

⁷ Chukwuma Muanya, September 7, 2022. "Doctor-patient ratio worsening in Nigeria, NMA warns". The Guardian. <https://guardian.ng/news/doctor-patient-ratio-worsening-in-nigeria-nma-warns/>



government decree in 1983, it aims to empower the impoverished by providing credit for self-sustenance without external aid. The bank's initial goal was to investigate the theory that people living in poverty might support themselves independently and profitably without outside help if they were given access to working cash. By 2024 it was able to reach 94% of the villages in the country and provided financial services to close to 45 million people. Furthermore, as of 2024, Grameen Bank has helped up to 21,383 members transition from begging to being self-sufficient.

The Bank focused more on alleviating poverty than on making a profit. It did so by catering to rural communities, providing training, subsidized loans, and bank workers to monitor the use of the loan with the support of government in helping to subsidize loan rates. This ensured that the people who needed the loans, utilized them effectively, which created a source of income for the client and reduced poverty. Additionally, Grameen Bank adopted a cooperative loan strategy that contributed to its success. This involves giving out loans to individuals in groups. Small loans are guaranteed by members of the borrower group, and pressure within the group encourages borrowers to pay back the loans

promptly. This approach reduces default rates, ensuring that other individuals within the group remain eligible to take more loans to invest in their businesses.

The most obvious impact of the Grameen Bank was the poor's ability to accumulate capital. A survey conducted in 1991 on households in five project villages covered by the Bank and two control villages outside of the Bank's control found that approximately 63% of families lacked any livestock. When this survey was repeated in 1992, this number dropped to 45%, which happened during the 24th month period, thanks to Grameen Bank's microloans, which enabled families to invest in livestock.

In addition, the same survey found that the Grameen Bank's intervention led to job creation. The Bank provided microcredit to people to create income-generation activities or to further invest in existing income-generating activities. Most of the newly established jobs were held by women, of whom 50% did not have a primary job before joining the bank. This dropped to 29% with Grameen Bank's provision of microloans to invest in livestock farming and to support those already engaged in agricultural labor and petty trade. When the follow-up survey was conducted a year later, one-third of the women who previously worked as unpaid domestic helpers were also employed. Furthermore, 91% of respondents said they felt their standard of living had improved due to Grameen Bank. The primary reason attributed to this was an increase in the accumulation of capital.

MFIs in Nigeria can gain insights from the Grameen Bank by implementing the

⁸ Chinedu Okafor. September 2, 2023. "A report shows that Nigerians are the second-largest tech migrants in Canada". Business Insider Africa. <https://africa.businessinsider.com/local/markets/a-report-shows-that-nigerians-are-the-second-largest-tech-migrants-in-canada/hne2ckw>

⁹ Nwokolo, C. I., Ogbuagu, M. I., & Isola, W. A. 2021. "Migrant's remittance and investment financing nexus in Africa: Does investment climate matter?" *Future Business Journal*, 7, 1-11. <https://link.springer.com/article/10.1186/s43093-021-00053-0>

¹⁰ Statista 2024. "Value of remittance inflows to Nigeria from 2011 to 2022". <https://www.statista.com/statistics/1012368/remittance-inflows-to-nigeria/>

¹¹ The World Bank. June 13, 2023. "Remittances remain resilient but likely to slow". <https://www.worldbank.org/en/news/press-release/2023/06/13/remittances-remain-resilient-likely-to-slow>

¹² Wahba, J. 2021. "Who benefits from return migration to developing countries?". *IZA World of Labor*. https://wol.iza.org/articles/who-benefits-from-return-migration-to-developing-countries/long#:~:q=return%20migration&from_view=abstract

¹³ Global Compact for Migration, December 7, 2018. "Morocco's Migration Policies and the Global Compact for Safe, Orderly and Regular Migration". https://migrationpolicy.unescwa.org/sites/default/files/policies/2018_Morocco_Migration_Policy_and_GCM_Report.pdf

¹⁴ Hein de Haas, March 19, 2014. "Morocco: Setting the Stage for Becoming a Migration Transition Country?". *Migration Policy Institute*. <https://www.migrationpolicy.org/article/morocco-setting-stage-becoming-migration-transition-country#>

¹⁵ David Simcox and Leon Bouvier. December 1, 1986. "Population, Unemployment and Emigration in Mexico and the Caribbean". *Center for Immigration Studies*. <https://cis.org/Report/Population-Unemployment-and-Emigration-Mexico-and-Caribbean>

cooperative strategy supported by NGO partnerships and government organizations. Starting with pilot initiatives in specific areas, lessons can be used to scale the model nationwide to reach more people. Group lending provides rural borrowers with access to credit without collateral, relying on social pressure and support within groups to boost repayment rates and build community trust, accountability, and mutual support.

Furthermore, Nigerian MFIs can lower interest rates by streamlining their operations and obtaining low-cost funding sources such as grants from the government, international development companies, and social impact investors. Reductions in the cost of microloans will reduce the burden of large repayments and encourage entrepreneurship and local economic growth. Also, Nigerian MFIs should make financial literacy a prerequisite for loan approval. The MFIs can partner with non-governmental groups, academic institutions, and global organizations to offer thorough training courses to promote financial literacy; this will help people make better financial decisions to improve their welfare.

Microfinance has the potential to alleviate poverty in rural Nigeria, and creative problem-solving techniques adopted by Bangladesh's Grameen Bank are needed. A cooperative strategy coupled with staff and loan applicants training involving the government, foreign organizations, and private investors will help to bolster progress in the rural communities and promote economic growth. Nigerian MFIs extending microfinance services in disadvantaged areas will help boost economic growth by increasing employment and output and alleviating poverty.



