WHISPERS

DECEMBER 10 , 2024 | VOLUME 14 ISSUE 25

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

CONTENTS

Volume 14 Issue 25

WHISPERS OVERVIEW

Fasten your seatbelts for the year ahead (2025)

After an unexpected 4-day appreciation, the naira crashed to N1700/$ at the parallel market. It had earlier gained 8.97% to close at ₦1,535/$ at the official market and 6.60% to ₦1,620/$ at the parallel market. Traditionally, the naira appreciates in the forex market during the Christmas season. This is because of visiting friends and family from abroad, increasing the supply of dollars. In addition, the main crop of the cocoa harvest happens at this time of the year. The cocoa farmers this year have been flushed with dollars. The price of cocoa is at a record high of $10,649/MT. The sudden crash of the naira was mainly due to a correction of an oversold domestic currency.

Nigeria had issued a $2.2 billion Eurobond in December 2024, its first since 2022. The issuance, split into $700 million 6.5-year bonds with a 9.625% yield and $1.5 billion 10-year bonds yielding 10.375%, was oversubscribed with over $9 billion in global bids. Despite this success, the bonds were issued at a premium, reflecting investor concerns about Nigeria's debt sustainability.

A stitch in time saves nine

Nigeria was once one of the world's leading agricultural economies, with agricultural exports accounting for 60–80% of the country's GDP. However, the discovery of oil in 1957 gradually deprioritized the agriculture sector and consequently slowed the implementation of agricultural mechanization. On the other hand, Ukraine has maintained its focus on agriculture and now has over 40 agricultural machinery manufacturers since its agricultural sector restructuring in 2000. This has positioned the country as one of the leading global producers and exporters of grains and oilseeds, with agricultural products being Ukraine's main exports.

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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Agricultural Mechanization: Enhancing Productivity and Export Earnings

Nigeria is among the world's least mechanized farming nations, with a tractor density of 0.27 horsepower (hp) per hectare, significantly lower than the 1.5hp/hectare recommended by the Food and Agriculture Organization (FAO). An assessment of tractor availability revealed that Nigeria requires over 70,000 tractors and additional mechanical equipment to meet the mechanization needs necessary for substantially increasing food production.[1]

The lack of adequate technological inputs, particularly in production and farm-level processing equipment, has reduced the land area under cultivation and resulted in low crop productivity and high post-harvest losses. An example was the 2024 flooding in Borno, Adamawa, Kogi and other states in Nigeria, which led to the displacement of over 2 million people, submerged numerous communities and claimed more than 300 lives. This could have been mitigated with improved farming technologies like flood-control infrastructure and water management tools (drainage systems and smart water pumps), among others.[2] Agricultural productivity and export earnings are further hampered by inefficient cultivation methods, limited adoption of research findings and technology, low levels of irrigation development, and poor storage facility effectiveness, among other issues.[3]

The History of Nigeria's Agricultural Negligence

In the 1950s, Nigeria was recognized as one of the leading agricultural economies in Africa and globally. It was the largest producer of palm oil, groundnuts, cotton, and cocoa globally, with exports accounting for 60 - 70% of the country's GNP.[4] However, Nigeria's agricultural prowess has declined over the last few decades as oil has taken center stage. Most recently, between 2020 and 2023, Nigeria's cumulative agricultural imports stood at N7.26 trillion, significantly higher than its agricultural exports of N2.67 trillion within the same period. The share of agriculture in Nigeria's total export earnings increased from 2.23% in 2022 to 3.46% in 2023. However, this contribution remains significantly small compared to crude oil, which accounted for 78.74% of export earnings in 2022 and 80.64% in

1. Origin Automobile Works. 2022. "The Agric-mechanization drive: have Nigerian farmers been left behind?". https://oawng.com/the-agric-mechanization-drive-have-nigerian-farmers-been-left-behind/
2. Abdulkareem Haruna. 2024. "Nature's Fury: the deadly floods sweeping across northeast Nigeria".https://humanglemedia.com/natures-fury-the-deadly-floods-sweeping-across-northeast-nigeria/
3.Ozumba, I. C., O. A Ogunjirin, O. O. Opadotun, T. Iorpev, S. Kang. 2019. "A review of current status of agricultural mechanization in Nigeria". International Journal of Agricultural Science. https://www.researchgate.net/publication/370873284_A_Review_of_Current_Status_of_Agricultural_Mechanization_in_Nigeria
4. Kamil Sertoglu, Sevin Ugural, Festus Victor Bekun. 2017. "The contribution of agriculture sector on economic growth of Nigeria". International Journal of Economic and Financial Issues. https://dergipark.org.tr/en/download/article-file/364236

2023.[5] This underscores the nation's growing reliance on imported agricultural products to meet consumer demand, which domestic farming struggles to satisfy.

Crop production is primarily carried out by smallholders practicing multiple cropping. Large-scale farming is uncommon due to the substantial investment and mechanization required, which most farmers cannot afford. Approximately 66% of Nigerian farmers rely on traditional tools, while only 34% use basic mechanical implements.[6]

Between 1955 and 1960, many power tillers were imported from Japan to study their suitability to local conditions. In 1958, the initial Tractor Hiring Units were established in what was then known as the Western Region, which now encompasses the present-day states of Oyo, Ondo, Ogun, Edo, and Delta. However, the extent of mechanization was notably limited.

In 1973 and the 1980s, the government focused on developing mechanized large-scale agricultural production. Between 1975 and 1984, about 3000 tractors were imported annually. This was higher compared to the previous period. However, it was fairly small, given the size of arable land. In addition, a few manufacturers or assemblers of tractors for certain brands (such as Steyr Nigeria Ltd and Anammco Ltd) were established to stimulate domestic tractor production.

