

# LBS Breakfast Session

5 Baffling ??????'s



Presented by Mr Bismarck Rewane

August 3<sup>rd</sup> , 2022



# **5 Baffling Questions & Multi-dimensional answers**

Presented by Mr Bismarck Rewane

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**Headline inflation in Nigeria rose to 18.6% in June, 5<sup>th</sup> consecutive monthly increase. However, actual price increase is much higher.**

**What is the actual level of inflation in Nigeria?**

**Is Nigeria suffering from hyper, run-away, spiraling or natural inflation?**

**What policies should be adopted to contain inflation?**



# Published Data May Be Inaccurate

- ✓ Headline inflation measures the difference between the general price level this time last year and this year (annual inflation)



## Facts

- ✓ Fact 1: Headline inflation came in at 18.6% in June
- ✓ Fact 2: Our expectations is that it will increase further to 19.25% in July
- ✓ Fact 3: Anecdotal and empirical evidence at times diverge due to
  - ✓ Different sample size (national vs Lagos survey)
  - ✓ Time lags



# Published Data May Be Inaccurate

## How Realistic Comparing Annual Prices?














- ✓ More current measure of inflation
  - ✓ Monthly inflation: 1.82%  
(annualized at 24.23%)
- ✓ Inflation expectations more important than historical inflation



## Nigerian CPI Basket is Redundant

- ✓ CPI basket ought to be reviewed every 5 years
- ✓ Nigerian basket last reconstituted 13 years ago (2009)
- ✓ A number of things have changed:
  - ✓ Demography
  - ✓ Population
  - ✓ Behavioral patterns

# Official Basket Last Reconstituted in 2009

Nigeria's basket	Weight at Nov, 2009	Proposed weight
Food and non-alcoholic beverages	51.8	53.20 
Housing, water, electricity, gas	16.734	17.02 
Clothing and footwear	7.65	4.33 
Transport	6.508	6.04 
Furnishing, household equipment	5.03	2.73 
Education	3.944	4.58 
Health	3.004	6.22 
Entertainment	1.899	0.91 
Miscellaneous goods and services	1.663	0.30 
Restaurant and hotels	1.212	0.20 
Alcoholic beverages; tobacco	1.087	0.25 
Recreation and culture	0.687	0.22 
Communication & information	0.68	3.50 
Insurance and Financial service	-	0.5
<b>Total</b>	<b>18.6%</b>	<b>45.64%</b>