Grameen Bank

⁸ Chinedu Okafor. September 2, 2023. "A report shows that Nigerians are the second-largest tech migrants in Canada". Business Insider Africa. <https://africa.businessinsider.com/local/markets/a-report-shows-that-nigerians-are-the-second-largest-tech-migrants-in-canada/hne2ckw>

⁹ Nwokolo, C. I., Ogbuagu, M. I., & Isola, W. A. 2021. "Migrant's remittance and investment financing nexus in Africa: Does investment climate matter?" *Future Business Journal*, 7, 1-11. <https://link.springer.com/article/10.1186/s43093-021-00053-0>

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¹³ Global Compact for Migration, December 7, 2018. "Morocco's Migration Policies and the Global Compact for Safe, Orderly and Regular Migration". https://migrationpolicy.unescwa.org/sites/default/files/policies/2018_Morocco_Migration_Policy_and_GCM_Report.pdf

¹⁴ Hein de Haas, March 19, 2014. "Morocco: Setting the Stage for Becoming a Migration Transition Country?". *Migration Policy Institute*. <https://www.migrationpolicy.org/article/morocco-setting-stage-becoming-migration-transition-country#>

¹⁵ David Simcox and Leon Bouvier. December 1, 1986. "Population, Unemployment and Emigration in Mexico and the Caribbean". *Center for Immigration Studies*. <https://cis.org/Report/Population-Unemployment-and-Emigration-Mexico-and-Caribbean>



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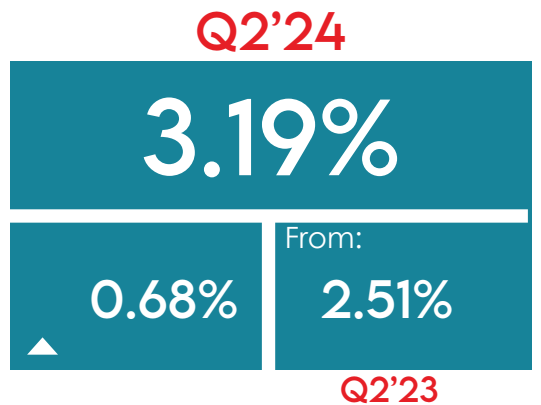
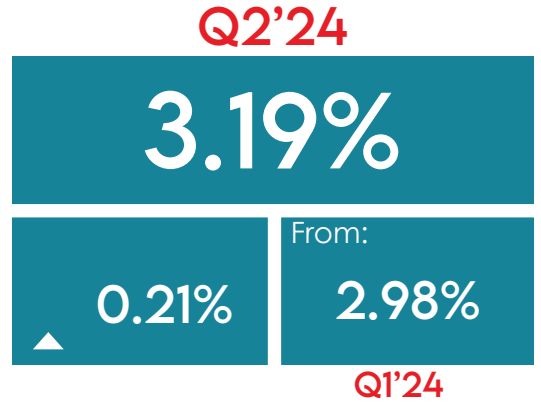


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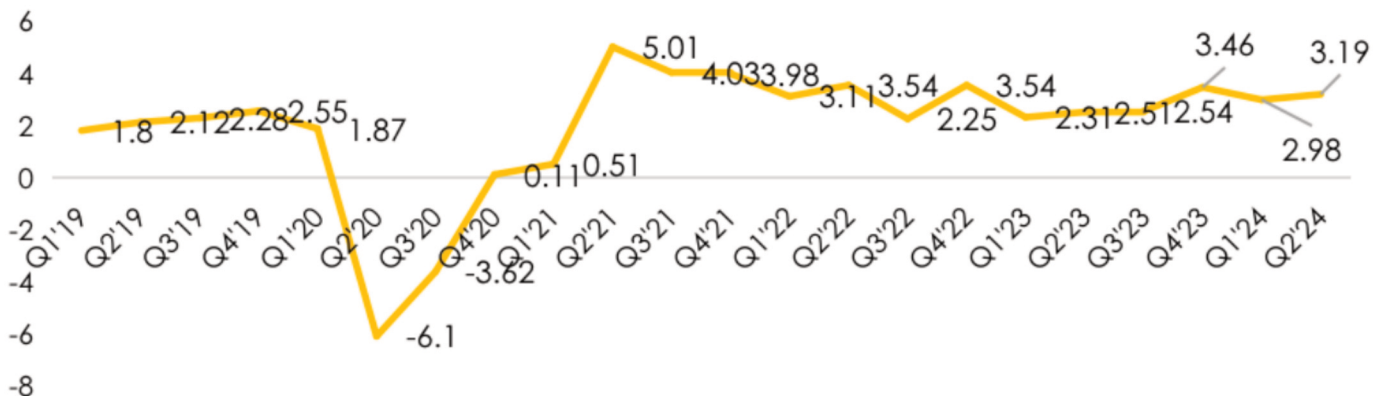
GDP AT 3.19% NOT YET UHURU

The National Bureau of Statistics (NBS) released Q2 GDP numbers for Nigeria today. Good news! Nigeria's GDP for Q2'24 rose to 3.19% year-on-year. Should we be excited? Not so fast. Compared to Q2'23, when the GDP grew by 2.51%, Q2'24 appeared to have performed better. However, a deep dive into the analysis revealed that in Q2'23 there was the issue of low liquidity (Naira redesign)—the lingering effects of the currency change on POS, tribunal petitions, and the contentions around President Tinubu's swearing-in. The average PMI in Q2,'23 was 46.33, inflation was 22.6%, and the interest rate was around 18.7%. In the same Q2'23, the exchange rate was N460/\$ and the average FDI was about \$86.02Mn.

In Q2'23, 14 sectors expanded, 24 slowed, and 8 contracted. The expanded sectors include crop production, metal ores, quarrying, electricity, accommodation and food services, rail transport and pipelines, water transport, telecoms, broadcasting, arts, financial institutions, insurance, public administration, and education.