Nigeria's structural adjustment program (SAP) started in the late 1980s and lasted until 2010. This led to the scaling down or discontinuity of previous programs. The SAP aimed to diversify the economy, stabilize the balance of payments, and promote non-inflationary economic growth. However, during the process, SAP also led to significant currency devaluation. This resulted in increased import prices, including tractors. Consequently, the agricultural sector remained stagnant, and the support for large-scale irrigation infrastructure declined.[7]

Under President Goodluck Jonathan's administration in 2011, the Agriculture Transformation Agenda (ATA) was introduced to enhance the income of smallholder farmers and promote rural entrepreneurship. The initiative focused on implementing fertilizer subsidies, improving food safety practices, and encouraging the adoption of new technologies. In 2015, President Muhammadu Buhari launched the Agricultural Promotion Policy (The Green Alternative 2016–2020), aimed at shifting from subsistence farming to high-value agricultural value chains. However, not much has been achieved to increase sustainable irrigation development and mechanization.[8]

Currently, the supply of agricultural machinery for agricultural production remains low. Nigeria has no tractor production plants, and the price of

5. National Bureau of Statistics, e-library. "Foreign trade in goods statistics (Q1 2024)". https://nigerianstat.gov.ng/elibrary/read/1241511
6. Agricdemy. 2023. "Agriculture problems in Nigeria and Solutions". https://agricdemy.com/post/agriculture-problems-nigeria
7. Hiroyuki Takeshima and Akeem Lawal. 2018. "Overview of the evolution of agricultural mechanization in Nigeria". Intenational Food Policy Research Institute. Discussion paper 01750. https://cgspace.cgiar.org/server/api/core/bitstreams/bc81676f-da94-426b-ab72-9004dd7f4090/content
8. Daniel Essiet. 2023. "The Buhari Years 2015 – 2023: review of policies and performances". The Nation https://thenationonlineng.net/the-buhari-years-2015-2023-review-of-policies-and-performances/

imported tractors has increased considerably due to the naira depreciation, reducing individuals' and associations' ability to acquire tractors.

The way forward: Lessons from Ukraine

Like Nigeria, Ukraine has rich agricultural land and diverse crop production. However, in the late 1980s, harvests were significantly delayed due to a lack of modern harvesting equipment, a major barrier to increasing grain yield and quality. Outdated and inefficient machinery led to the loss of 10–20% of crops. Additionally, due to insufficient on-farm storage facilities, many farmers were compelled to sell their grain soon after harvest, when prices were typically at their lowest. By 2000, Ukraine's agricultural sector underwent restructuring, with grain and oilseed production largely dominated by large-scale agricultural enterprises.[9]

During the 2010s and 2020s, Ukraine implemented a holistic strategy for agricultural mechanization as part of its broader reforms and modernization efforts.[10] Through government policies, investment, and private sector initiatives, Ukraine improved crop production and post-harvest processing by integrating advanced agricultural machinery, precision farming technology, and efficient farming practices.[11]

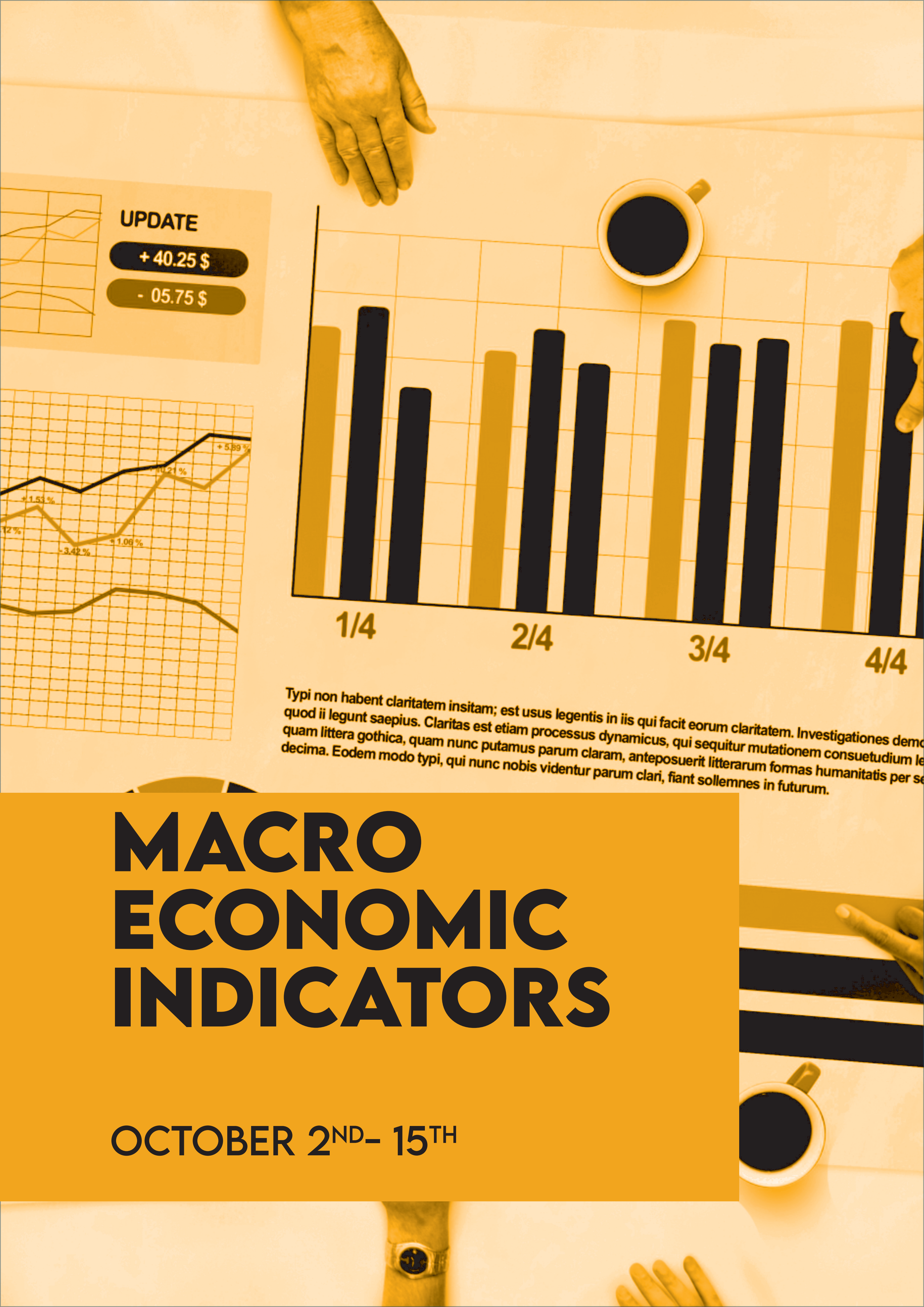
Today, the country hosts around 40 agricultural machinery manufacturers, which continue to play a vital role in supplying a significant portion of the country's agricultural equipment, including ploughs, harrows, cultivators, seeders, and sprayers. Significant investments from the government, international institutions, multinational corporations, and private enterprises were also made in modern equipment such as tractors, harvesters, and irrigation systems. In addition, the adoption of GPS-guided machinery and drones for crop and soil monitoring has further enhanced productivity.

