August 7, 2024

PRISM

P R I S M

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The Prism (Biznomics) Overview: Global & Domestic

CBN reintroduces retail dutch auction as protests subside

The misalignment of the naira has been a persistent concern for an extended period, and policymakers face the challenge of establishing its fair value compared to the market value. One way of doing this is through an efficient price discovery mechanism, with options ranging from a retail Dutch auction, wholesale auction, and interbank system to allocation and rationing. The key aim is to ensure that those who need foreign exchange can obtain it at an effective price, which the retail Dutch auction system (RDAS) would enable due to its transparent approach.

The RDAS is expected to be a solution for efficient price discovery to reduce the misalignment of the naira from its fair value. This would help stabilize the naira, easing the cost-of-living crisis driven by the naira's rapid depreciation and surging inflation. The cost-of-living crisis catalyzed the ongoing 10 days of protest in Nigeria, which began on August 1. While the intensity of the protest has subsided, over 30 lives have been lost, with an estimated N800bn worth of properties destroyed, in addition to an output loss exceeding N1.3trn.

High national debt-the double-edged sword

Opinions on the over-reliance of national debt as a source of financing development projects are sharply divided among economists. While Keynesians argue in favour of borrowing to finance capital and developmental projects, the Austrian school hold an opposing view due to concerns about resource misallocation and long-term sustainability. Today, the effects of rising debt levels vary widely. In Nigeria and Zambia, general government debt increased by 586% and 1056% respectively from 2014 to 2023, while per capita income fell by 48% ($1,688) and 20% ($3,223). Conversely, India saw a 193% rise in debt, and its per capita income increased by 60.3% to $2,500. Countries facing debt overhangs are now encouraged to pursue sovereign deleveraging, such as through sustainability debt swaps.

In this latest edition of FDC Prism, the Think Tank in-depthly analyzes these recent economic shifts, shedding light on what lies ahead for Nigeria in the coming weeks.

From Streets to Sanctums - World in Revolt Against Authority

02

"...when a long train of abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government.. ." Thomas Jefferson

The above quote taken from the transcript of Thomas Jefferson's Declaration of Independence in 1776, which has been codified as **"When injustice becomes law, resistance becomes duty,"** has become the holy grail of antigovernment protests around the world. Since 2017, over 700 antigovernment protests have been recorded in more than 147 countries around the world.

Source: Carnegie endowment; FDC

Citizens in various countries have taken to the streets to voice their discontent with their governments, demanding political reforms, accountability, social justice, and the repeal of unpopular economic policies. This phenomenon reflects a growing dissatisfaction with established political systems and a desire for change among populations worldwide.

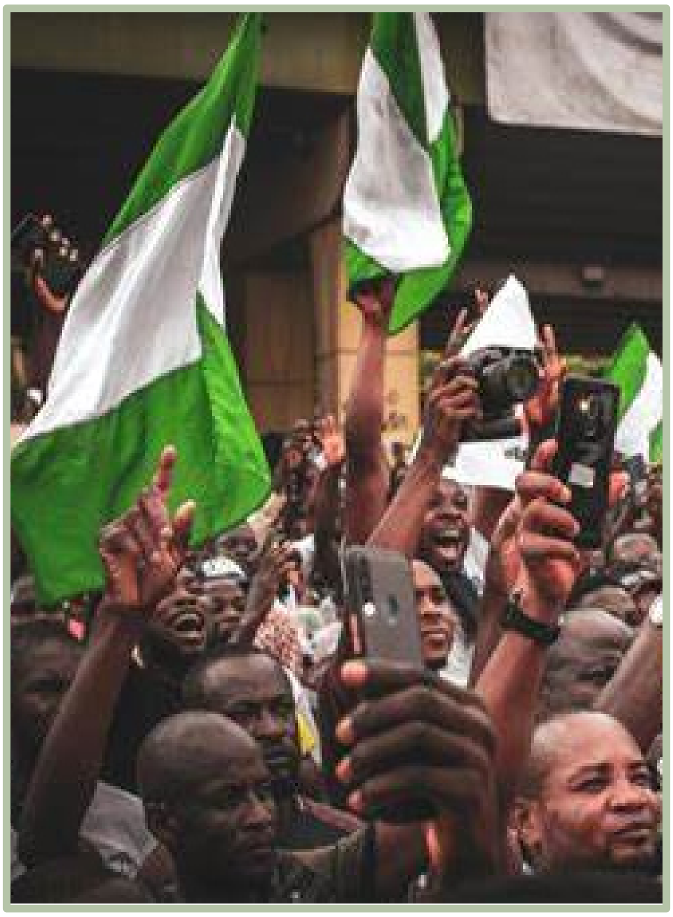
One of the key drivers behind the surge in antigovernment protests is the widespread perception of government corruption and lack of transparency. Many protesters believe that their governments prioritize the interests of the elite and powerful at the expense of the general population. Examples of this can be seen in countries like Bangladesh, where university students spearheaded a protest demanding restructuring discriminatory traditional and quota-based systems for government job recruitment.