REAL GDP GROWTH (%)



Source: NBS, FDC Think Tank

BUSINESS ACTIVITIES TRACKED BY THE NBS

10

25

11

EXPANDED

SLOWED

CONTRACTED

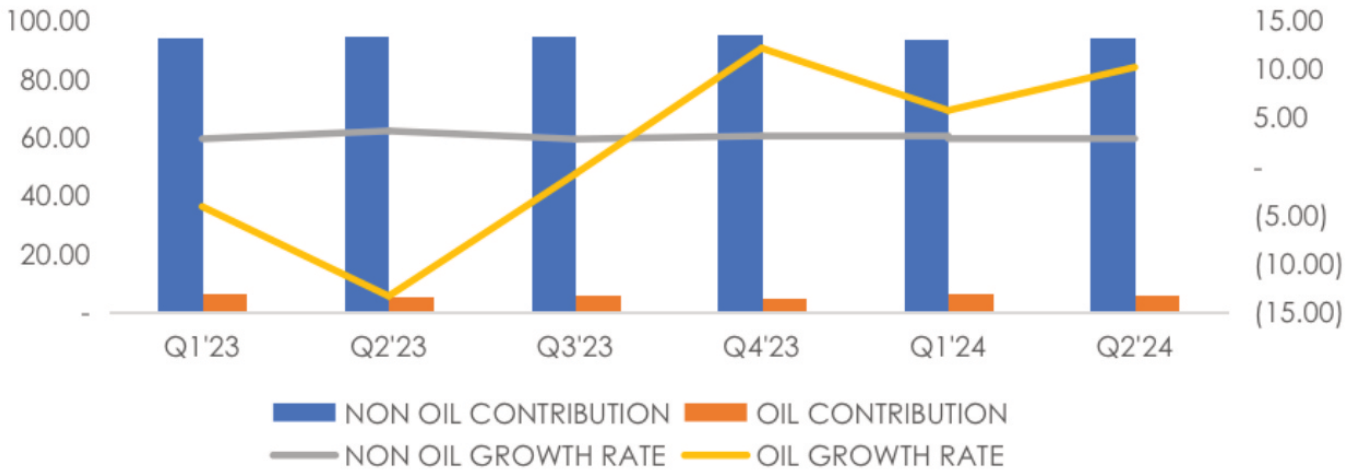
Fast forward to Q2'24, the economic realities are different. If the increase in supply results from an increase in demand, demand is a function of how much money economic agents have to spend. In Q2'23, people did not have cash to pay for goods and services. In Q2'24, people have the cash to spend, but the petrol price has increased; the exchange rate is now N1,500/\$, and inflation is at 33.40%. The average PMI in Q2'24 was 51.06 and the interest rate was 26.25%.

The breakdown of the Q2'24 growth shows that crude oil and gas production expanded by 10.15%. Over the last two quarters, the oil sector has expanded, but before then it was in recession. The oil sector, apart from its output measure, is the principal productivity-aiding commodity. The expansion in Q2'24 was also driven by the oil & gas sector, but most importantly gas production and export increased tremendously in Q2'24. Also, the services sector, which accounted for 58.76% of the total GDP and grew by 3.79%. The financial institutions grew by 30.37%, while the insurance

grew by 13.30%; the financial and insurance sectors contributed 6.39% to the Q2'24 GDP. These sectors remain key drivers of the economy. Additionally, the stability is the exchange rate around N1,500/\$, and the harvest season had a significant positive impact on Q2 growth.

Sectoral analysis for the quarter showed mixed results. The agriculture sector experienced a slight decline, with growth slowing to 1.41% from 1.50% in Q2 2023. Conversely, the industrial sector grew by 3.53%, a sharp contrast to the negative growth of -1.94% recorded in Q2 2023. The oil sector saw a remarkable growth rate of 10.15% in Q2 2024, rebounding from a -13.43% contraction in Q2 2023, following a positive growth of 5.70% in Q2 2024. However, this growth in the oil sector did not translate into increased revenue, as oil production fell from 1.57 million barrels per day (mbpd) in Q1 2024 to 1.41 mbpd in Q2 2024. Meanwhile, the non-oil sector grew by 2.80% in Q2 2024, consistent with Q1 2024 but lower than the 3.58% growth in Q2 2023. The non-oil sector contributed 94.30% to GDP, while the oil sector's contribution stood at 5.70% in Q2 2024.

Oil Sector Vs. Non-Oil Sector



Sectoral Activity Overview

To further explain the Q2 2024 performance, the NBS monitored 46 economic activities. The report indicated that 10 of these activities expanded, representing 22% of Nigeria's business activities in Q2 2024. While the inflation rate eased slightly from 34.19% to 33.40%, it remains a critical challenge, impacting various sectors of the economy, including business operations. In contrast, 25 sectors experienced slowdowns, and 11 sectors contracted, with many being sensitive to employment dynamics, currency devaluation, and increased insecurity.

Interestingly, the road and aviation sectors contracted by -15.88% and -11.17%, respectively. The rise in petrol and aviation kerosene increased transport costs, therefore demand for transport services dropped.

Agricultural Sector Performance

Crop production in Nigeria has been on a decline over the past two years, largely due to insecurity, including farmer-herder clashes and kidnappings for ransom. This has reduced crop yields, affected farmers' livelihoods, and exacerbated food insecurity. The agriculture sector grew by 1.23% to 1.41% in Q2 2024, up from 0.18% in Q1 2024.

Outlook for Q3 2024

Despite the stronger-than-expected growth of 3.19% in Q2 2024, up from 2.98% in Q1 2024, the outlook for Q3 2024 remains cautiously optimistic.

In other words, it is too soon to bring out the champagne glasses.



