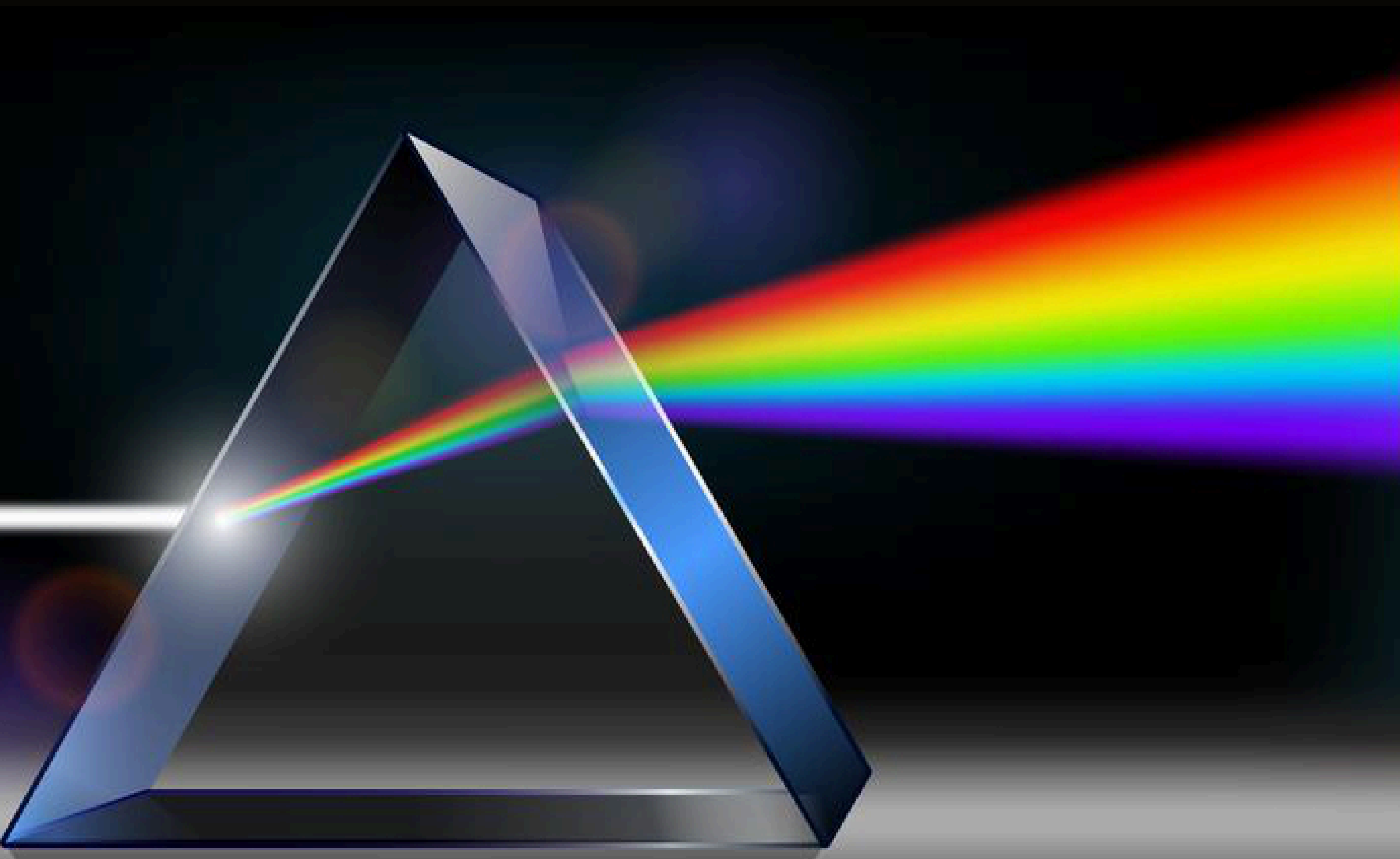
November 22, 2024

PRISM

P R I S M



BIZNOMICS

CONTENTS

01

The Prism (Biznomics) Overview

The Trump 2.0 era - Many are called, few are chosen

TThe world is now gearing up for the Trump 2.0 era, which begins on January 20, 2025. With approximately 60 days until the inauguration, the markets are adjusting to the anticipated “America First” agenda. Since the election results were announced on November 6, the US dollar has appreciated by 3.5% against a basket of major currencies, and the cryptocurrency market has experienced an astronomical increase in its value (Bitcoin reached an all-time high of over $100,000).

However, this once-in-a-four-year event holds more than an economic meaning for the world. On the political front, the US is poised for a wave of conservative reforms aligned with the Republican ethos. Moreover, the ongoing war in the Middle East, previously viewed as a prolonged conflict with no clear resolution, now has a discernible endpoint.

The implication of Trump's victory for sub-Saharan Africa in particular is a mixed bag. The African Growth and Opportunity Act (AGOA) will open up some new benefits, whilst the transactional approach of Donald Trump will force African countries to become more resilient and home country dependent.