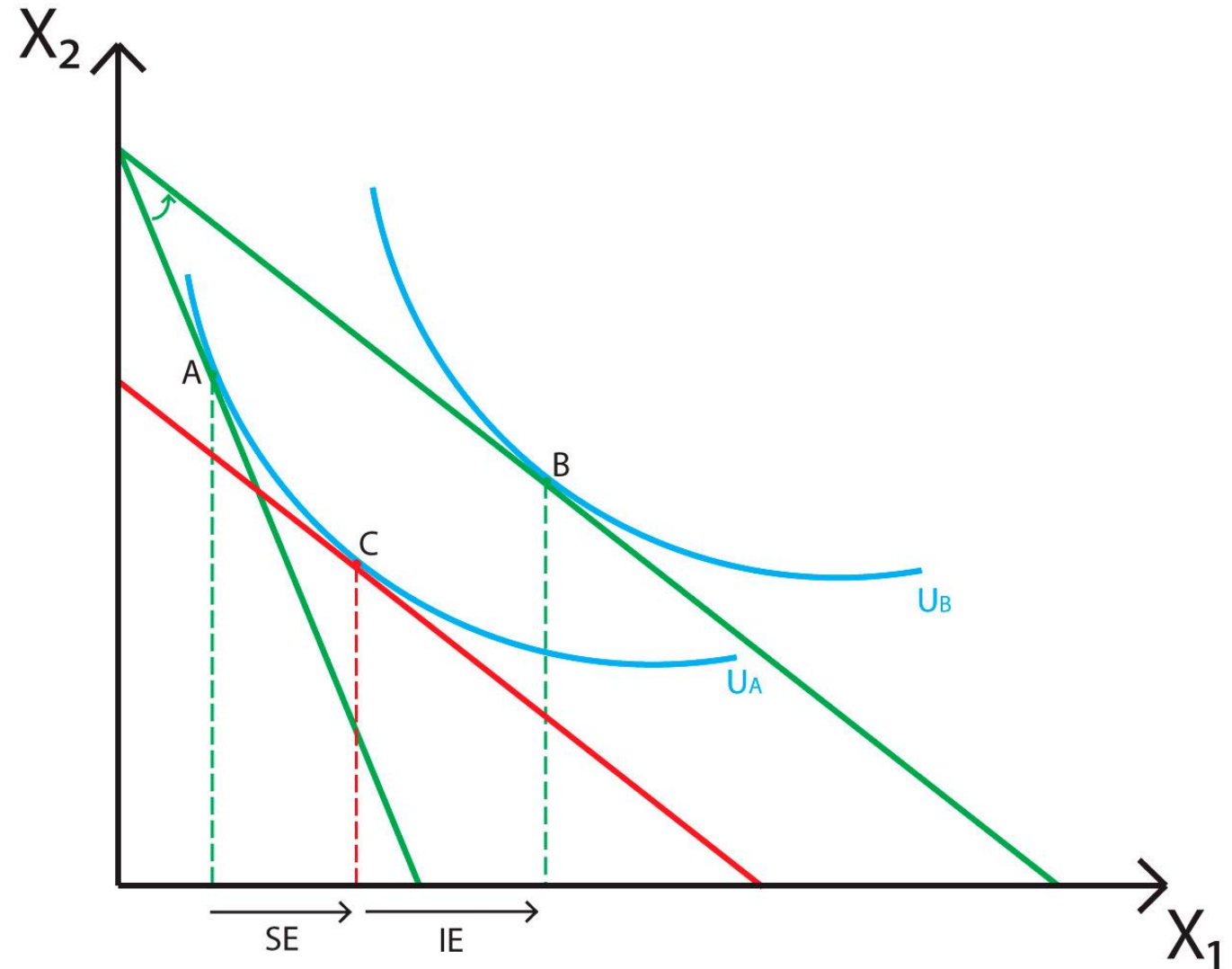
# Inflation: Different Strokes For Different Folks

**Inflation mean different thing to different people**

<b>Manufacturers</b>	✓ Measure the price of raw material input & cost of goods sold
<b>Personnel/Union</b>	✓ Wage determination
<b>Purchase department</b>	✓ Determine the price of inputs
<b>Sales department</b>	✓ Determine the price of output
<b>Policy makers</b>	✓ Determine by how much to adjust interest rates to achieve macroeconomic stability
<b>Investors</b>	✓ How to maximize return on investment – <b>improve the alpha</b>
<b>Consumers</b>	✓ To mitigate an erosion of value in income & savings