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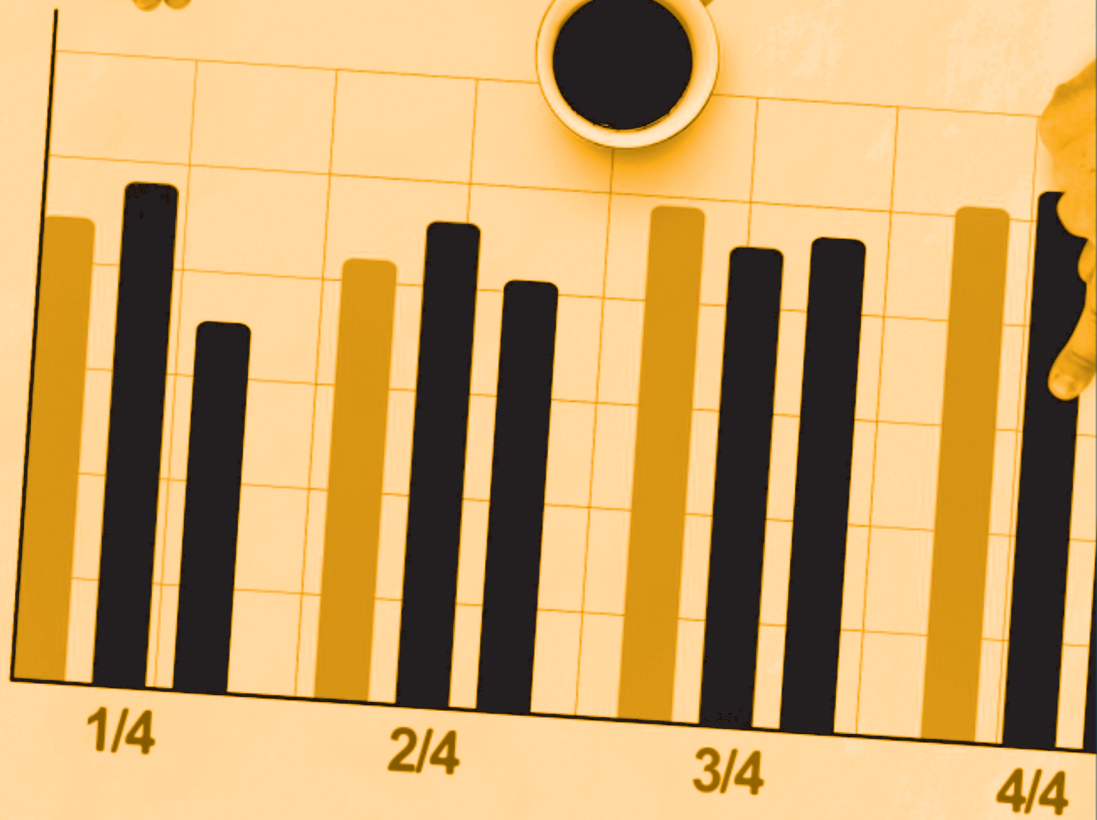
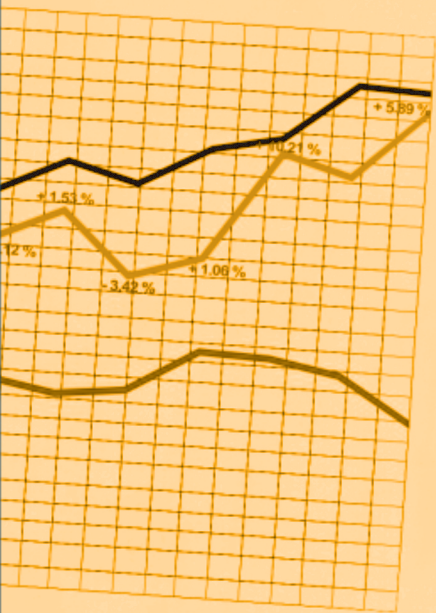


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Typi non habent claritatem insitam; est usus legentis in iis qui facit eorum claritatem. Investigationes demum quod ii legunt saepius. Claritas est etiam processus dynamicus, qui sequitur mutationem consuetudinum le- quam littera gothica, quam nunc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

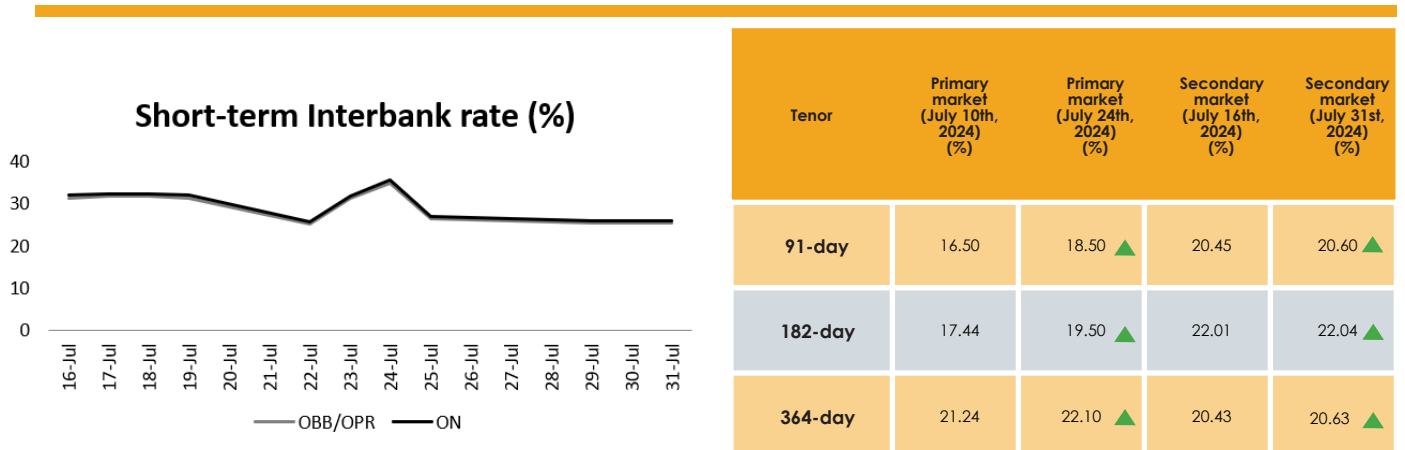
MACRO ECONOMIC INDICATORS

JULY 16TH – 31ST

MONEY MARKET

Banks' average opening position was N27.09bn short in the second half of July, compared to the average of N721.04bn long in the second half of June. No OMO sale was made during the period, while there was one OMO repayment. Short-term interbank rates (OPR, O/N) averaged 29.19% p.a. in the second half of July, 464bps up from the average of 24.55% p.a. in June.