Closing Nigeria’s productivity yield gap: The case for mechanized farming

Nigeria is a paradox of abundance and scarcity. Despite its vast natural resources, including fertile agricultural land, the country faces significant food insecurity. Agricultural productivity remains well below its potential, with yields for staple crops like rice, oil palm, and potatoes far from attainable. This productivity gap is becoming increasingly problematic, especially as food inflation spirals, hitting 39.16% in October 2024, up from 31.52% the previous year. Output constraints and rising input costs largely drove the surge. As a result, 22.6% of Nigeria’s population—roughly 53 million people—are living with severe food insecurity. To address this, a shift toward commercial and mechanized farming is essential. Nigeria can close its yield gap by drawing inspiration from countries like Iran, which have successfully boosted agricultural output through such strategies.

02

Resource-Rich, Food Poor: Nigeria's Paradox Of Scarcity Amid Plenty

Nigeria, endowed with vast natural resources (about 44 solid minerals), including significant agricultural land areas (nearly 71 million hectares) and a large agricultural workforce (almost 70% of households), faces a paradox of scarcity amidst plenty. Although agriculture contributes about 23% of Nigeria's GDP, food insecurity remains a critical issue, with 170 million Nigerians experiencing moderate and severe food insecurity in 2023. This stark contrast between resource endowment and food poverty highlights systemic inefficiencies and the impact of external factors such as climate change, conflicts, and inflation.

Food and nutritional insecurity are a threat to sustainable human development

The World Food Summit defines food security as a situation when "all people, at all times, have physical and economic access to sufficient, safe, and nutritious food that meets their dietary needs and food preferences for an active and healthy life[1]" This definition identifies four dimensions of food security, namely availability (there is an adequate supply of food), affordability (individuals have the economic means to purchase food), utilization (food consumed offers the requisite diets to the body), and stability (there is consistent access to food at all times). Contrastingly, food and nutritional insecurity (FANI), a pressing development challenge, is characterized by insufficient physical and economic access to safe, and nutritious food essential for an active and healthy life.

In 2015, most nations adopted the United Nations' Sustainable Development Goal (SDG) as a "blueprint for a better future." SDG 2 aims to end hunger, achieve food security, improve nutrition, and promote sustainable agriculture. Nearly ten years later, more than 53 million Nigerians (22.6% of the population) are facing severe food

1. George-André, S. (2012). Food Security: Definition, Four dimensions, History. https://www.fao.org/fileadmin/templates/ERP/uni/F4D.pdf

insecurity—27 million more people than in 2015. Another estimated 118 million people (50%) are moderately food insecure. Put differently, out of every ten persons who are food insecure in Africa; two live in Nigeria.

Low productivity is an albatross of food insecurity

Although Nigeria has the 7th largest agricultural land globally, it has the highest number of people who are moderately and severely food insecure. This scarcity amid plenty is bookended by low agricultural yield per hectare. Nigeria's yield per hectare is about 56% lower than its potential. For example, Table 1 shows Nigeria's attainable yield per hectare for potatoes is 22.7 tons. However, Nigeria produces 3.8 tons per hectare, indicating a negative yield gap of about 83%. Oil palm, sugar, cereal, rice, and banana have yield gaps of - 85.8%, - 78.3%, - 71.9%, - 60.6% and - 43.5%, respectively. This condition results in limited food supplies, reduced income for farmers, and heightened vulnerability to food insecurity.

Table 2: Selected crops and their yields in Nigeria

S/N	Commodity	Attainable yield per hectare	Actual yield per hectare	Yield gap (%)
1	Oil palm	18.14	2.57	- 85.83
2	Potato	22.72	3.78	- 83.36
3	Sugar Cane	81.2	17.61	- 78.31
4	Cereal	5.9	1.66	- 71.86
5	Rice	4.72	1.86	- 60.59
6	Banana	26.26	14.84	- 43.49

Source: Ritchie et al (2024); FDC staff calculations

One of the major causes of low yields in Nigeria is overreliance on peasant farming. Peasant farming is characterized by small-scale, subsistence agriculture, often resulting in lower yields. These farmers typically lack the financial resources to invest in modern inputs and technologies, thereby limiting the potential for scaling up agricultural production to meet the growing demand for food. Table 3 suggests that although Nigeria has more farmers than most of its peers, it also has more people who are food-poor.

Table 3: Countries with large population of farmers are not the most food secure

Country	Percentage of farmers	Population of farmers	Number of people who are severely food insecure
Nigeria	70%	163.8 million	53 million
United States	1.3%	3.4 million	Nil
Indonesia	29%	28.4 million	560,000
Australia	2.2%	318,600	1.05 million
Thailand	40%	16.8 million	1.008 million
Brazil	7.8%	16.4 million	13 million

Nigeria's polycrisis and food insecurity

Nigeria is facing many crises that significantly disrupt food production, supply chains, and affordability, culminating in increased food shortages and malnutrition. External shocks such as the COVID-19 pandemic, the Russia-Ukraine war, and domestic challenges like insecurity, climate change, and macroeconomic instability have compounded the nation's vulnerability.

Heightened security challenges, particularly in the Northeast, have severely impacted agricultural activities. The Global Alliance for Improved Nutrition (GAIN) estimates that around 2.13 million farmers have been displaced in this region alone. Reports indicate that approximately 100,000 individuals have been killed by non-state actors since 2012, further destabilizing the agricultural sector. This insecurity hinders farmers' access to lands and markets, critically undermining food availability.