Additionally, economic hardships and inequalities have also played a significant role in fueling antigovernment protests in places like Nigeria, Kenya, and France. Whatever, the outcomes of antigovernment protests are, the economic consequences of antigovernment protests reverberate beyond the barricades. As they say, “When the streets speak, the markets listen.”

How far is Nigeria from Bangladesh or Sri Lanka?

Nigeria is currently rattled in a nationwide protest codenamed “hunger protest” and organized on social media through the hashtag "#EndBadGovernance." The 6-day old protest (as of August 6) is expected to continue for the next four (or more) days. The protest was fueled by citizens' discontent with President Tinubu's economic policies. The reforms implemented to stimulate the economy have contributed to a significant devaluation of the naira and a surge in living expenses. Protesting against the government's failure to tackle these pressing concerns, the populace is expressing their frustration over the widespread hunger and poverty that have ensued.

There is a high risk that this protest could be an unintended descent from Bangladesh’s recent experience. In Bangladesh, Prime Minister Sheikh Hasina was forced out of Bangladesh into exile by defiant protesters who have been on the streets of Bangladesh since June. The protests erupted over a contentious job quota favoring 1971 war descendants, seen as discriminatory. Students and professionals push for merit-based selection, accusing Prime Minister Sheikh Hasina's government of corruption and rights violations. Intensifying violent clashes and loss of life led to a demand for conducting a new election. The Junta seized government and appointed interim government after the exiled prime minister’s resignation was televised.



In 2022, a similar incidence happened in Sri Lanka when former President Gotabaya Rajapaksa fled the country following the overrun of his residence by mass protesters. The protest was sparked by Sri Lanka’s worst economic crisis, marked by shortages of essential supplies, which were attributed to corruption and poor governance under the Rajapaksa administration.

These events underscore the influence of popular movements in holding governments accountable and driving significant political transformations fueled by public dissatisfaction.

Economic Costs of Antigovernment Protests

The economic cost of protests in Nigeria is significant, with disruptions to businesses, supply chains, and investor confidence.

A total shutdown of the economy due to a nation-wide protest could cost about N300 to N600bn in output loss per day. If the protest gets violent, the economic cost could be as high as N800bn to N1.2trn per day.

The ongoing "End Bad Governance" protests have led to the loss of over 22 lives and N800bn worth of properties, in addition to an estimated output loss of N1.3trn. The instability and uncertainty surrounding the protests could also deter foreign investment and impact the overall business environment. As the protests persist, the country faces challenges in addressing economic reforms and restoring stability, further exacerbating the economic toll of the unrest.

Governments must adjust to the new world.

In today's interconnected world, the democratization of access to information and the ease of mobilizing protests through social media have reshaped the global governance landscape. Governments must adapt to this new reality by being responsive to the aspirations of their citizens and enhancing communication channels.

To prevent unrest, governments should prioritize addressing the needs and concerns of the people promptly. Transparency, accountability, and inclusive decision-making processes are essential in building trust and fostering social cohesion. By focusing on creating shared prosperity and ensuring equitable distribution of resources, governments can mitigate social and antigovernment unrest. Embracing openness, engaging with diverse stakeholders, and demonstrating a commitment to serving the public interest are crucial steps for governments to navigate the evolving dynamics of governance in the digital age.

03

Debt Trap or Benefit Pie – Nigeria's Borrowing Experience

"Public debt is a ticking time bomb that threatens to burden future generations with insurmountable financial obligations." ***- Paul Ryan, the 54th speaker of the United States House of Representatives (2015 - 2019).***

The above quote is a synopsis of the overwhelming public perception of public debt. Although it holds to some extent, it is not all that there is about sovereign debt. The former World Bank President, Jim Yong Kim, averred that "effective utilization of sovereign debt can empower nations to embark on transformative development projects that drive inclusive growth and prosperity." Indeed, sovereign debt plays a crucial role in economic development by providing governments with the means to finance infrastructure projects, human capital development, and economic stimulus measures during economic downturns. In Japan, South Korea, and China, sovereign debt was a growth catalyst that engineered their industrial takeoff and fostered sustainable development.