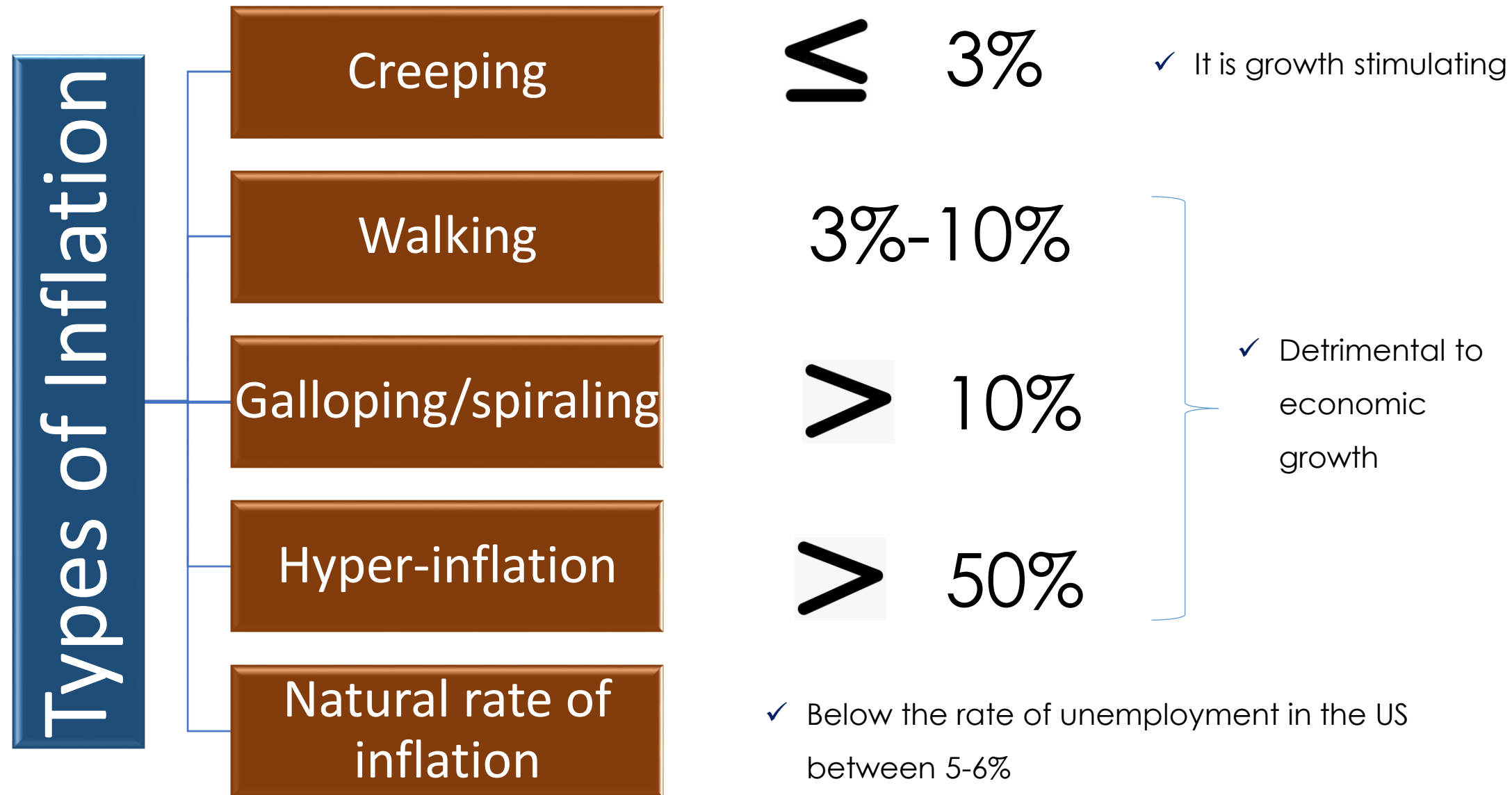
## By How Much Can Prices Be Passed On To Consumers?

- Hicks and Slutsky explained how responsive consumers are to price changes
- Price effect comprises of both substitution (SE) and income (IE) effects
- Consumers engage in down trading to cheaper brands
- Some reduce quantity demanded in response to income erosion