Climate change and the COVID-19 pandemic have further strained food systems. Nigeria experiences extreme weather events, including droughts and floods, leading to crop failures and reduced yields. The COVID-19 pandemic exacerbated these vulnerabilities, with lockdowns and movement restrictions disrupting agricultural activities and supply chains, causing food shortages and price hikes.

Macroeconomic instability has also severely impacted food affordability. Nigeria's headline inflation has consistently exceeded the central bank's target, reaching 33.9% in October 2024, with food inflation at nearly 40%. This inflationary pressure, driven by massive currency depreciation, erodes individuals' purchasing power, making food less affordable for many households. The naira depreciated by over 50% in 2023 and over 40% in 2024, with exchange rate volatility affecting imported and domestic food prices.

Nigeria needs a strategic shift in food production

Over the years, Nigeria has implemented several programs aimed at improving agriculture. Most of these programs supported peasant farming. Unfortunately, the needle of agricultural productivity has not yet moved. To shift from a food-poor economy to a food-rich economy, Nigeria's agricultural sector must transition from peasant farming to commercial and mechanized farming. Peasant farming cannot meet the demands of a growing population or compete in the global market.

The shift to commercial and mechanized farming is essential for Nigeria to achieve sustainable agricultural development. It will increase food production and enhance the country's resilience against external shocks, improve rural livelihoods, and reduce poverty. This transformation is vital for a food-secure future in Nigeria.

A good example is Iranian agricultural reform, which was part of the White Revolution or the Shah's Revolution. This reform program, initiated in 1963 by Shah Mohammad Reza Pahlavi, included significant measures such as land redistribution, mechanization, and the promotion of commercial farming.

Iran's shift from traditional farming to commercial and mechanized agriculture has significantly improved crop yields. For instance, the prevalence of severe food insecurity has dropped from 20.2% in 2000 to 6% in 2023.

Nigeria must prioritize an agricultural development strategy that promotes commercial agriculture through targeted reforms.

03

Trump 2.0 and the Nigerian Economy

In a dramatic political comeback, Donald Trump won the 2024 elections to the US White House after beating Kamala Harris by a landslide. Trump won the popular and electoral college votes, a stunt the Republicans have not pulled in the past two decades. Solidifying his wins, the Republicans took control of both the US Senate (52:47) and the US Congress (218:211), heightening the concerns that the new "Trump trade" could be scarier than the first. "Trump Trade" refers to the economic policies and trade strategies implemented by Donald Trump during his presidency.

Trump's economic policies, characterized by the "America First" agenda, prioritize domestic energy production, impose tariffs on imports, and advocate for low interest rates. These policies could have far-reaching geoeconomic effects. For example, imposing tariffs on imports, particularly from China, aims to reduce the U.S. trade deficit but risks escalating trade tensions and disrupting global supply chains. In addition, the Trump trade may strengthen the U.S. dollar, taper the global oil prices, and heighten uncertainties. Trump's focus on domestic production and reshoring jobs could affect international trade dynamics, influencing economic growth and stability.

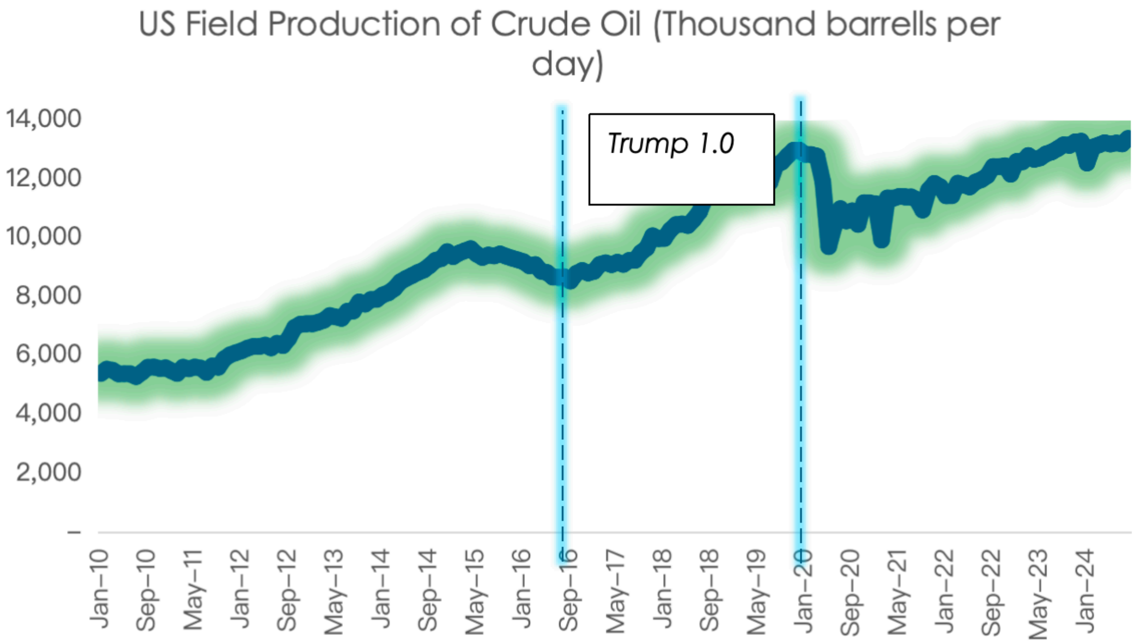
Nigeria has deepened trade and financial interconnectedness with the United States. The U.S. is Nigeria's largest foreign investor, with significant investments in petroleum, mining, and wholesale trade sectors. In 2022, the two-way trade in goods between both countries totaled over $8.1 billion[2]. Crude oil accounts for 60% of Nigeria-US trade and 87% of Nigeria's exports to the US. Additionally, remittances from the large Nigerian diaspora in the U.S. play a crucial role in Nigeria's economy, providing a steady inflow of funds that support households and contribute to economic stability. In the following subsections, the impact of Trump trade on Nigeria is explored.