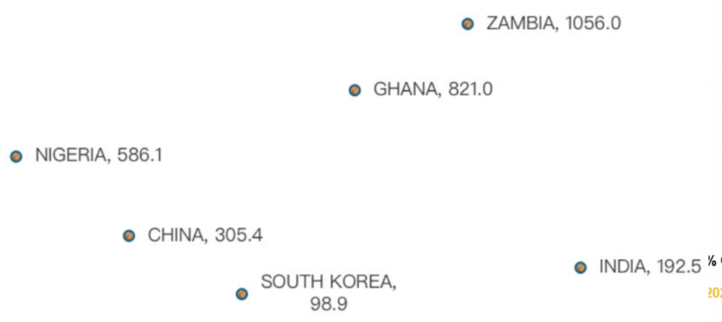
However, sovereign debt can be a double-edged sword, fostering growth in the short term while potentially paving the way for a debt crisis if not managed prudently. Debt crises in Greece, Zambia, Ghana, etc., offer lucid examples of the danger of mismanagement of debts. While debt accumulation is usually well-intended, if the envisaged economic benefits fail to materialize, the risk of a debt trap is bound to materialize.

Since obtaining debt forgiveness in 2005, Nigeria has embarked on a borrowing spree that has raised concerns about the sustainability of its debts. Over the past decade, Nigeria's debt as a percentage of GDP has quadrupled, leading to a situation where debt servicing consumes over 70% of the country's revenue. With the borrowing headroom narrowing, two questions in the mind of most Nigerians are: where are the benefits of the accumulated debts, and is Nigeria in a debt trap?

Nigeria's Sovereign Debts and the Benefit Pie

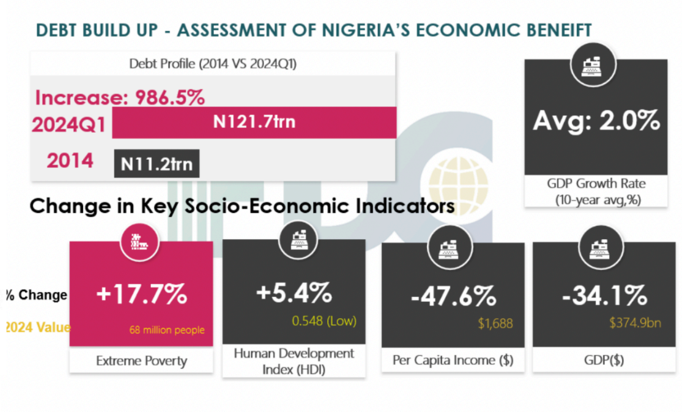
The past decade has witnessed a stratospheric increase in global debt levels partly due to heightened economic downturns and an extended period of low interest rates. In Nigeria, general government debt rose by 586% in the past ten years (2014 to 2023). Other countries that experienced astronomical debt increases include Zambia (1,056%), Ghana (821%), China (305%), India (193%), and South Korea (99%).

Figure 1.A Ten-year increase in sovereign debt (%) of selected countries



Source: IMF/ FDC Staff calculation

Figure 1.B Debt Buildup and Assessment of Nigeria's Economic Benefit



Nigeria's public debt rose to N108 trillion (46% of GDP) in 2023 from N15.8 trillion (17.8% of GDP) in 2014. These borrowings were to be channeled to productive activities such as infrastructure, industrial, and human capital development. However, Figure 1.B suggests Nigeria may not have translated its borrowing into national prosperity. In the past ten years, Nigeria's per capita income has plunged 48% to $1,688 from $3,223 in 2014. Economic growth remained tepid at an average growth rate of 2%, while the human capital development index is still staggering at the low end of the pole (0.548). The extremely poor people rose to 68 million from 57 million in 2014. Like Nigeria, income per capita fell by 20% in Zambia as its debt level rose by over 1000% in the past ten years. Zambia's economic growth also staggered around 3.3%, which is 3.1% below its potential growth rate of 6.4%.