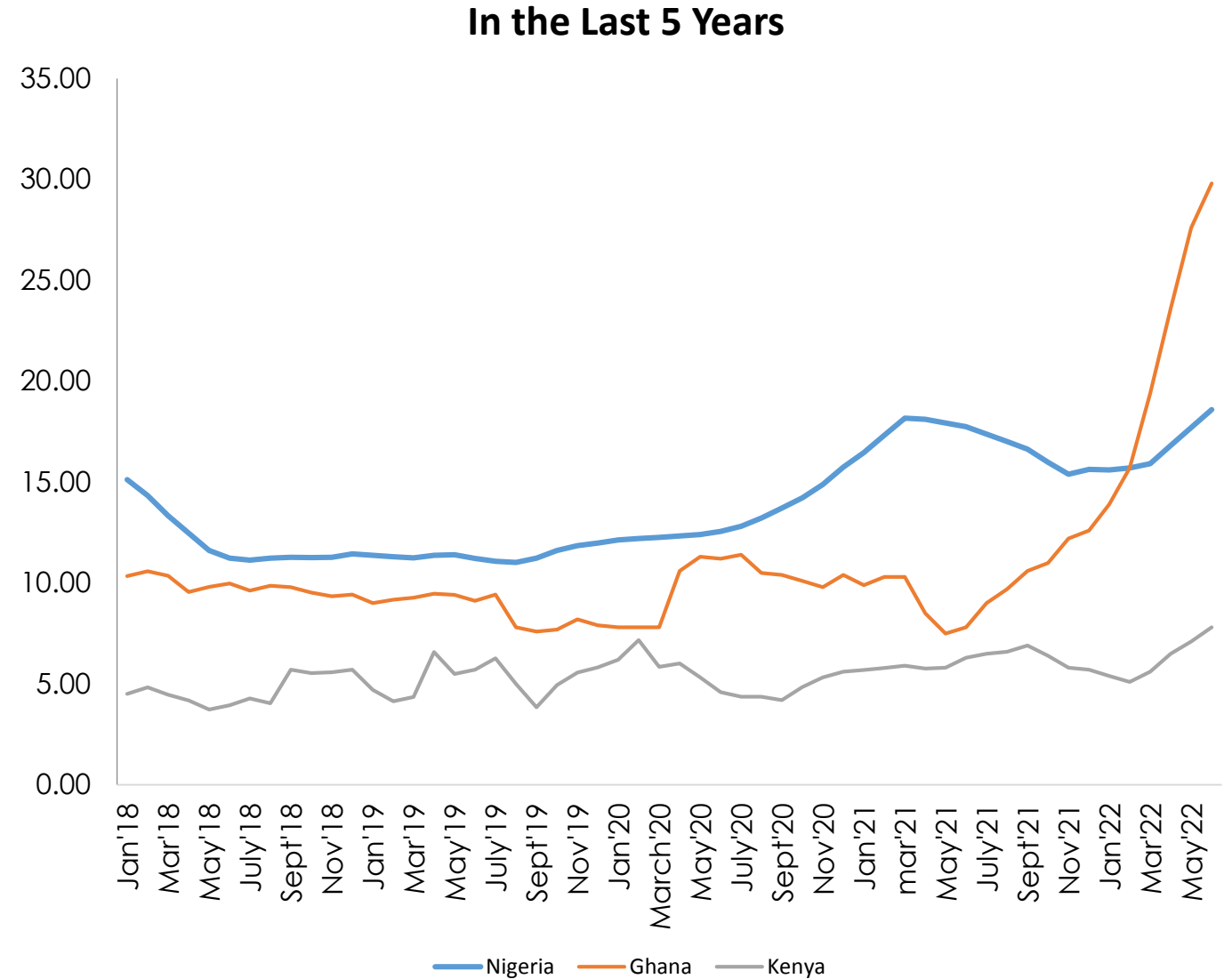


# What Type of Inflation Is Nigeria Suffering From?



## Is Inflation A Nigerian Specific Problem?

- Inflation is at 40-year highs in advanced economies
- Average rate in SSA is 9.6%
- High energy costs and exchange rate pass through