Impact on oil market dynamics

Nigeria's economy relies heavily on oil exports, making it particularly sensitive to global oil market dynamics. In H12024, oil contributed 77.9% of exports and 48% of revenue. During Trump's first tenure (2016-2020), his administration's pro-energy policies increased oil drilling and fracking, boosting US oil production to record levels. This surge contributed to a global

2. The United States and Nigeria: Partnering for Prosperity - United States Department of State https://www.state.gov/the-united-states-and-nigeria-partnering-for-prosperity/

oversupply, putting downward pressure on oil prices. One of the centerpieces of the Trump campaign is "Drill Baby Drill," a mantra that suggests a focus on oil drilling that could dampen global oil prices. A potential decline in global oil prices could further complicate Nigeria's economic outlook. The Nigerian government must prepare for fluctuations in oil prices and explore strategies to diversify its revenue sources to mitigate the impact of such external shocks. Worrisomely, the proposed 2025 budget, with an oil price benchmark of $75pb, seems not to have accounted for Trump's oil price risks.



On the upside, lower global oil prices under a deregulated petroleum downstream regime would benefit Nigerian households through lower petrol prices. The jumbo-sized increases in petrol prices (425.6% since May 2023) quickened inflationary pressures and heightened the cost of living crisis. Lower petrol prices could ease the financial burden on households, allowing them to allocate more funds to other essential needs. Additionally, reduced transportation costs can lead to lower prices for goods and services, further moderating inflation.

Exchange rate volatility

Increased exchange rate volatility is one of the most immediate impacts of Trump's trade policies on Nigeria. Trump's administration's focus on strengthening the U.S. dollar through tariffs and domestic production incentives could result in a weaker naira. Year to date, the naira has depreciated by over 45%, causing corporate Nigeria to lose over N3trn in FX losses. A stronger dollar exacerbates the cost of imports, leading to higher inflation and reduced purchasing power for Nigerian consumers. It could also bulge the cost of external debt service, putting more strain on fiscal balance. In the past decade, Nigeria's debt has increased over 1000% to N134 trillion from N11.2 trillion in 2014.

In addition, stronger dollar and/or naira volatility may drive investor sentiment toward U.S. assets as a safe haven. This could lead to a self-fulfilling panic and capital flow reversals for Nigeria.

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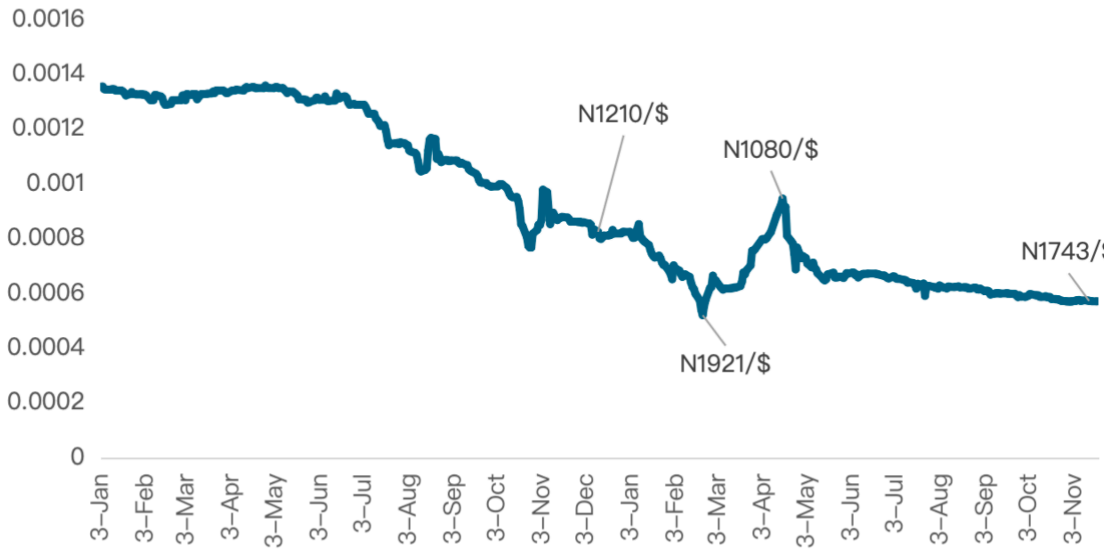
Figure 2: Exchange rate, parallel ($/N)++



++ Figure 2 displays the exchange rate of the naira as the dollar price of N1. This easily shows how the value of the naira is falling.

Remittances and Immigration Policies

Remittances from Nigerians living abroad constitute a significant source of income for many households in Nigeria. The 2022 American Community Survey estimated that there are 712,294 residents of the US of Nigerian ancestry. Another report estimated remittances from Nigerians in the United States to Nigeria at about $9.3 billion, representing nearly 38% of the total foreign remittances from the Diaspora. Trump's immigration policies, which include tighter controls and restrictions, could potentially reduce the flow of remittances. This reduction would directly impact household incomes, forex supply, and overall macroeconomic stability in Nigeria.