Ukraine is one of the leading global producers and exporters of grains and oilseeds; agricultural products are the country's most significant exports, with more than 55% of its land area being arable. In 2019, Ukraine's agricultural sector contributed around 9% to the country's GDP. By 2021, agriculture employed 14% of the population (approximately 2.5 million people), contributed 10.9% to GDP, and represented 41% of total exports, equating to $27.8 billion out of a total export value of $68 billion.[12] Before the Russian invasion, Ukraine was responsible for supplying 50% of the grain stock for the UN World Food Program. In 2023, agro-food products made up 62% of Ukraine's total exports, an increase from 41% in 2021.[13]

To enhance agricultural output and export earnings, Nigeria could adopt a comprehensive strategy akin to Ukraine's, which combined government support, private sector collaboration, and

9. World Data Center. "Ukraine: agricultural overview". http://wdc.org.ua/en/book/export/html/29
10. Tech Ukraine. "Machinery and equipment for agriculture". https://techukraine.org/welcome-to-the-machine-building-industry/machinery-and-equipment-for-agriculture/
11. Sunfloromash. 2023. "Manufacturing of agricultural machinery: market overview in Ukraine". https://sunfloromash.com/en/news/virobnictvo-silgosptehniki-v-ukraini-vid-sivbi-do-zbiranna-vrozau
12. US Department of Agriculture. 2022. "Ukraine agricultural production and trade". https://fas.usda.gov/sites/default/files/2022-04/Ukraine-Factsheet-April2022.pdf
13. Ministry of Economy of Ukraine. 2024. "Investment guide in Ukraine". Kyiv School of Economics. https://www.agroberichtenbuitenland.nl/documenten/publicaties/2024/06/12/ukraine-investment-guide

international investment and focused on domestic production of mechanization equipment. Ukraine provided subsidies for machinery and established public-private partnerships that fostered innovation and technology transfer, further enabling the domestic manufacturing market and agricultural mechanization. Additionally, promoting research and development in agricultural machinery and investing in training programs would empower local farmers and technicians, ensuring the long-term success of mechanization efforts while boosting rural development and employment. Ultimately, by integrating these practices, Nigeria could improve productivity and sustainability.



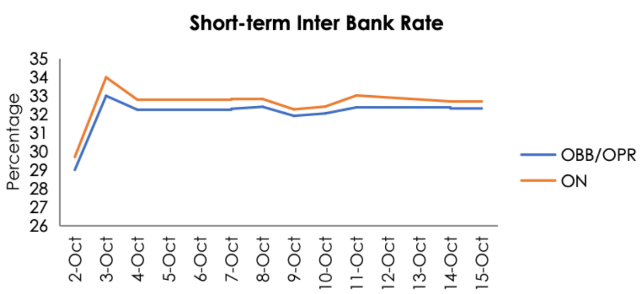
MACRO ECONOMIC INDICATORS

OCTOBER 2ND- 15TH

MONEY MARKET

The bank's average position was negative in the first half of October, at N688.96bn short, compared to N177.23bn short in the first half of September. Three OMO repayments were made on October 8, 9, and 10, and two OMO sales were made on October 4 and 14. Short-term interbank rates (OPR, O/N) averaged 32.24% p.a. in the first half of October, up 290bps from 29.34% p.a. in the first half of September.

In the first half of October, two primary market repayments, totalling N55.06bn, were made, but no primary market auction was conducted.. Primary market rates remained unchanged for the 91-day and 182-day tenors but increased for the 364-day tenor. At the secondary market, yields increased at the 90-day and 364-day tenors while decreasing at the 180-day tenor.