One primary market auction was conducted in the second half of July. A total sum of N277.96bn was allotted. This is 4.36% lower than the total sum of N290.64bn allotted in the same period in June. However, primary market repayment amounted to N238.74bn. Primary market rates increased in all tenors. Similarly, at the secondary market, all yields increased at all tenors.



Tenor	Primary market (July 10th, 2024) (%)	Primary market (July 24th, 2024) (%)	Secondary market (July 16th, 2024) (%)	Secondary market (July 31st, 2024) (%)
91-day	16.50	18.50 ▲	20.45	20.60 ▲
182-day	17.44	19.50 ▲	22.01	22.04 ▲
364-day	21.24	22.10 ▲	20.43	20.63 ▲

Source: FDC Think Tank

Source: FMDQ, FDC Think Tank

Outlook and Implication

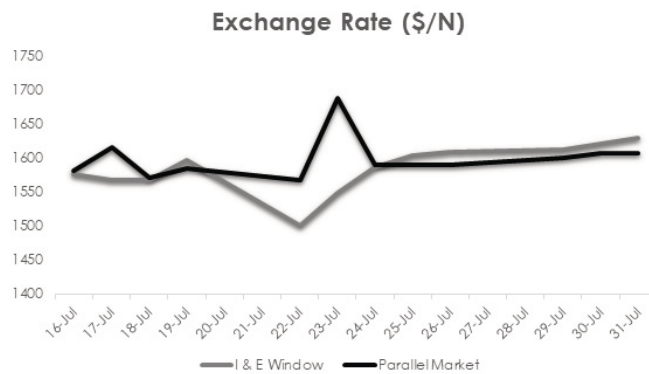
Short-term interbank rates are expected to remain elevated as the CBN maintains its hawkish stance by increasing the MPR by 50 basis points to 26.75% p.a., to rein in inflation and stabilize the exchange rate. This will likely keep short-term interbank rates on a bullish trend, thereby increasing borrowing costs for banks and tightening liquidity.

FOREX MARKET

The forex market is undergoing reforms with the adoption of a "willing-buyer-willing-seller" model by the CBN, allowing the exchange rate to be influenced by demand and supply dynamics. Key factors affecting the exchange rate include balance of payments, capital inflows, and trade balance. The CBN on Wednesday, August 7, 2024, reintroduce the retail Dutch Auction System in a bid to boost forex supply, control volatility and stabilize exchange rate.

EXCHANGE RATE

At the Investors' and Exporters' Foreign Exchange window, the naira depreciated by 3.29% against the dollar to close at N1628.47/\$ on July 31 from N1576.66/\$ on July 16 due to speculative activities of investors and high demand for dollars. Similarly, at the parallel market, the currency depreciated by 1.52% to N1605.00/\$ on July 31 from N1581.00/\$ at the beginning of the review period due to inflation and increased demand for foreign exchange.



Source: FDC Think Tank

Outlook

The naira is anticipated to stabilize in the near term as CBN reintroduces the Retail Dutch Auction System to control exchange rate volatility and sell the dollar in a more transparent way to eligible end users.

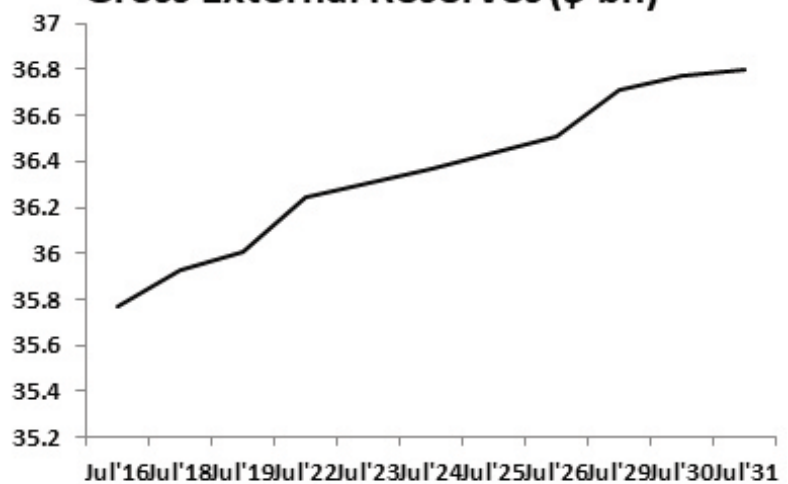


EXTERNAL RESERVES

Nigeria's external reserves rose by 2.88% to close at \$36.8bn on July 31, up from \$35.77bn at the beginning of the period (July 16). On average, gross external reserves increased by 7.26% (\$2.46bn) from \$33.9bn in the same period in May. This steady increase in gross external reserves can be attributed to the inflow of capital importation, which was \$2.55bn in the second quarter of 2024. Additionally, external reserves increased on a rise in diaspora remittances, which have gone up to \$2.34bn as of the end of June 2024. However, according to the IMF, \$8bn of the reserves are encumbered while the net reserve is \$28.8bn as at July 31.



Gross External Reserves (\$'bn)



Source: CBN, FDC Think Tank

Outlook

In the near term, we anticipate a steady improvement in external reserves, driven by the inflow of foreign portfolio investments and Diaspora remittances.

Impact

A sustained increase in external reserves will help stabilize the naira by enabling the CBN to intervene in the forex market as needed. Additionally, it will boost investors' confidence in the economy.