Trump’s transactional policies, geopolitical alliances, and trade prospects

U.S. foreign policy under Trump's administration could also affect Nigeria's external trade and geopolitical alliances. A transactional approach to foreign relations may reduce U.S. support for Nigeria's security and development needs. Nigeria has been battling internecine insecurity for over a decade. The Global Alliance for Improved Nutrition (GAIN) reports that a cumulative of about 100,000 persons have been killed by nonstate actors (including Boko Haram, Bandits, sectarians, and

3. Gavin, M. (2023). Nigeria Security Tracker. https://www.cfr.org/nigeria/nigeria-security-tracker/p29483

other armed actors) since 2012. It also estimates that about 2.13 million farmers are displaced in the Northeast alone. Thus, reduced U.S. support for Nigeria's security could heighten the insecurity crisis. It could also necessitate that Nigeria seek alternative alliances and strategies to address its security challenges and development goals.

In 2023, Nigeria-US trade was estimated at N4.8 trillion (7.2% of total trade). The United States is Nigeria's second-largest trade partner after China. A southward shift in Nigeria-US trade relations could stymie Nigeria's external balance.

Are there silver linings?

Most economies, especially China and several European countries, are bracing for Trump's presidency. Trump 2.0 offers both opportunities and risks. Policymakers are worried about how Nigeria will minimize the risks while maximizing the associated opportunities.

First, having successfully implemented revenue reforms, Nigeria should focus on structural reforms to develop higher-tech sectors (such as manufacturing) to boost its competitive advantage. Developing higher-tech sectors will boost investment and productivity, increase trade integration, and diversify away from commodities and low-tech products. Structural transformation targeting growth and productivity drivers could focus on reducing firm entry costs, strengthening contract enforcement, and addressing judicial system delays. This will reduce vulnerability to global oil price fluctuations driven by the proposed Trump energy policies.

Second, supported by the total removal of petrol subsidies, Nigeria's public finances improved significantly in the past 18 months. However, public debt remains high and will increase without fiscal consolidation. Timely consolidation will support moderation in oil revenue, strengthen policy credibility, and lower inflation expectations. Addressing spending inefficiencies and mobilizing growth-friendly revenue—particularly through increased personal income tax collection—are essential. Strengthening fiscal rules, operational targets, and medium-term budget frameworks, along with introducing debt anchors, will enhance consolidation credibility and reduce financing costs. These efforts are crucial for creating fiscal buffers and ensuring Nigeria's fiscal resilience against external shocks, especially from the Trump trade.

On the diplomatic front, Nigeria should maintain strong bilateral relations with the U.S. to secure continued support in areas like security and counterterrorism. Strengthening regional trade within Africa through agreements like the African Continental Free Trade Area (AfCFTA) can mitigate the impact of U.S. trade policies. Enhancing local production and reducing import dependency will also help stabilize the naira and control inflation.

By adopting prudent fiscal policies, enhancing the investment climate, and promoting regional trade, Nigeria can navigate the complexities of the global economic landscape and achieve sustainable growth.

04

What's About to Hit the World Economy? Trumponomics Tees Off

- Culled from the Economist

Critics accuse Donald Trump of being too chaotic to get much done. The speed of his first appointments should disabuse them. The next administration means business.

Stock and corporate bond markets are broadly delighted with the prospect of deregulation and tax cuts in a second Trump term. The Economist, by contrast, has warned of a risk that mass deportation and a global trade war would do real harm. The appointments themselves attest to Mr Trump's desire for disruption, a hard line on China, and absolute loyalty. With such a concatenation of signals, you may wonder what is about to hit the world economy.

The answer comes in three installments, beginning with Mr. Trump's intentions. His commitment to deregulation may be good for growth. Elon Musk, the world's richest man, and Vivek Ramaswamy, an entrepreneur-politician, have been named heads of a new outfit grandly named the Department of Government Efficiency, or doge. A pledge to cut $2trn from the government's annual budget is patently absurd, but judicious liberalization could be benign. On day one, the new administration could speed up legislation on permitting that is already in Congress. Mr Trump has also promised to free up artificial intelligence. The technology is immensely power-hungry. Just imagine if easier planning rules helped unleash a revolution.

Unfortunately, Mr Trump also wants to deport millions of irregular migrants and impose tariffs of up to 60% on China and 10-20% on the rest of the world. All of these would be bad for growth. For example, the costs of mass deportation could, by one estimate, run to hundreds of billions of dollars. That does not include the economic burden of labor shortages and spiraling consumer prices. Roughly half of the workers on America's farms have no legal status.

A second part of the answer is that the tensions in Mr Trump's agenda will be resolved by necessity, as the hyperbole of stump speeches comes into contact with the messy reality of governing. Policies take so much effort to enact that his administration will simply be unable to do everything all at once.

Imposing universal tariffs will take time because they would need approval from Congress or the use of untested presidential powers. But free-trade Republican lawmakers could recoil at tariffs on America's close allies. And the use of existing law to impose a universal tariff on national-security grounds would probably be challenged in the courts. Likewise, apprehending, detaining and processing millions of people will be a logistical nightmare. Federal agencies would need to turn to state authorities for help, many of which will refuse.