Source: FDC Think Tank

Tenor	Primary market (Sept 25th 2024) (%)	Primary market (Oct 9th 2024) (%)	Secondary market (Oct 2nd 2024) (%)	Secondary market (Oct 15th 2024) (%)
91-day	17.00	17.00 ⟷	20.69	20.86 ▲
182-day	17.50	17.50 ⟷	21.63	21.60 ▼
364-day	19.86	20.00 ▲	21.16	20.43 ▼

Source: FMDQ, FDC Think Tank

Outlook and Implication

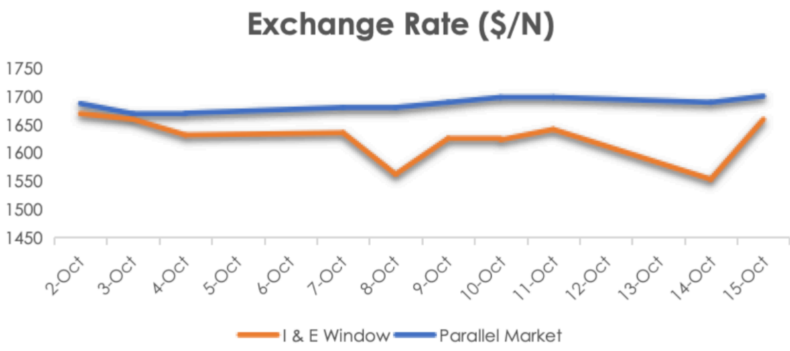
With the CBN raising interest rates by 25 basis points to 27.50%, short-term interbank rates are expected to rise. Banks will face higher borrowing costs, prompting upward lending rate adjustments to manage liquidity. This will tighten market liquidity, pushing up the interbank rate. This in turn, leads to higher yields on treasury bills as investors demand more return for their money..

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.

EXCHANGE RATE

In the Investors' and Exporters' Foreign Exchange (I&E FX) window, the naira appreciated by 0.61% against the dollar, strengthening from N1,669.15/$ on October 2 to N1,658.97/$ by October 15. Conversely, in the parallel market, the naira depreciated by 0.76%, closing at N1,700.00/$ on October 15, down from N1,687.00/$ on October 2. This decline was driven by a constrained dollar supply from market participants amid robust foreign exchange demand for year-end inventory stocking, festive season imports, and travel.



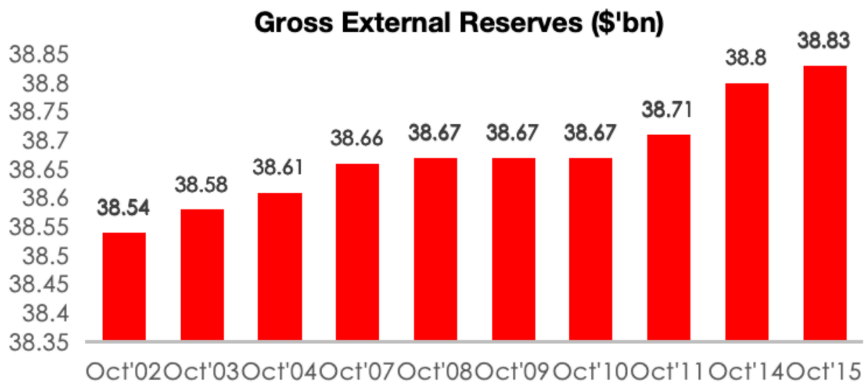
Source: FDC Think Tank

Outlook and Impact

We anticipate a near-term appreciation of the naira, as the Central Bank of Nigeria (CBN) is expected to intervene in the forex market through the Retail Dutch Auction (RDA) and by supplying foreign exchange to accredited Bureau De Change (BDCs).

EXTERNAL RESERVES

The country's external reserves rose 0.75% to close at $38.83bn on October 15, up from $38.54bn on October 2. Foreign capital inflows, receipts from crude oil-related taxes, foreign exchange transactions, and third-party contributions largely drive the external reserve improvement. Gross external reserves climbed by 5.80% to $38.67bn compared to $36.55bn in the corresponding period.



Source: CBN, FDC Think Tank

Outlook and Impact

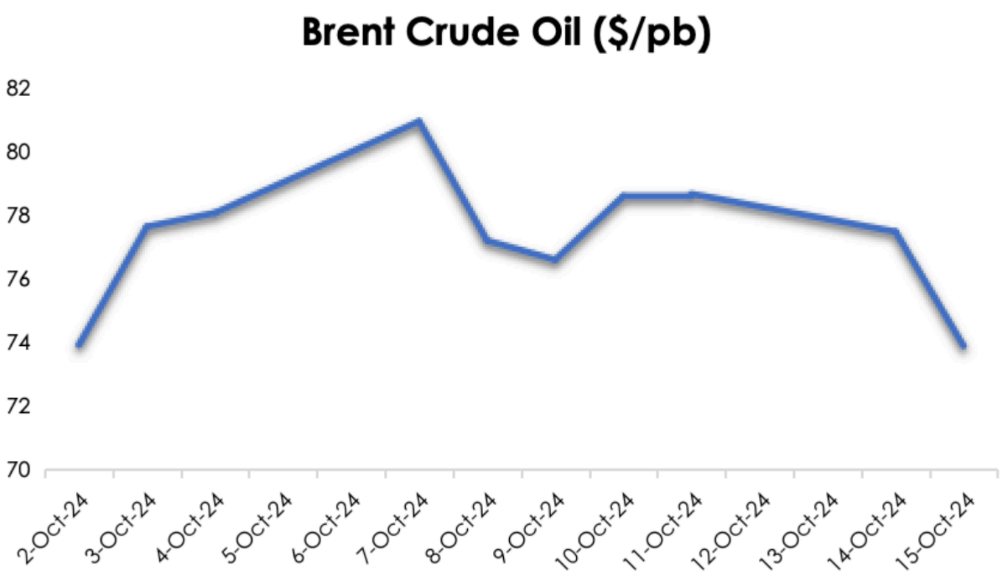
In the near term, we expect external reserves to maintain their bullish trend, driven by improved diaspora remittances. An increase in external reserves will strengthen investor confidence, attracting foreign investment inflows. Furthermore, it will contribute to stabilizing the naira and help mitigate inflationary pressures.

COMMODITY EXPORTS

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

OIL PRICES

Brent's price declined marginally by 0.04% to close at $73.87pb on October 15, from $73.90pb on October 2. This marginal decrease was influenced by weaker-than-expected Chinese demand, dampening market expectations. Additionally, easing supply disruptions from Iran contributed to a softer oil demand outlook, further weighing on oil prices.