Contrarily, countries like India, China, and South Korea have benefited from debt buildup. For example, India raised its debt by 193% between 2014 and 2023. Within the same period, extremely poor people declined by 247 million to 28 million. Its per capita income rose by 60.3% to $2,500 from $1,500 in 2014. China also raised its per capita income by approximately 64% and maintained an average growth rate of 6% (same as India's) between 2014 and 2023. This shows that whether debt will be a bitter pill or a growth catalyst will depend on how it is used or managed.

Table 1.A Debt accumulation and key development indicators

	% increase in debt stock (2014-2023)	Debt-to-GDP Ratio (%,2023)	Change in per capita income (%, 2014-2023)	10 year Avg Real GDP growth	HDI
NIGERIA	586.1	46.3	-47.6	2	0.548
CHINA	305.4	83.6	63.7	6	0.788
SOUTH KOREA	98.9	55.2	13.5	2.5	0.929
GHANA	821.0	86.1	15.7	4	0.602
ZAMBIA	1056.0	115.2	-19.9	3.3	0.569
INDIA	192.5	82.748	60.3	6	0.644

The Subtle Path to Debt Trap

Over the past two decades, Nigeria has witnessed a massive debt buildup, often accumulated impulsively rather than supporting productive and sustainable investments. This has raised concerns about the debt trap, which has garnered increasing attention in recent times, particularly in developing economies. A debt trap occurs when a borrower, whether a country or an individual, becomes ensnared in a cycle of borrowing to repay existing debt, leading to a deepening debt burden that is challenging to overcome.

More often than not, the path to a debt trap begins with countries making initial borrowing decisions to finance development projects or address economic challenges. As countries continue to borrow to meet debt obligations or fund deficits, debt accumulation becomes a significant concern. This could be heightened by inappropriate debt governance and inefficient public spending. Debt trap could also be engineered by debt trap diplomacy, a situation where a neocolonialist offers unfettered access to loans to weak countries that may not have the capacity to pay back. China, the World Bank, and the IMF have been accused of debt trap diplomacy at different times.

Figure 1.C Debt trap loop

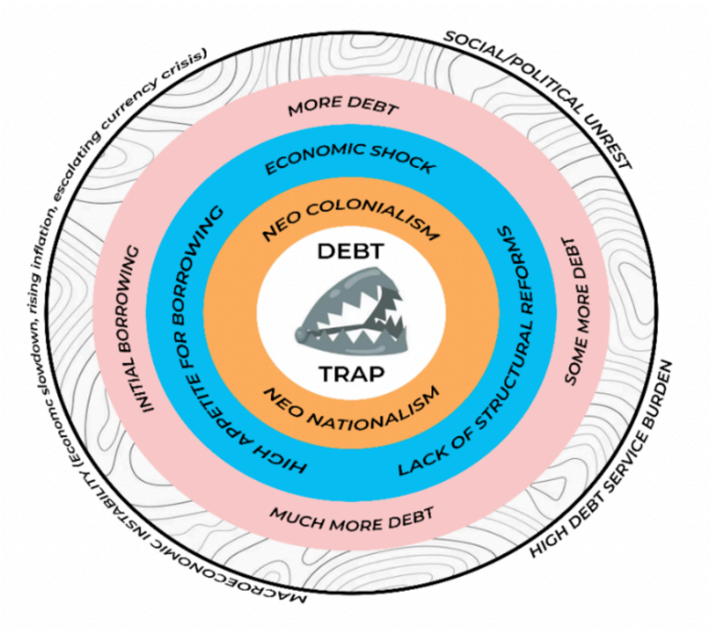
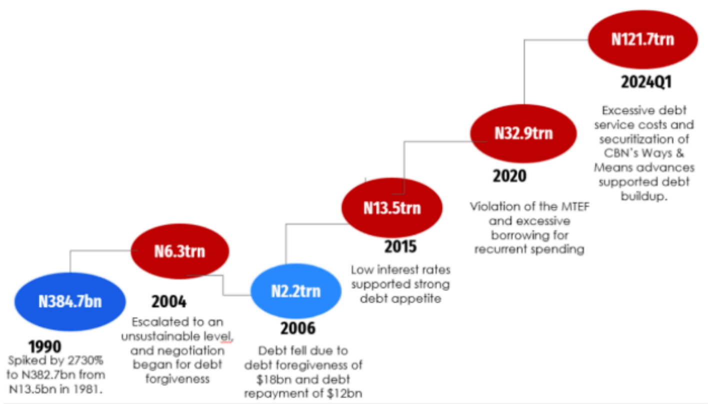