The third part of the answer is that, mixed in with the intentions and priorities is the mercurial temperament of Mr Trump himself. He has a fondness for picking favorites and then dumping them. He is also beholden to nobody. In spite of his appointment to the White House of Stephen Miller, a longtime loyalist and a hardliner on immigration, Mr Trump may put growth first by making a furious noise about deportation but limiting its real-world effect. It is the same with Mr. Musk, whose market sense may receive special favors. But will the bromance last? The only discipline of a president who has succeeded so spectacularly by defying the experts around him will be those same markets. Mr Trump has an old-fashioned regard for share prices as a barometer of success.

The conclusion markets seem to draw is that things will work out just fine. Although they are alive to risks of inflation and cronyism, investors are betting that tariffs and deportations will do little damage. Instead, the tax cuts will produce a sugar rush that boosts corporate profits, and deregulation will bring about lasting growth.

Even if that prediction proves correct about America—a fairly big if—it is too rosy for the rest of the world. As America borrows, raises tariffs, and grows, the dollar will strengthen. That will dampen trade. It will also lead to higher interest rates and a greater dollar-debt burden in developing countries.

Some governments will be in the line of fire, especially if the threat to extend tariffs beyond the universal rate becomes a Trumpian negotiating tool. Most vulnerable is Mexico, which will be a target of Mr. Trump's immigration policy because many illegal migrants cross its border with the United States and of his trade policy because Mexico is home to factories that send their exports north under the United States-Mexico-Canada Agreement.

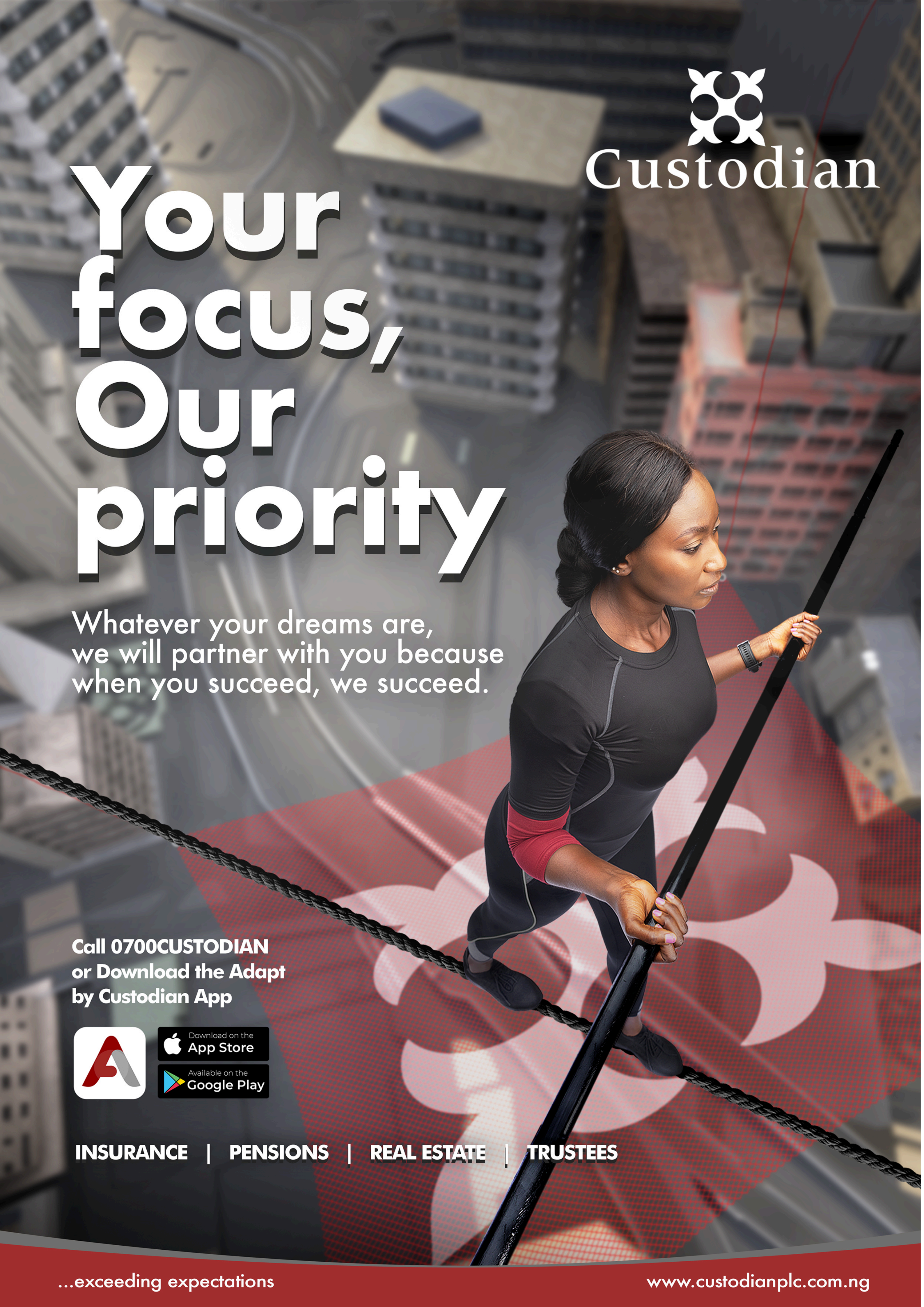
Mr Trump appears to have a special animus against the snooty leaders of the European Union. Many Republicans allege that, by footing the bill for American troops in Europe as part of NATO, America is, in effect, paying for European welfare. For Mr Trump, the EU's huge trade surplus with America rubs salt in the wound. Europe can expect to pay.