COMMODITY EXPORTS

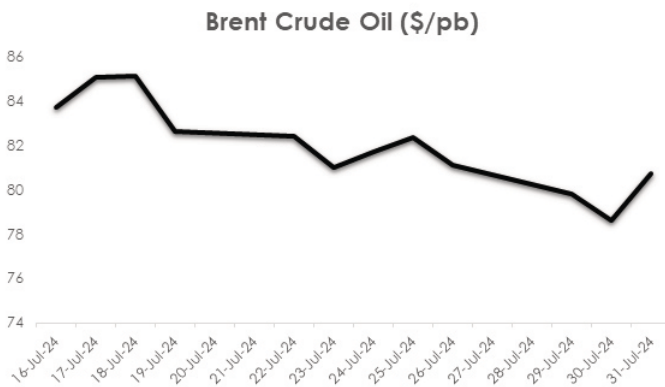
Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

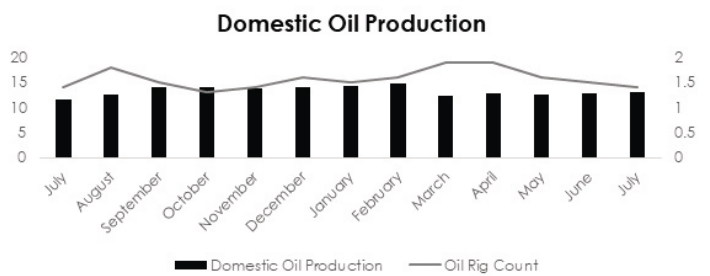
During the second half of July, Brent's price plunged by 3.59% to close at \$80.72 per barrel on July 31, down from \$83.73 per barrel on July 16. The decrease was primarily driven by weak Chinese demand, the world's largest oil consumer. The price was further bolstered by Gaza ceasefire talks. On average, Brent fell by 4.02%, reaching \$82.03 per barrel in the second half of July, compared to \$82.80 per barrel during the corresponding period in June.

OIL PRICES

In July, domestic oil production increased by 2.34% to 1.31 million barrels per day, up from 1.28 million barrels per day in June. Additionally, the number of oil rigs in the country decreased by one to a total of 14 units in June. OPEC's average production in July was 26.75 million barrels per day, a decrease of about 185,000 barrels per day compared to June 2024. Specifically, output increased in Saudi Arabia, Iraq and Iran saw increased production declined in Libya.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

The EIU expects oil prices to remain volatile, forecasting an average of \$83.7 per barrel for Brent in 2024 and \$80.6 per barrel in 2025. Any threats to shipments, especially from potential conflict between Iran and Israel, could push prices above \$100 per barrel.

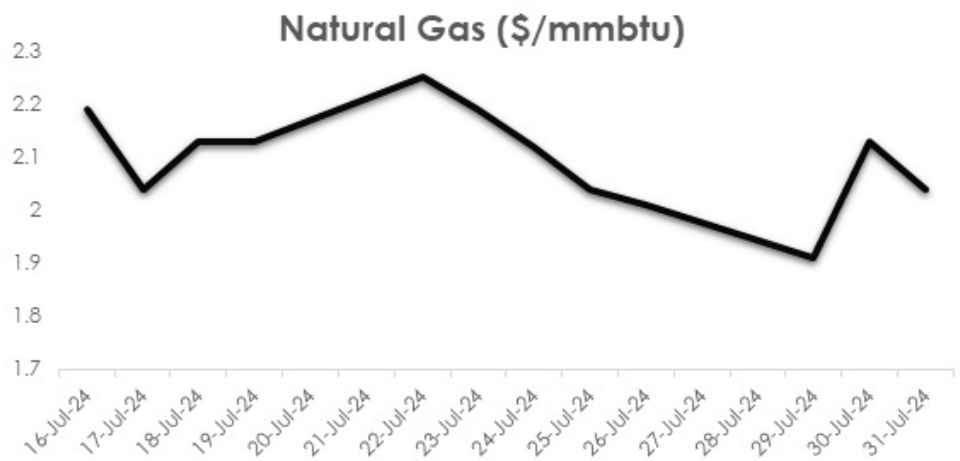
We expect the prices of oil to be elevated in the near term on hopes of the Fed cutting rates as U.S. inflation slowed to 2.9% and lower than analysts expectation, which will bolster the demand for oil.

Implication

With an increase in Nigeria's oil production, a rise in oil prices is expected to increase Nigeria's oil revenue and improve external reserves, positively affecting the exchange rate. Additionally, this could bolster FAAC allocation for states in the coming months.

NATURAL GAS

During the second half of July, the price of natural gas plunged by 6.85% dropping from \$2.19/MMBtu on July 16 to \$2.04/MMBtu on July 31. This decrease was due to the resumption of full production on the U.S. Freeport LNG after a hurricane-related shutdown and further supported by glut global supply. On average, the price of natural gas during the review period plummeted by 23.36%, reaching \$2.1/MMBtu, compared to an average of \$2.74/MMBtu in the corresponding period in June.



Source: Bloomberg, FDC Think Tank

Outlook

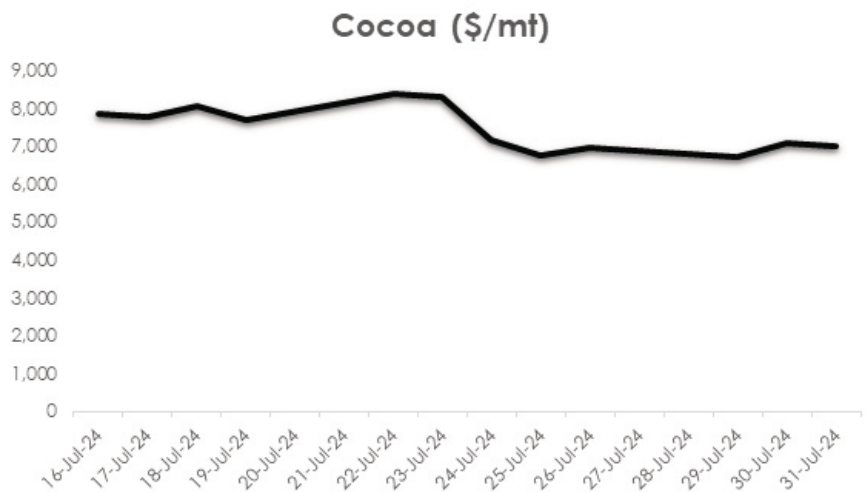
The price of LNG is expected to rise in the near term due to anticipated higher gas demand as a result of rising temperatures in the U.S. Additionally, Russian gas supplies to Europe remain uncertain as the current transit deal through Ukraine is close to expiration. This will further tighten supply.