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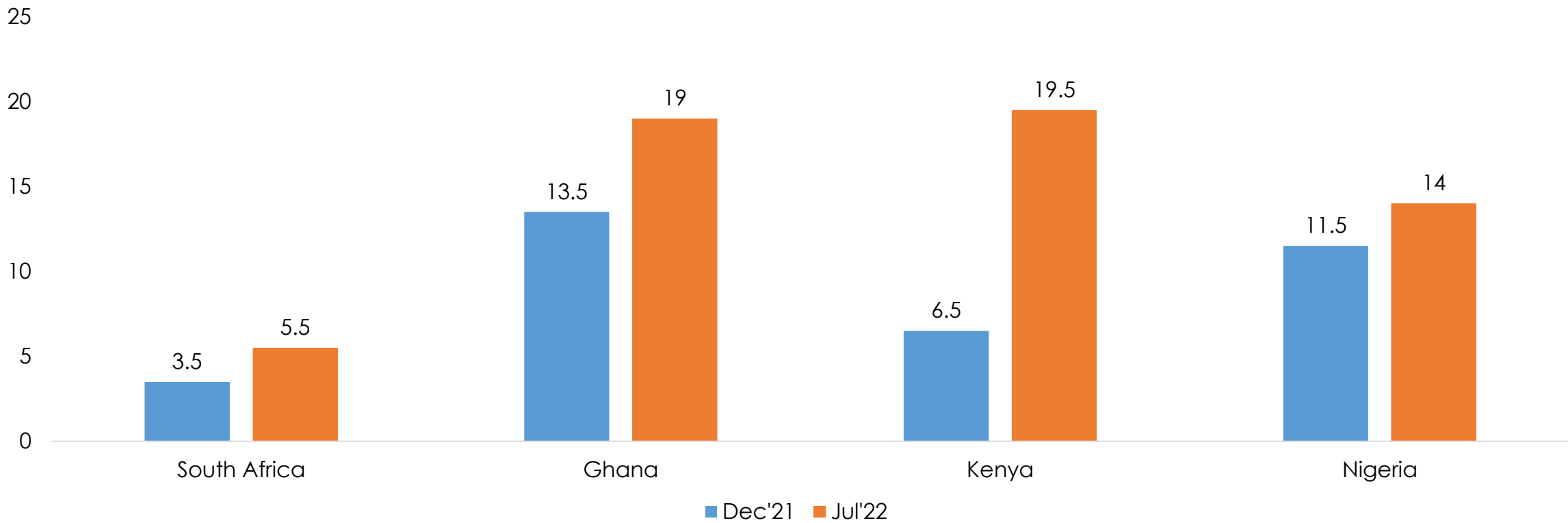
- LAGOS, NIGERIA
- ACCRA, GHANA
- ABIDJAN, COTE D'IVOIRE



# Central Banks Are Responding With Monetary Tightening (Higher Interest Rates)

All central banks increased interest rates

Interest Rate Hikes (%)



# Is Inflation Always A Monetary Phenomenon?

Correlation matrix	Parallel Exch. Rate	Diesel price	M3 Growth
Inflation	0.79	0.66	0.24

- ✓ Strong correlation between exchange rate, diesel price and inflation

## Inflation causative factors

Granger Causality Test: Hypothesis (H1)	F-Stat.	Prob.
Diesel price causes inflation	4.36	0.01
Parallel exchange rate causes Inflation	6.53	0.00
Money supply growth causes Inflation	2.70	0.07

- ✓ Friedman says “inflation is always and everywhere a monetary phenomenon”
- ✓ Inflation can be produced only by a more rapid increase in the quantity of money than in output



# What Next? - How to Contain Inflation

## Transmission lag

✓ Immediate

## Variance Decomposition

**Exchange rate  
(76.1%)**

**Diesel  
(11.6%)**

**Supply shocks  
(7.8%)**

**Money supply (M3)  
(4.5%)**

✓ Immediate

✓ Immediate

✓ Immediate

## How can inflation be addressed?

- ✓ Huge forex inflows through exports, diaspora remittances & investment inflow
- ✓ Truce in Russian-Ukraine war – **Not within control**
- ✓ Address insecurity, increase production capacity
- ✓ Increase interest rates to mop up excess liquidity

# Recession Fears Everywhere!!!

- ✓ Why are recession fears dominant?
  - ✓ Widespread economic slowdown
  - ✓ Spiraling inflation
  - ✓ Monetary tightening
  - ✓ Russian-Ukraine war
  - ✓ Threat of resurgence of new variants of Covid-19
- ✓ IMF slashes 2022 global GDP growth forecast to 3.2% from 3.6%



**Quarterly GDP Growth**

	Q1'22	Q2'22
US	-1.6%	-0.9%
UK	0.8%	
Eurozone	0.7%	0.5%
China	-2.6%	1.4%
South Africa	1.9%	
Nigeria	3.11%	