The main target of a hostile economic policy will be China. Marco Rubio, at the State Department, and Mike Waltz, as national security adviser, want the rivalry between the world's two biggest economies to be at the heart of American policy. As firms move supply chains out of China, a few countries may benefit. Others may strike up a friendship with Mr Trump. As a rule, though, the separation of the American and Chinese economies would be highly disruptive.

Fore!

Countries would do well to prepare for what is coming. The EU has said that it will steer tens of billions of euros' worth of spending to defense. But it has fallen badly behind in AI and has put off strengthening its own internal market for too long. China is in a better position, but it has delayed the stimulation of domestic demand.

If Mr Trump unleashes a salvo of tariffs, retaliation will exert a seductive pull, not least as a show of strength. It would, however, be an act of self-harm. Few countries are more insulated against trade shocks than America, with its large domestic market. It is better to take the positive side of Trumponomics and deregulate. If Mr Trump wants to tilt the playing field, the best way to cope will be to become more competitive.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CORPORATE FOCUS

Market Capitalization	₦911.74bn
Current Price	₦25.40
Industry	Financial services

FBN Holdings Rights Issue: A Strategic Buy or a Cautious Hold?

Fortifying Nigeria's financial future

A strong and resilient banking sector bolsters economic growth and enhances shareholder returns. Efficient financial intermediation reduces the cost of capital, enhances capital accumulation, bolsters total productivity, and fosters investor confidence. However, with total banking assets estimated at $73 billion (bn) (52% of GDP), Nigerian banks lag behind its peers like South Africa ($429bn), Brazil ($2.3trn) and Indonesia ($729bn). A low asset-to-GDP ratio weakens the banking sector's resilience to economic shocks, potentially heightening macroeconomic instability and constraining credit access for businesses, households, and even governments. To fortify the banking sector, ensure financial stability, and foster economic growth, the Central Bank of Nigeria (CBN) recently increased the capital requirements of all banks to N500bn for banks with international footprints, N200bn for national banks, and N50bn for regional banks. This is the second bank recapitalization exercise in two decades. The first was in 2004/05.

A legacy of strength, innovation, and market leadership in banking

During the first recapitalization exercise of Nigerian banks in 2004/05, FBN successfully raised N100bn, surpassing the minimum requirement and positioning itself as a leader in the sector. Funds were raised through public share issuance and private placements, attracting significant local and international investor interest. This solidified FBN's position in the Nigerian banking industry and led to a significant boost in its financial and operational performance. Post-recapitalization, gross earnings increased by 32%, while net income surged by 57%. Strategic investments in technology strengthened its digital banking platform, meeting the growing demand for online banking. These efforts reflected the positive impact of the reform on FBN's growth.

Strengthening capital for growth and stability

In response to the new capital requirement by the CBN, like other banks, FBN is raising N149.56bn through a rights issue. The bank's strong performance in the last five years positions it well to leverage this additional capital for continued growth.

FBN has witnessed impressive growth, with gross earnings rising by 156% from N627bn to N1.59trn, profit before tax surged by 328% to N358bn, and profit after tax also increased from N73bn to N310bn in five years. This is a reflection of the bank's efficient management and optimized income streams, especially in the area of digital banking. Shareholders' funds have more than doubled, from N661bn to N1.7trn, positioning the bank for stability amid economic challenges. Total assets grew from N6trn to N16.9trn, enhancing FBN's lending capacity.

Within this period, the cost-to-income ratio improved from 69% to 46%, while non-performing loans reduced from 26% to 4.7%, strengthening asset quality. The company's share price surged by 325%, showing investor confidence.

First Bank of Nigeria (FBN), one of the country's oldest and largest financial institutions, independently met the CBN's 2004 recapitalization requirement of N25bn. With thirteen decades of resilience in the banking sector, FBN has consistently maintained its position as a Tier 1 Nigerian bank with a balance sheet size of N27trn, 732 branches, and over 43 million customer accounts. This success is driven by its extensive branch network and strong customer base.

The N149.56bn rights issue is well-timed to support FBN's growth, support its ability to meet regulatory capital requirements, and explore new opportunities; the discounted rights issue price of N25 presents an attractive opportunity for existing shareholders.

The additional capital will further cushion the bank against economic shocks, maintain competitive advantage, and enhance its capacity to explore new growth opportunities. However, the success of this capital raise will depend on effective fund deployment and sustaining the bank's growth momentum.