Implication

An increase in the price of LNG will raise Nigeria's foreign reserves and export earnings. However, low domestic production, supported by an increase in domestic demand, could lower potential export earnings and aid external reserve accretion.

COCOA

The price of cocoa plunged in the second half of July to \$6,991/mt, down 10.87% from \$7,844/mt on July 16. This decline in cocoa prices is mainly attributed to an improved production outlook for top cocoa growers (Ivory Coast and Ghana) in the next season, supported by prospects of weaker demand from chocolate manufacturers in Europe. On average, the price of cocoa plummeted by 10.40% to \$7,473/mt in the second half of July, compared to \$8,340/mt during the same period in June.



Source: Bloomberg, FDC Think Tank

Outlook

In the short term, cocoa prices are anticipated to rise on growing demand for cocoa, despite expectations of improved crop prospects during the next season in Ivory Coast and Ghana, top producers of cocoa.

Implication

An increase in price of cocoa will increase non-oil export earnings, and improve Nigeria's balance of payment. This will also increase cocoa farmers' standard of living.

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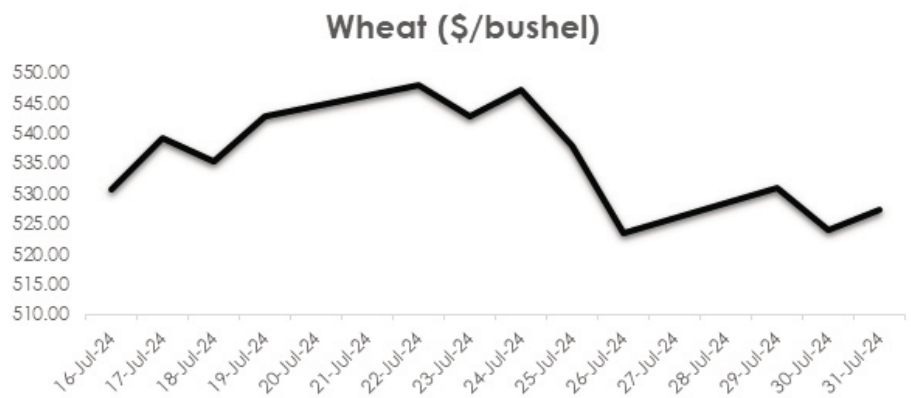
• Paris



COMMODITY IMPORTS

WHEAT

In the second half of July, the price of wheat fell by 0.66% to \$527.25/bushel on July 31 from \$530.75/bushel. This decline was triggered by the winter harvest in the U.S. and the reduction in export duty on Russian wheat. It was further supported by cheap supply from the Black Sea region. On average, wheat prices plunged by 7.52% to \$535.77/bushel during the second half of July, up from an average of \$579.31/bushel in the second half of June.



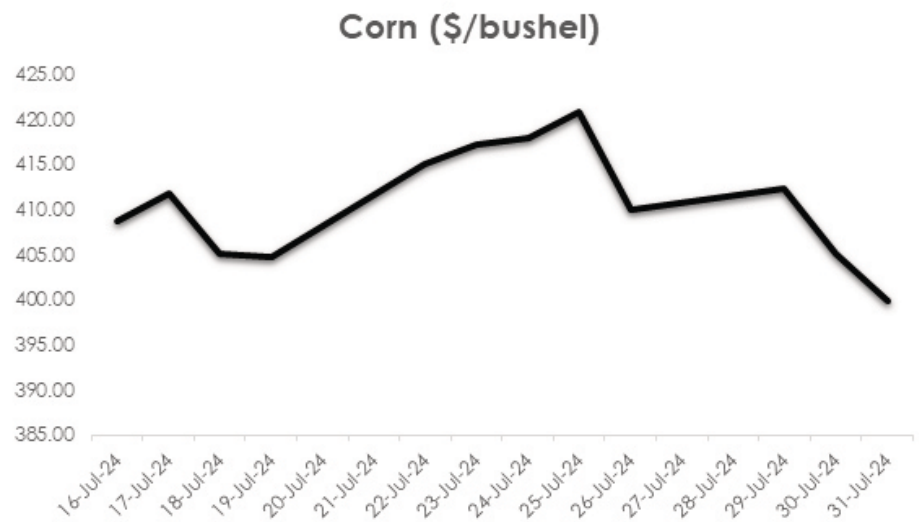
Source: Bloomberg, FDC Think Tank

Outlook - Grains

Grain prices are expected to decline in the near term due to abundant supplies from leading producers, in the U.S., Russia, and India. It will further be supported by lower imports into Asian countries, including China. Similarly, with the commencement of import free duty on grains on August 15 into Nigeria, the prices of grains and its derivatives are expected to remain low.

CORN

In the second half of July, the price of corn slipped by 2.20% declining from \$408.75/bushel to \$399.75/bushel on July 31. This decrease in corn price was driven by improved U.S. crop ratings and supported by the ongoing harvest in Brazil. On average, corn prices stood at \$410.69/bushel in the second half of July, marking a 8.20% decrease from the average of \$410.69/bushel in the second half of June.



Source: Bloomberg, FDC Think Tank

Implication - Grains

The fall in grain prices is anticipated to lower import costs for grain, impacting production expenses for manufacturers and the prices of grain derivatives like cornflakes, wheat flour, and bread. This could exacerbate inflationary pressures.

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. However, Nigeria's oil production increased by 2.34% in July to 1.31mbpd from 1.28mbpd in June, this is still below OPEC's quota of 1.5mbpd. Similarly, falling cocoa prices below \$8,000/mt and low output will further deteriorate the trade balance.