# What is Recession?

- ✓ **Technical Definition:** Two consecutive quarters of negative growth rates
- ✓ The above definition may be sufficient to declare recession in most economies
- ✓ **But the case of the US is different:**
- ✓ Only the National Bureau of Economic Research (NBER) can declare recession in the US
- ✓ NBER's view of recession is broader



# How Does the NBER Define Recession?

## ✓ Recession is

- ✓ **A significant decline** in economic activity
- ✓ That spread across the economy
- ✓ And lasts more than a few months



*NBER has not  
declared  
recession in the  
US*



## ✓ NBER recession Parameters

### ✓ Depth, diffusion and duration of:

- ✓ Slowdown in real income
- ✓ Rising unemployment
- ✓ Decline in manufacturing and retail

## Recession! Recession!! Recession!!!

- ✓ There have been two recessions since 1948
- ✓ Average of one recession every six years
- ✓ Recessions are followed by periods of expansion which range from 1 year to a decade







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**After a sharp drop in the value of the Naira in the parallel market to almost N720/\$, it has quickly corrected itself to N687/\$. Some pessimists say that a N1000/\$ is around the corner while some say it is bouncing around like a yoyo.**

**Is the Naira jinxed?**

**What can I do? Should I short the dollar and go long on the naira or vice versa?**





# Is the Naira Jinxed?

**Answer - No**

- ✓ But it is a challenged currency
- ✓ If challenged for a long period, it can end up being jinxed
- ✓ Exchange rate is the price of one currency relative to other currencies

## Facts

- ✓ Price control never works
- ✓ Price is an outcome between a willing buyer and a willing seller
- ✓ Any attempt to fix a price away from its equilibrium will lead to a distortion
- ✓ Which manifests in so many forms - black market premium, shadow pricing, etc.

## Nigeria Has Multiple Exchange Rates

- Forex market in Nigeria is a price discriminatory monopoly
- The barriers between the markets are thin and permissible
- Multiple exchange rates creates room for arbitrage and encourage rent-seeking behaviour



### RATES (N/\$)

IEFX	428.88
Parallel	655
IATA	444
NAFEX	426.20

# What is the True Value of the Currency?



Purchasing Power Parity			
	Aug-17		
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Coke (50cl)	150	2.65	56.60
Heineken	500	2.82	177.30
Hamburger (Johnny Rockets)	3,800	4.59	827.89
Uncle Ben's rice (S. Pkt)	1,370	3.65	375.34
Toyota Corolla	21,000,000	21,980	955.41
Bottled Water (1.5ltr)	120	1.31	91.60
Big Loaf Bread	350	2.39	146.44
Irish Spring Soap (1 cake)	250	0.86	290.70
Chicken Drumsticks (1 kilo)	1,250	4.15	301.20
Eggs (One dozen)	700	4.47	156.60
Average PPP			337.91
Naira Price at IFEM			305.55
PPP (%)			
Decision: Naira is		Over valued	10.59%
Spot Rate (Parallel)			365
Outcome: Compared to IFEM rate of N305.55/\$1, the Naira is overvalued by 10.59%			

**2017**

PPP – N337.91/\$

IFEM – N305.55/\$

Parallel – N365/\$



Purchasing Power Parity			
	Aug-22		
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	150	2.50	60.00
Beer (60cl)	900	0.90	1000.00
Hamburger (Burger King)	4,900	4.95	989.90
Indomie (1 unit)	150	0.68	220.59
Toyota Corolla	20,000,000	21,000	952.38
Nestle Bottled Water (60cl 1 unit)	150	0.12	1250.00
Big Loaf Bread	1,050	2.50	420.00
Irish Spring Soap (1 cake)	400	0.47	851.06
Chicken Breasts (1 kg)	3,200	8.00	400.00
Trolley	3,500	6.00	583.33
Peak evaporated milk (pack of 12)	6,500	34.40	188.95
Uncle Ben's rice (5.44kg 1 pack)	8,500	14.85	572.39
Eggs (30 large eggs)	2,500	2.30	1086.96
Average PPP			<b>659.66</b>
Naira Price at IEFX			428.88
PPP (%)			
Decision: Naira is		Overvalued	53.81%
Spot Rate (Parallel)			655
Outcome: Compared to IEFX rate of N428.88/\$1, the Naira is Overvalued by 53.81%			