Source: Bloomberg, FDC Think Tank

Outlook

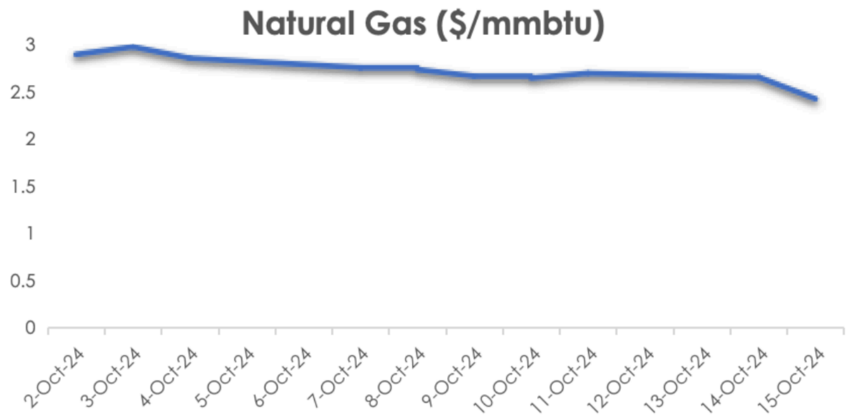
In the near term, we expect oil prices to rise, driven by renewed geopolitical tensions in the Middle East. The Israeli prime minister instructed the army to prepare for a violent war in case of any violation of a ceasefire. Additionally, OPEC+ decision to delay output hike meeting until will further support oil prices.

Implication

Rising oil prices will likely bolster Nigeria's external reserves and enhance foreign exchange inflows. This will strengthen the Central Bank's ability to stabilize the naira, reducing currency volatility and supporting economic stability.

NATURAL GAS

The price of natural gas plunged by 16.26%, down from $2.89/MMBtu on October 2 to $2.42/MMBtu on October 15. The decrease was fueled by ample supplies as power producers in the U.S. lifted natural gas-fired generation to new highs over the first nine months of 2024. The mild U.S. weather forecast for October also supported prices as it lowered demand.



Source: Bloomberg, FDC Think Tank

Outlook

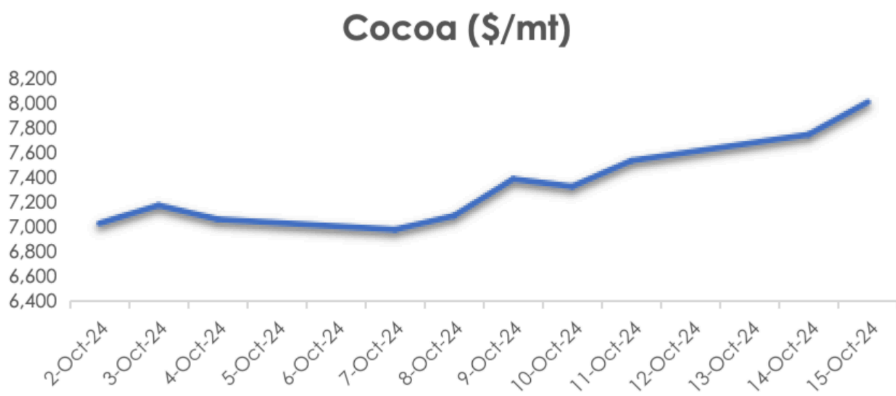
Due to weak demand, natural gas is anticipated to be bearish in the near term. The U.S. Energy Information Administration (EIA) reported a weaker storage draw, signalling low demand. A forecast of milder weather in the second week of December by the National Weather Service, could further reduce demand for heating gas, which will also reduce prices.

Implication

A decline in LNG prices would reduce Nigeria's export earnings depleting, foreign reserves and putting pressure on the exchange rate. could

COCOA

Cocoa prices climbed by 13.97% in the first half of October, increasing from $7,022/mt on October 2 to $8,003/mt on October 15. This sharp increase was mainly triggered by a 20% rise in Ivory Coast's cocoa farmgate price, above Ghana's farmgate price. Additionally, unfavorable weather conditions, including heavy rainfall that has disrupted harvests and slowed cocoa arrivals in Ivory Coast, further supported the price rise.