Figure 1.D Nigeria's path to debt accumulation



Nigeria's path to debt accumulation raises sustainability concerns. Since 2005, when Nigeria received debt forgiveness from the Paris Club, there has been a resurgence of unsustainable debt buildup. From 7.3% in 2006, public debt as a percentage of GDP doubled to 14.1% in 2015 and further quadrupled to 52% in 2024. Similarly, external debt as a percentage of exports also rose to 77.3% from 10.6% in 2015, while FGN debt servicing as a ratio of GDP rose to 134% of FGN revenue in 2023 from 33 in 2015.

Options for escaping a debt trap

The struggle for exiting a debt trap sometimes seems to be a dead end. This is because a debt trap is usually an unbearable stranglehold that is usually darker at the rainbow's end.

Options available in most cases could be

1. Taking new external debt to help finance existing debt obligations and averting debt default. The IMF, a lender of last resort, could be a succor.

2. Restructuring existing debt to achieve increased headroom to enable the fiscal managers to either clear the obligations at the future date or delay the evil day

3. Deleveraging through a sustainability-debt arrangement and/or debt-to-grant deal

4. Adopting fiscal retrenchment measures and undertaking critical debt governance reforms.

Although none of these approaches are 100% result-proof, it is expedient for Nigeria to start rethinking its debt management strategy. It must prioritize breaking free from the debt trap to secure economic stability and sovereignty. As Henry Ford said, a "nation that continues yearly to spend more money than it earns forfeits its freedom. Such a nation, in time, will become a slave to its creditors."

Figure 1.E Debt service to revenue ratio (%)

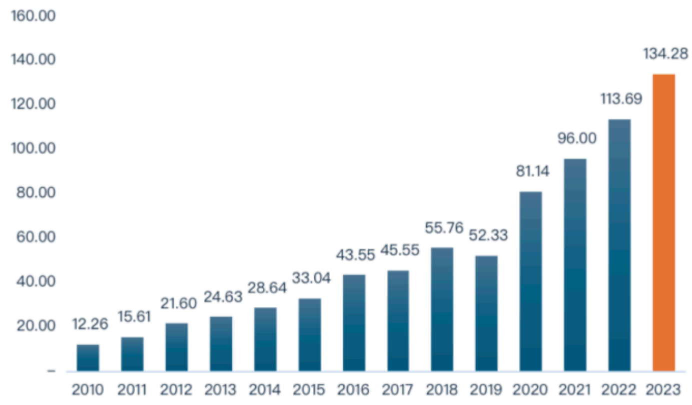


Figure 1.F The escape route from a debt trap

04

Global Perspective Will services make the world rich? - Culled From The Economist

American fried chicken can now be served from the Philippines

*I*n April, a New York fried chicken shop went viral. The food at Sansan Chicken East Village captured the world's imagination, not the service. Diners found an assistant from the Philippines running the till via video link.

Happy Cashier provides the service which connects American firms with Filipino workers. Chi Zhang set up the business after his restaurant failed during the COVID-19 pandemic. He says that overseas workers also answer phone calls and monitor security camera footage—doing so at a fraction of the cost of locals.

Virtual cashiers are a visible part of a much bigger trend: the rise of service exports from the developing world. Exports of goods are familiar. Factories churn out widgets, which are shipped to customers around the world. Yet improved international connectivity has made various kinds of outsourcing and digital commerce much easier. As a result, service exports have jumped by 60% over the past decade, reaching $7.9trn (7.5% of global GDP) in 2023. The market for physical merchandise is even bigger, at $24trn, but has grown far slower, remaining flat as a share of GDP.

What does this mean for countries hoping to get rich? Speaking in 2005, Lee Kuan Yew, Singapore's first prime minister, observed that "since the industrial revolution, no country has become a major economy without becoming an industrial power." But since 2005, the world has changed. Manufacturing is now more capital-intensive, making it easier for China to retain its role as the world's factory. In the past few years, Western countries have embraced industrial policy and protectionism to boost domestic manufacturing. Policymakers in emerging markets are arguing about how best to respond.

Currently, services are mostly exported by rich countries, where white-collar professionals often work across borders. Although China surpassed America as an exporter of goods in 2009, Uncle Sam still exports two-and-a-half times more services than his rival. Britain, which has fallen to 14th place in the global rankings regarding goods exports, remains the world's second-largest services exporter.