Robust growth potential, but watch for risks

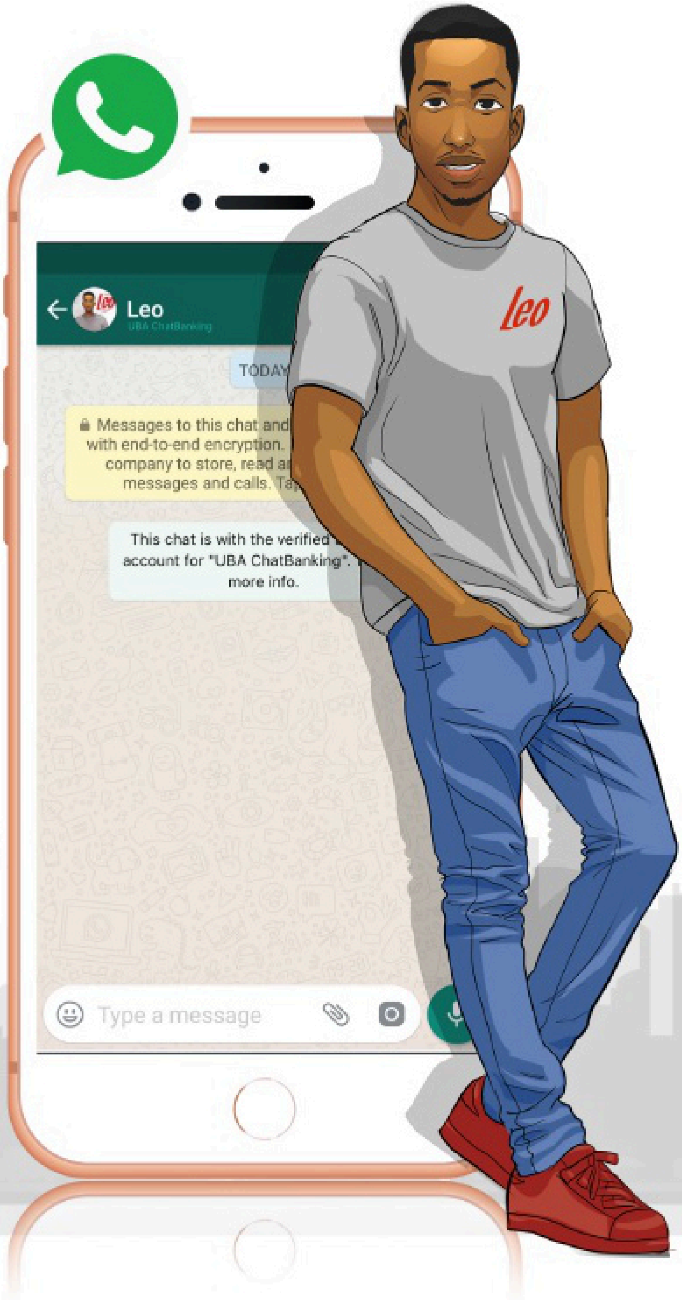
FBN Holdings is positioned to drive shareholder value through a strengthened balance sheet and a revitalized leadership team, ready to pursue sustainable growth and operational excellence. FBN Holdings' rights issue presents a solid opportunity for existing shareholders, offering an attractive entry price of N25 per share, below the market price.

With a stronger capital base, FBNH is well-positioned to navigate economic challenges and offer long-term growth potential. The bank's impressive financial performance suggests that additional capital could accelerate further expansion.

In a competitive landscape with banks offering attractive fees and interest rates, FBN faces the risk of tighter profit margins and higher customer churn. Economic volatility and regulatory changes add further complexity to its operations. To stay ahead, FBN must navigate market pressures, innovate, and differentiate its services. Strategic responses to customer needs and regulatory shifts are key to maintaining a strong market share. FBN's ability to adapt will determine its continued success.

Additionally, non-participating shareholders may face dilution of ownership and voting rights as other investors acquire additional shares.

UBA
United Bank for Africa



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A PRISM OUTLOOK

Global

- The ongoing war between Russia and Ukraine has again emerged as a critical factor influencing oil prices. While the tension between Russia and Ukraine will likely push up prices, the increase will be tempered by the rising crude inventories in the US. According to the American Petroleum Institute (API), US crude oil stocks rose by 4.75 million barrels in the week ending November 15.

- We expect the geopolitical tensions to keep oil prices between $72-$74pb in the short term. However, the medium term outlook for oil prices remains bearish, as Trump's policies on brown energy production will boost the oil supply and clamp down oil prices.

- However, a new bout of inflationary pressure could emerge in the US as Trump's policies on Trade, including tariffs on trading partners like China, are set to drive prices higher. This could keep interest rates elevated for longer. The US Fed Chair has stated that they would adjust rates cautiously and slowly.

Domestic

- For Nigeria, the prospect of lower global oil prices threatens budget expectations ($75 per barrel). Lower oil prices, coupled with subpar domestic oil production, will reduce crude oil export earnings and worsen the country's trade balance.

- Conversely, lower global oil prices under a deregulated petroleum downstream regime would benefit Nigerian households through lower petrol prices in the medium term. This could ease the financial burden on households, allowing them to allocate more funds to other essential needs.

- In the short term however, petrol prices are expected to remain high, largely supported by currency depreciation. The naira remains weak, trading between N1,700-N1,750/$ at the parallel market. We expect that this weakness will continue in the near term, as demand pressure and supply shortages persist.

- Sadly, inflation is expected to remain elevated through the remainder of 2024, fuelled by the double whammy of higher fuel prices and currency depreciation. As a result, the monetary policy committee will maintain a hawkish stance in its next meeting on November 25-26.


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