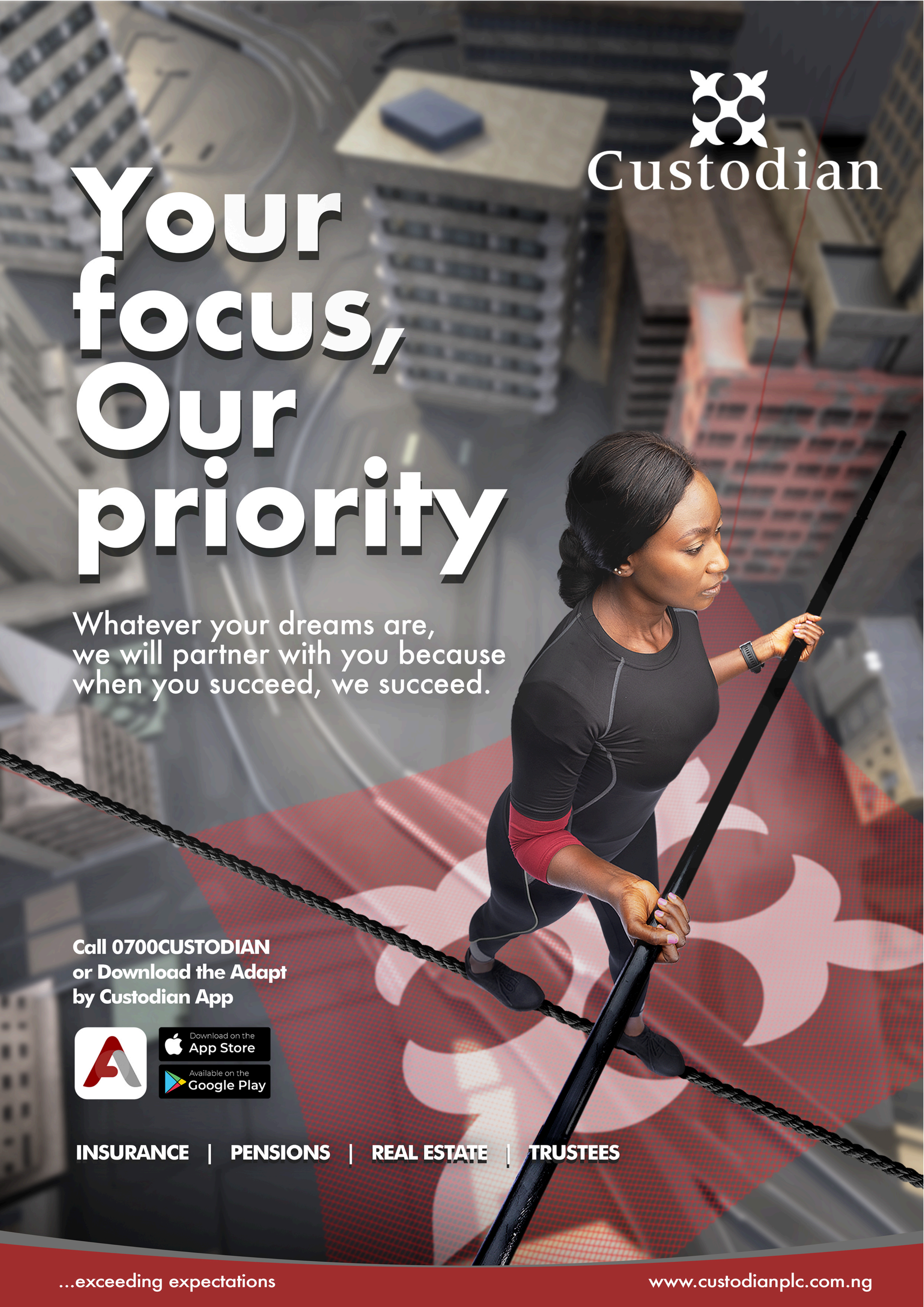
Source: Bloomberg, FDC Think Tank

Outlook

Cocoa prices are anticipated to rise in the near term due to heavy rainfall and flooding in West African cocoa regions, contracting supply. Also likely to support prices upward, is JP Morgan's revised 100,000 MT deficit forecast for 2024/25.

Implication

Increasing cocoa prices will raise Nigeria's export earnings, strengthening foreign reserves and enhancing economic resilience. This boost in export revenue is also expected to improve fiscal revenue, providing the government with greater resources for public investment.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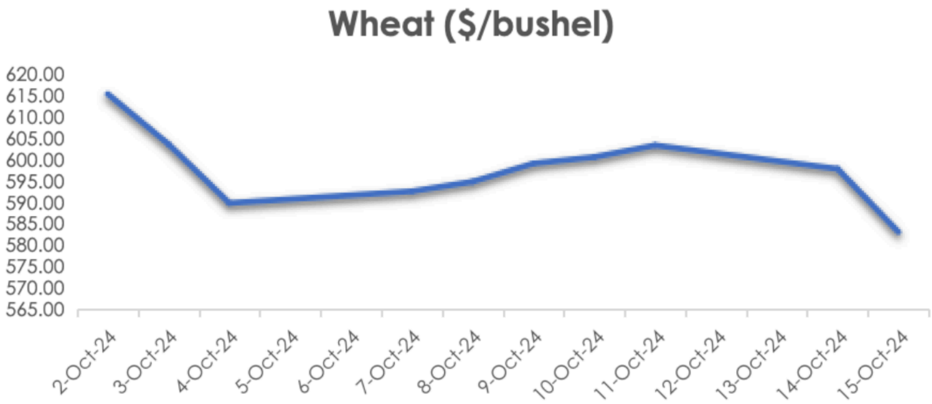
COMMODITY IMPORTS

WHEAT

The price of wheat declined by 5.24% in the second half of October, falling from $615.25/bushel on October 2 to $583.00/bushel on October 15. This decrease is primarily attributed to an increase in Russia wheat exports, which rose by 5% due to large harvest, contributing to a more abundant global supply. Furthermore, Egypt's decision to reduce its wheat demand has also exerted downward pressure on prices.



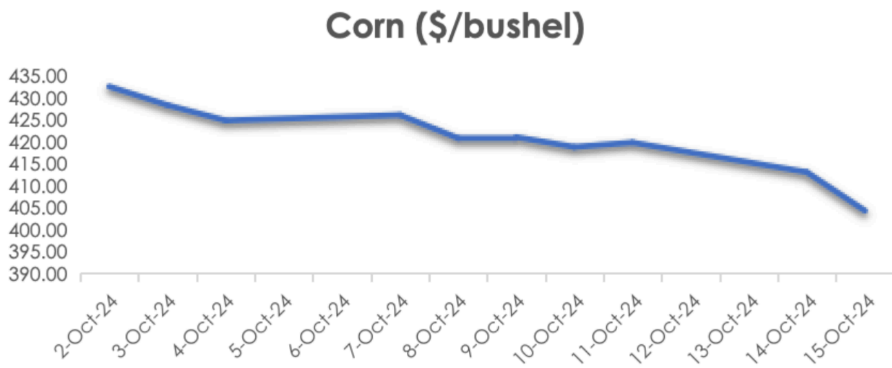
Source: Bloomberg, FDC Think Tank

Grains- Outlook

Grain prices are expected to be mixed in the near term. Corn prices are expected to increase due to lower U.S. production and tight global stocks, and increased feed demand. On the other hand, wheat prices are anticipated to fall due to high global production and strong export competition.