However, developing economies are starting to make a mark in the more advanced types of services that can be sold overseas. Many countries export audiovisual, computer, and telecommunication services. In Bulgaria, Estonia, Latvia, Moldova, Romania, and Ukraine, these run to more than 3% of GDP. India is the best-performing Asian country in this category; its exports fall just below 3% of GDP. In an economy of India's size, that means a big industry. The country's five largest firms have a joint market capitalization of nearly $350bn. It is also home to 1,600 global capability centers—technology and research centers for multinational firms—that employ 3m people. All told, India's services exports account for nearly 5% of the world's, up from 3% a decade ago.

The less techy category of "technical, trade-related and other business services", which covers things such as accounting and human resources, is another growth area. Estonia and the Philippines top the table here, with such exports accounting for over 5% of their GDP. Like India, the latter offers low labor costs and a large English-speaking population. In many countries, workers also take casual gigs online. These are hard to measure, but two-thirds of the freelancers on English-speaking platforms such as Upwork and Fiverr are based in emerging economies.

Then there is tourism. Not every country can replicate Japan's temples or Mexico's

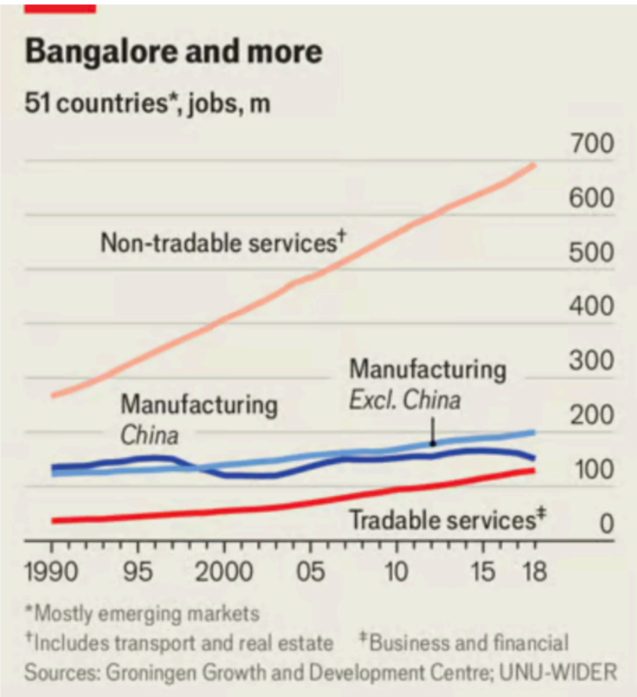
beaches, but many are finding ways to entice visitors, such as with medical services. Dentistry, hip replacements, and hair transplants are among the treatments on offer. Costa Rica, Croatia,and Moldova export health services worth between 0.2% and 0.5% of their economic output. Armenia and Jordan manage 1% each. A few hours in Istanbul airport shows the thriving industry, as men return home with their heads wrapped in plastic, fresh hair taking root underneath.

In the short term, service exports will likely keep growing. In 1992 Stan Shih, founder of Acer, a Taiwanese computer maker, coined the term "smile curve" to describe how value added in the manufacturing process was rising faster in the first and third parts of making a product (design and distribution, respectively) than in the second stage (manufacturing). As manufacturing has become more competitive, the smile has deepened. Think of Apple, which designs and distributes iPhones and collects the rent from its brand but produces none of the tech itself. Its market capitalization is more than $3trn, whereas Foxconn, which makes 70% of the firm's iPhones, is worth just $99bn. Even more cheerful is the fact that the rise of remote work has made firms far more comfortable with outsourcing operations. After all, a remote employee is not that different from an outsourced one.

But will service exports raise living standards in the manner of manufacturing? Dani Rodrik of Harvard University notes that the industry has historically possessed advantages in three areas: it is more technologically intensive, produces internationally tradable goods, and creates many jobs. Although services are closing the gap in the first two areas, manufacturing still offers more employment.

Start with technological growth. A factory in a poor country brings man and machine together, placing an unskilled worker at the tech frontier. Then, as the tech improves, the worker becomes still more productive. Tradable services cannot absorb unskilled workers in this manner. Yet as the World Bank has observed, since the 1990s, labour-productivity growth in emerging economies outside of East Asia has risen at roughly the same rate in services as manufacturing—and services productivity has grown faster in emerging economies than rich ones. Moreover, artificial intelligence may soon provide service workers with another lift. Two experiments have found that AI tools help the least skilled knowledge workers catch up with more skilled ones when writing marketing copy and providing customer service.