SUGAR

During the second half of July, the price of sugar dropped by 3.47% to \$18.94/pound on July 31, from \$19.62/pound. This decrease was driven by robust sugar output in Brazil and India. The price was also supported by a global surplus supply outlook between September and October in the 2024-25 seasons. On average, the price of sugar also fell by \$3.79% to \$18.76/pound in the review period, compared to the average of \$19.50/pound in the second half of June.



Source: Bloomberg, FDC Think Tank

Outlook

The price of sugar is expected to be bearish in the short term due to ample supplies from Brazil and India. India has a larger than expected sugar reserve of 9.1MMT and a surplus of 3.6MMT from 2023-24 seasons. In addition, India currently uses more of its sugarcane for sugar than ethanol, boosting sugar production.

Implication

The bearish sugar price will lower Nigeria's import bill. Additionally, the price can make imported sugar cheaper thereby lowering the cost for consumers on products that contain sugar, such as beverages and confectionaries.



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STOCK MARKET REVIEW

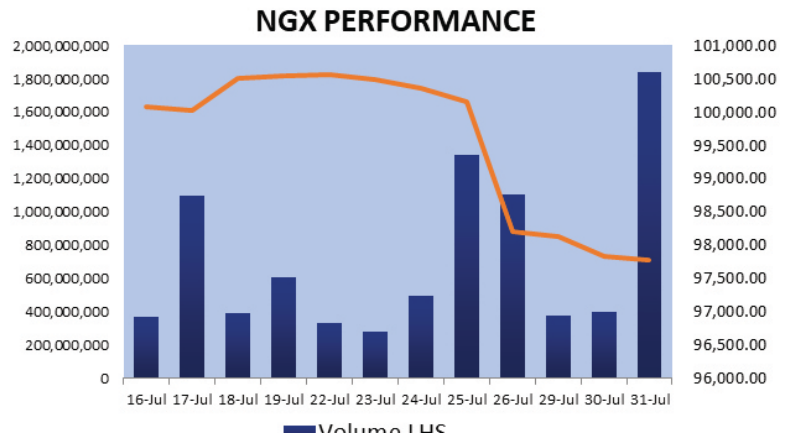
JULY 16TH – 31ST

The Nigerian Stock Exchange closed negative marginally from July 16th–31st, 2024. It lost 0.04% to close at 99,555.49 points on July 31st, down from 99,598.48 points on July 16th. Additionally, the market capitalization rose by 0.12%, reaching N56.41 trillion compared to N56.34 trillion on July 16th.

The market YTD return was 30.76% in the preceding period. The market breadth was positive at 0.62x, as 34 stocks gained, 62 remained unchanged, and 55 lost. The negative performance was fueled by apprehensive investors' confidence as a result of the windfall tax on banks, as most banking stocks suffers drastic decline. The increase in interest rate by 50 basis points by the CBN to 26.75% p.a also impacted the performance of the Nigerian stock market, as investors shifted to fixed-income investments.

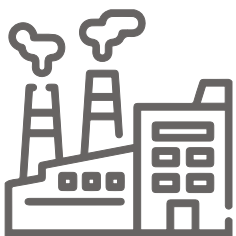
The market activity level was negative in the second half of July. The average volume traded decreased by 3.23% to 719.87mn units from 743.91mn units. Similarly, the average value of trades fell by 21.10% to N10.17bn from N12.89bn in the review period.

During the second half of July, sector performance was mixed, with only one sector showing a gain of 1.37%. Conversely, the banking sector declined by 6.90%, followed by the industrial sector (-5.88%), the insurance sector (-4.10%), and the consumer goods sector (-3.67%).



Source: NGX, FDC Think Tank

SECTOR PERFORMANCE



Industrial

-5.88



Oil & Gas

1.37



FMCG

-3.67



Insurance

-4.10



Banking

-6.90

TOP 5 GAINERS

Oando Plc, one of Africa's largest integrated energy solutions companies providing a diverse range of services such as exploration and energy services, gas and power marketing, supply, trading, and refining, led the gainers' list with a 56.25% increase in its share price. This surge was driven by strong buying interest in the company's stocks. This was followed by Custodian Investment Plc (20.53%), Julius Berger Nig. Plc (16.17%), Neimeth International Pharmaceuticals Plc (14.71%), and Sovereign Trust Insurance Plc (12.24%).

TOP 5 LOSERS

The laggards were Secure Electronic Technology Plc, (-31.58%), Omatek Ventures Plc (-26.32%), Veritas Kapital Assurance Plc (-17.50%), Vitafoam Nigeria Plc (-17.45%), and Zenith Bank Plc (-17.25%).

TOP 5 GAINERS				
Company	July-16 (N)	July-31 (N)	Absolute Change	Change (%)
OANDO [MRF]	16	25.00	9.00	56.25%
CUSTODIAN	9.5	11.45	1.95	20.53%
JBERGER	83.5	97.00	13.50	16.17%
NEIMETH [BLS]	1.7	1.95	0.25	14.71%
SOVRENINS	0.49	0.55	0.06	12.24%

TOP 5 LOSERS				
Company	July-16 (N)	July-31 (N)	Absolute Change	Change (%)
NSLTECH [MRF]	0.57	0.39	-0.18	-31.58%
OMATEK [RST]	0.76	0.56	-0.20	-26.32%
VERITASKAP	1.2	0.99	-0.21	-17.50%
VITAFOAM	21.2	17.50	-3.70	-17.45%
ZENITHBANK	40	33.10	-6.90	-17.25%

Outlook

The market was negative in the second half of July, with the ASI falling to 99,555.49 points on July 31, driven by bank stocks that depreciated as the Senate seeks to amend the Finance Act 2023 and impose a one-time windfall tax on banks foreign exchange gains realized in their 2023 financial statements, undermining investors' confidence. Additionally, the industrial sector, insurance sector, and the consumer goods also contributed to the market's negative close. In the near term, we anticipate the market will remain bearish as investors capitalize on higher fixed income yields.

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 at least one more RDA in 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.
- ★ Despite the expected deceleration in inflation, 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.
- ★

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