CORN

In the first half of October, the price of corn dropped sharply by 6.53% from $432.50/bushel on October 2, to $404.25/bushel on October 15. This decrease in corn price was triggered by expectations of record U.S. supplies in 2024/25 season, as corn production is forecast at 15.2 billion bushels, according to USDA's latest estimates, up 17 million from last month. Additionally, improved rainfall in Brazil has alleviated concerns over the impact of early-season dryness on its harvest, further supporting downward pressure on corn prices.



Source: Bloomberg, FDC Think Tank

Grains-Impact

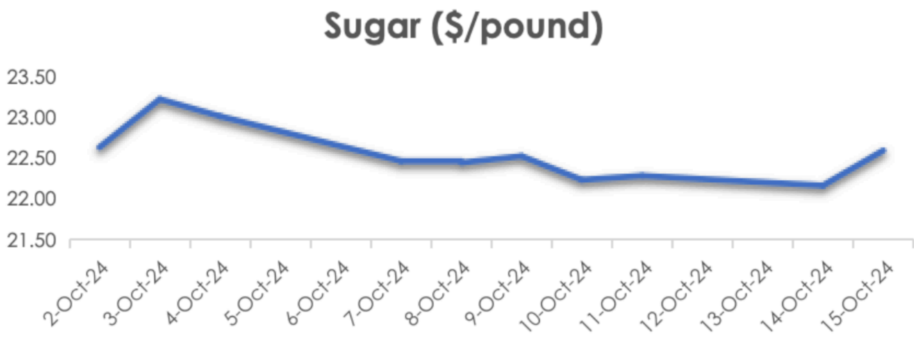
An increase in global grain prices will increase food inflation in Nigeria, reduce purchasing power, and strain foreign reserves due to higher imports costs. Additionally, livestock feed costs may rise, impacting local industries while food security concerns grow.

Terms of Trade

In Q2'24, the country's terms of trade decreased by 0.06% and are expected to remain negative in the near term. In the review period, the country's imports increased by 0.15% compared to its export value of 0.06%. Nigeria's oil production decreased by 2.2% in September to 1.32mbpd, still below OPEC's quota of 1.5mbpd. Similarly, cocoa prices are trading around $9,000/mt amid growing output, which will further improve the trade balance.

SUGAR

During the first half of October, the price of sugar declined by 0.18%dropping from $22.63/pound on October 2 to $22.59/pound on October 15. This price reduction can be attributed to optimistic weather forecasts in Brazil, a leading sugar producer, where increased rainfall is expected to enhance crop yields and boost supply. Additionally, ample sugar supplies within the European Union have exerted further downward pressure on prices.



Source: Bloomberg, FDC Think Tank

Outlook

Sugar prices are anticipated to trend downward in the near term, driven by an improved outlook for Brazil's upcoming sugarcane harvest following recent rainfall and increased sugarcane production among leading Asian producers.

Implication

A decline in sugar prices will reduce import costs, leading to a modest improvement in the trade balance. This will also lower the prices of sugar-based products, helping to curb food and beverage inflation and easing financial pressures on consumers.

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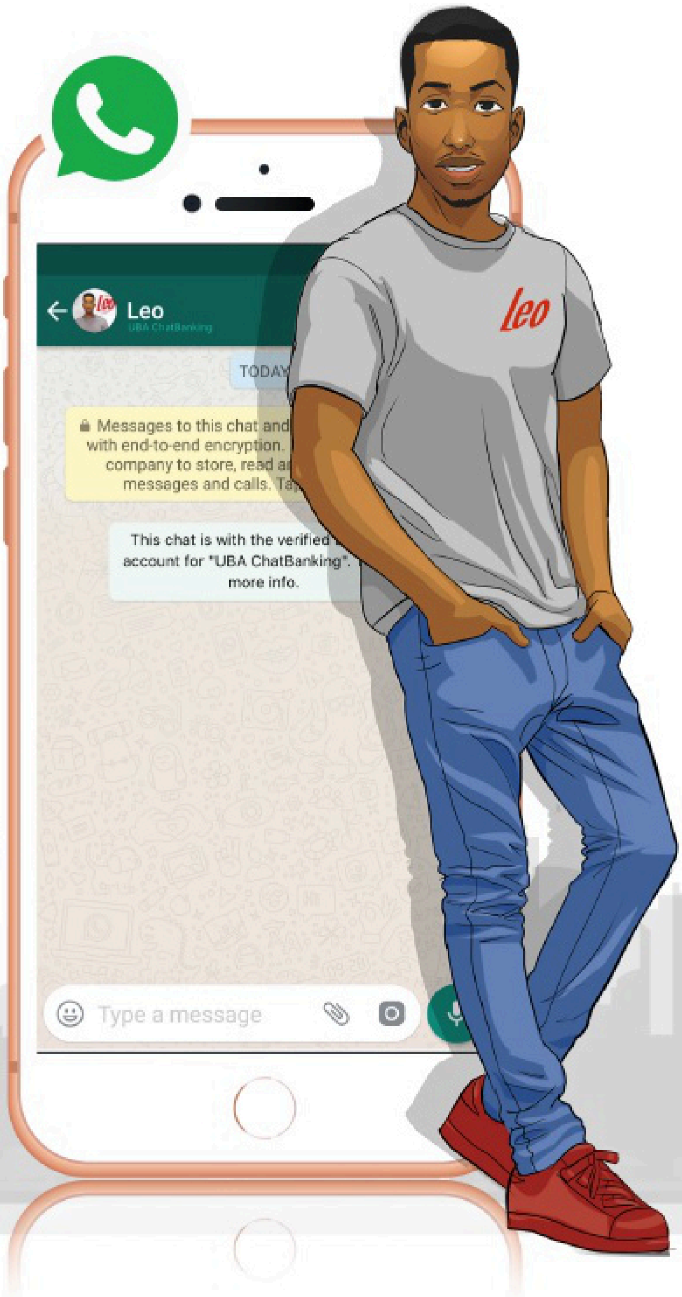