Services are also closing the gap with manufacturing when it comes to tradability, albeit slowly. Before the internet, the ability to send products overseas was the main way in which goods differed from services. Trade allows exporters to reach much larger pools of demand and achieve economies of scale that would otherwise have been beyond them. Because goods trade has been stagnant as a share of global GDP since 2010, it has become more difficult for newcomers to compete. Services trade is booming, and thus more welcoming. But even at the growth rate of the past decade, it will take 15 years to reach half the value of trade in manufactured goods.



Job creation is an even thornier issue. Marc Lautier of the University of Rennes has calculated that, despite automation, the number of manufacturing jobs in 160 countries for which he has data has remained stable since 1991, accounting for 14% or so of total employment. The problem is that it has become more difficult for governments to attract these jobs. Manufacturing is not moving away from East Asian powerhouses at the same pace as it moved to them in the late 20th century, partly because modern factories require more capital and skill to build. Our analysis of labour-market data from 51 mostly emerging markets finds that only five—China, Sri Lanka, Taiwan, Turkey, and Vietnam—have 18% or more of their population employed in manufacturing, compared with 16 in 1990.

Growth in services offers only modest consolation since services do not tend to offer labour density. The World Bank notes that, since 1990, service jobs have risen from 40% to 50% of global employment as workers left agriculture. But 5-10% of emerging-market service jobs are in tradable, techy industries, compared with 15-20% in rich countries. India's IT industry may garner $250bn in annual exports, worth nearly 8% of the country's GDP, which is on a par with manufactured exports. Yet it only employs 8m people from a working-age population of around 1bn.

In the long run, AI might cause problems. Models are best at well-defined tasks that do not need an in-person context, making business services vulnerable. A report by Capital Economics, a consultancy, argues that AI could lead to the "slow demise" of India's services exports, cutting growth by 0.3-0.4 percentage points a year over the next decade. The spread of communication tech has facilitated services outsourcing. Fresh technological change could, in time, be its undoing.

Despite the downsides of a services-oriented approach to development, especially when providing decent jobs in large numbers, developing economies simply have fewer choices today than they once did. Governments that want to boost growth must focus on different things. Whereas they once had reason to ensure workers could easily move from farms to factories, today, they would be better off paying attention to human capital among future white-collar workers. Richard Baldwin of IMD Business School says that large, well-functioning cities will take on greater importance, too, since services often depend on agglomeration. Getting services right, especially those that can be sold overseas, is now a crucial condition for growth.

CORPORATE FOCUS

Okomu Oil Palm Plc

Market Capitalization	N306.40bn
Current Price	N321.2
Industry	Consumer Staple Product

Sub-sector: Crop Production

ANALYST NOTE

Okomu Oil Palm Company Plc, headquartered in Edo State, Nigeria, specializes in cultivating oil palm and rubber plantations. Established in 1976 as a federal government pilot project to revitalize Nigeria's oil palm industry, Okomu is currently the country's second-largest oil palm producer, after Presco plc.

In Q1'24, Okomu recorded an impressive double-digit growth in its top-line and bottom-line metrics. The company reported a return on assets (ROA) of 24.36% and a return on equity (ROE) of 53.12%, highlighting its efficient asset utilization and strong profitability. In terms of operational efficiency, Okomu achieved an inventory turnover ratio of 2.28 and an asset turnover ratio of 0.88, showcasing its effective conversion of assets into revenue.

Liquidity remains a key strength for Okomu, with a current ratio of 1.48 times and a quick ratio of 0.96 times, ensuring sufficient short-term assets to cover immediate liabilities.

Beyond financial metrics, Okomu prioritizes sustainability and community development. The company invests in eco-friendly technologies and adheres to best practices in agricultural management to minimize environmental impact. Moreover, Okomu supports local communities through diverse corporate social responsibility (CSR) initiatives, including educational programs, healthcare services, and infrastructure development, thereby fostering goodwill and contributing significantly to regional development.

Financial Analysis

Q1'24 Revenue Surges on Higher Local Sales

In the first quarter of 2024, Okomu Oil Palm Company Plc generated N43.48bn in revenue, representing a 79.62% increase from N24.21bn recorded in the corresponding period of 2023. This growth was driven by the company's robust performance in local sales, which accounted for 90.36% of total sales. Despite operational challenges, local sales surged by 72.50% to N39.29bn from N22.78bn in Q1'23. Similarly, exports rose by 193.62% to N4.18bn, compared to N1.42bn in the prior year.

Increased operating profit despite heightened inflationary pressures

During the period under review, the cost of sales spiked by 135.10% to N10.32bn, up from N4.39bn in Q1'23. A closer look reveals that the price of oil palm, which jumped by 204.25%, contributed significantly to the increase in the cost of sales. This increase was due to heightened inflationary pressures.

Notwithstanding the accelerated increase in the company's cost of sales, its profit margins remained high and strong. Gross profit rose by 67.33% to N19.82bn in Q1'24, from N11.84bn in Q1'23, and operating profit increased by 64.04% to N24.83bn, up from N15.13bn.

Robust bottom-line performance amid exchange rate depreciation

Exchange rate fluctuations significantly increased finance costs by 1,676.88% to N4.51bn in Q1'24. Nevertheless, profit-before-tax rose by 54.78% to N23.03bn in Q1'24 from N14.88bn in the corresponding period in 2023. Additionally, profit-after-tax increased by 48.18% to N15.08bn in Q1'24 from N10.18bn in Q1'23.

Risk and outlook

Okomu Oil Plc is confronted with several challenges, including exchange rate volatility, a high inflationary environment, increased interest rates, and militant attacks on workers, all of which threaten the business's sustainability and profitability. In response to these challenges, Okomu is focused on operational excellence, cost-efficiency, collaboration with authorities to bolster security, and adherence to best practices to navigate the current landscape and sustain its growth trajectory.

BULLS SAY

- A top player in the Nigerian oil palm market
- Increasing local demand for crude palm oil and its derivatives
- Strong brand recognition and market presence in Nigeria
- Effective cost management and operational efficiency, leading to improved profit margins

BEARS SAY

- Rising operating costs due to inflation
- Intense competition from industry players such as Presco, and PZ Wilmar, and international players like Olam
- Insecurity resulting in the fatalities of employees
- Persistent macroeconomic headwinds that could dampen consumer demand
- Illegal logging threaten sustainable practices and leads to potential regulatory issues

A PRISM OUTLOOK

Global

- We expect oil prices to be volatile in the near term, trading between $78pb and $84pb. In July, Brent crude recorded its biggest monthly loss since 2023 due to demand concerns in China. However, ongoing geopolitical tensions in the Middle East are projected to keep upward pressure on oil prices.

- Falling oil prices favor lower inflationary pressures in advanced economies like the US. Headline inflation in the US fell to a one-year low of 3% in June 2024 from 3.3% in May. If this trend persists, inflation could fall to the Fed's target of 2% in the coming months.

- The US Fed held interest rates steady in its policy meeting on July 31st. However, due to easing inflationary pressures, interest rate cuts are anticipated in September 2024, potentially cooling the global interest rate environment.

- Although risks from the US elections threaten to keep the global capital and debt market rates volatile, the overall temperature of interest rates will be cooler than last year. This spotlights an increase in investor appetite for asset classes in Emerging markets and Developing economies with higher interest rates.

Domestic

- While global oil prices are easing, we expect domestic oil production in Nigeria to increase in the coming months following recent efforts to curb oil theft. According to OPEC, Nigeria's crude oil output rose 2% to 1.28mbpd in June from 1.25mpbd in May. Higher oil production would help to improve export earnings.

- The naira lost 5.31% to N1,606/$ in July due to higher demand pressures. We expect this trend to persist in the near term as the 150-day import duty-free window kicks off on August 1, which could raise demand for forex. The CBN is expected to frequently intervene in the forex market to stabilize the naira. We anticipate the naira trading within the N1,550/$—N1,650/$ in the coming weeks.

- Headline inflation in July is projected to moderate as base effects kick in. Inflation in the coming months could also continuously slow, driven by the government's recent policies. The 150-day free import duty window will likely lower food prices, provided the exchange rate remains stable. This would contribute to alleviating the country's cost-of-living crisis.

- Meanwhile, the ongoing protest in the country has dampened investor sentiment. Nigeria's sovereign-risk premium surged to an eight-month high on August 1 as a result of the protest. If the protest persists for a long period of time, it could weigh on Q3'24 GDP growth as economic activities get halted.

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