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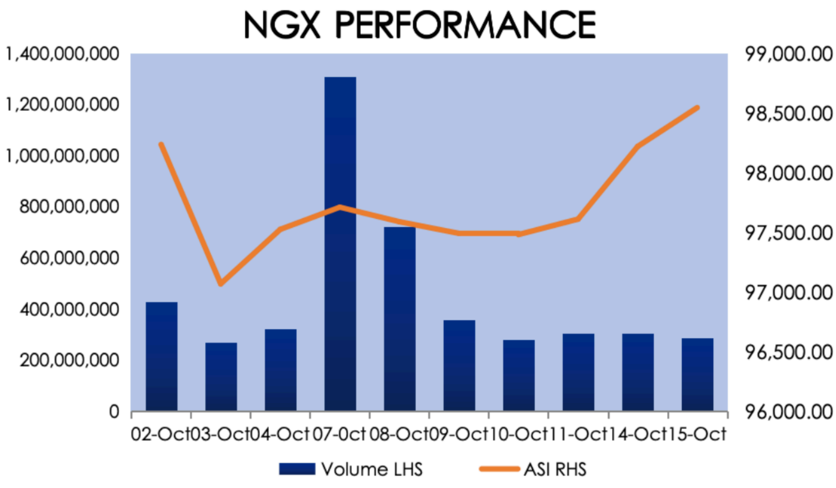
STOCK MARKET REVIEW

OCTOBER 2ND– 15TH

The Nigerian Stock Exchange (NGX) closed positively in the first half of October. It gained 0.31% to close at 98,540.93 points on October 15 from 98,232.39 points on October 2. Similarly, the market capitalization increased by 5.78% to N59.41 trillion on October 15, relative to its close of N56.45 trillion on October 2. The market YTD return was 31.79%. The market breadth was negative at 0.57x, as 32 stocks gained, 63 remained unchanged, and 56 lost. The NGX's positive performance was buoyed by gains in the oil and gas sector, bolstered by the Aradel Holdings Plc listing and a rally among other firms.



Source: NGX, FDC Think Tank

The market activity level was positive in the review period. The average volume traded decreased by 36.51% to 457.20mn units from 720.12mn units, while the value of trades declined by 48.41% to N9.894bn from N19.17bn in the first half of October.

The performance of the sectors was mixed, as two sectors gained and three lost. The Oil and Gas sector recorded a gain of 9.24%, followed by the Banking sector (0.19%). The Industrial sector lost 5.98%, followed by the Consumer goods sector (1.66%) and the Insurance sector (1.04%).

SECTOR PERFORMANCE

Oil &Gas	Banking	Insurance	Industrial	FMCG
9.24%	0.19%	-1.04%	-1.24%	-1.66%

TOP 5 GAINERS

MECURE Industries Plc, one of the leading human therapeutic companies in the Nigerian pharmaceutical industry, led the gainers' list with a 43.79% increase in its share price. This was followed by SEPLAT Energy Plc (27.15%), University Press Plc (17.51%), Julius Berger Nigeria Plc (17.14%), and The Initiates Plc (12.63%).

TOP 5 LOSERS

The laggards were led by Tripple Gee & Company Plc (-60.13%), which produces security documents, financial instruments, and flexible packaging items-. This was followed by DAAR Communications Plc (-22.86%), C&I Leasing Group Plc (-18.41%), Jaiz Bank Plc (-18.11%) and Eterna Plc (-13.67%).

TOP 5 GAINERS

Company	Sept-18 (N)	Sept-30 (N)	Absolute Change	Change (%)
MECURE	7.65	11.00	3.35	43.79
SEPLAT	4103.10	5217.20	1114.10	27.15
UPL	2.17	2.55	0.38	17.51
JBERGER	140.00	164.00	24.00	17.14
TIP	1.90	2.14	0.24	12.63

TOP 5 LOSERS

Company	Sept-18 (N)	Sept-30 (N)	Absolute Change	Change (%)
TRIPPLEG	4.54	1.81	2.73	-60.13
DAARCOMM	0.70	0.54	0.16	-22.86
CILEASING	4.40	3.59	0.81	-18.41
JAIZBANK	2.65	2.17	0.48	-18.11
ETERNA	30.00	25.90	4.10	-13.67

Outlook

We anticipate a bearish market in the near term due to the increase in MPR to 27.50%, which will likely see investors shift to fixed-income investments for higher yields.

WHISPERS OUTLOOK

- The introduction of the newly launched Enhanced Foreign Exchange Market System (EFEMS) by the CBN, integrated with Bloomberg's BMatch platform is expected to promote transparency, reduce speculative trading and market distortions and thereby promote market efficiency. The Naira has started appreciating and it is anticipated to be stable around N1550/$ and N1650/$ at the Parallel market.

- The MPC's 25bps rate hike in November signals a moderation in the pace of monetary tightening. Looking ahead, the CBN may soon pause rate hikes as the January MPC meeting is likely to hinge on the prevailing inflationary trends. Additionally, the currency stabilisation effort begins to show promise.

- A stronger naira would favorablly impact inflation, given Nigeria's heavy reliance on imports. It could help ease inflationary pressures in Q1'25. However, we anticipate an increase in the headline inflation rates for November and December. This is due to the lingering effects of the 54% hike in PMS prices, continuing to increase production and logistics costs.

- Oil prices are anticipated to stabilise between $72 per barrel and $75 per barrel in the near term,driven by OPEC+'s decision to delay production increases until April 2025.