**2022**

PPP – N659.66/\$

IFEX – N428.88/\$

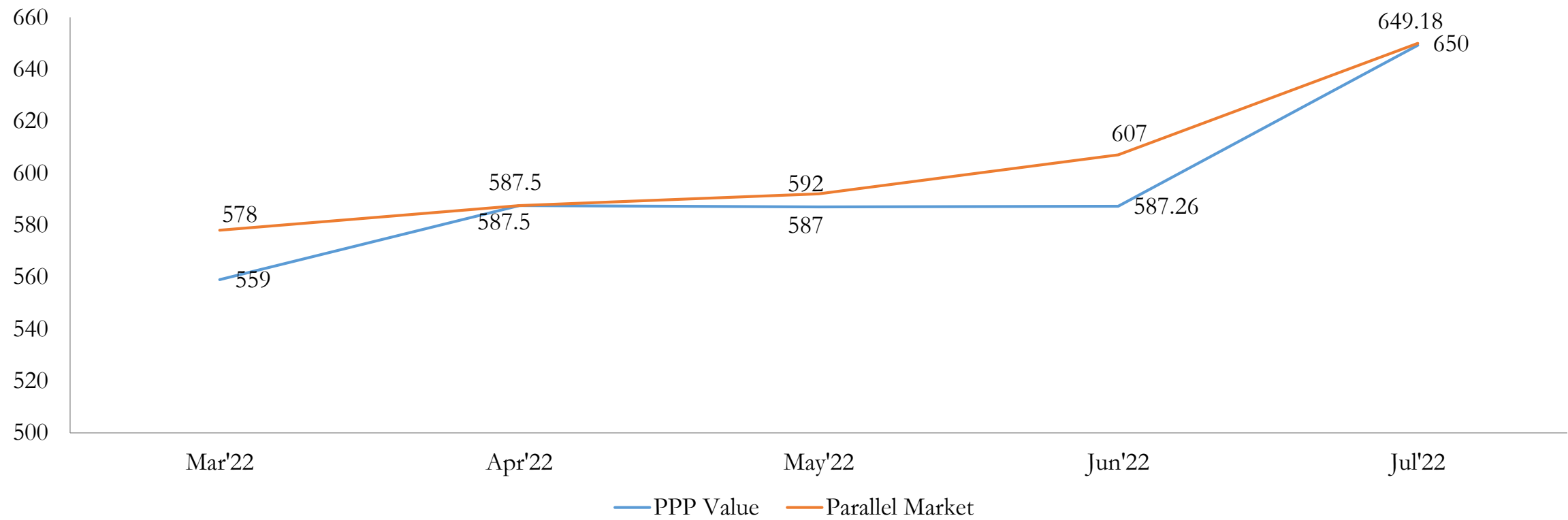
Parallel – N655/\$



# Naira Depreciating in All Segments of the Forex Market

Naira weakened to N650/\$ at the parallel market

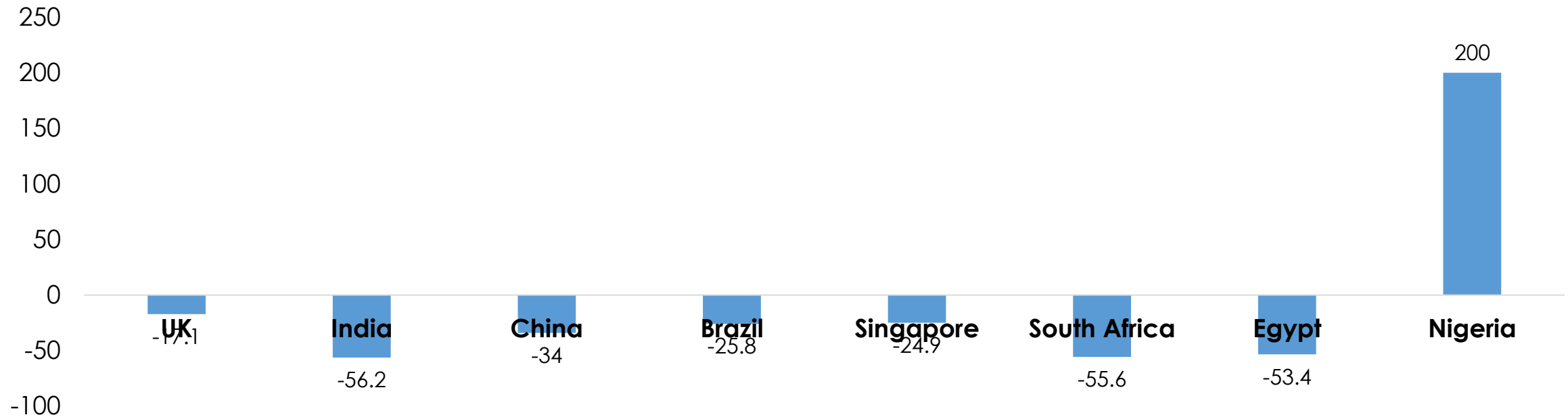
PPP Value and Parallel Market Rate



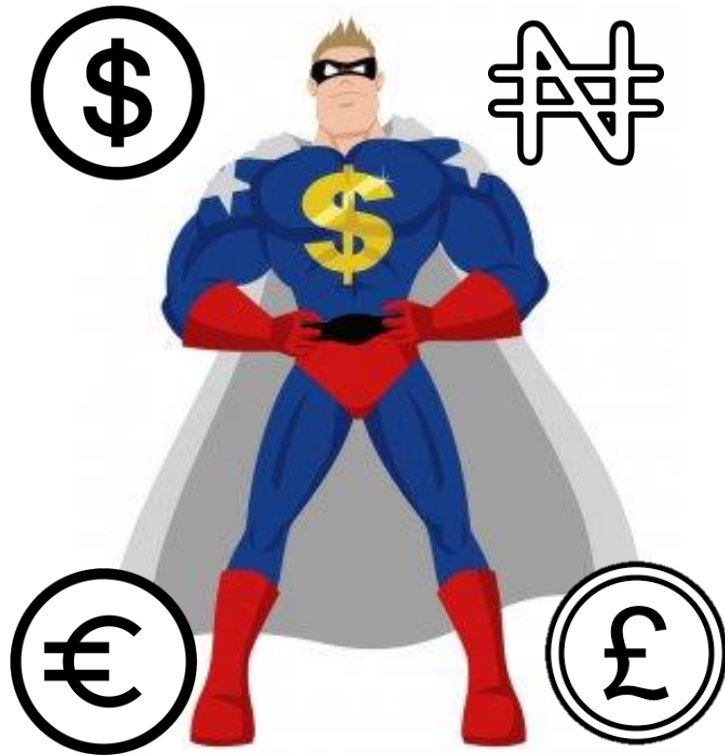
## The Big Mac Index (Undervalued/Overvalued)

- ✓ Most currencies are undervalued
- ✓ Nigerian naira overvalued by 200%
- ✓ The Big Mac index is extreme – **considering just one product**
- ✓ But it is used to measure the level of overvalued currency and as a strategy to encourage exports

### The Big Mac Index



# Total Misconception



**Strong Currency**



**Strong Economy**

# Countries that have Flexible Exchange Rates

- ✓ About 48 countries in the world operate floating or flexible exchange rate regime
- ✓ Including 9 African countries



**Malawi**



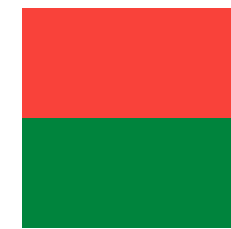
**Sierra Leone**



**South Africa**



**Congo**



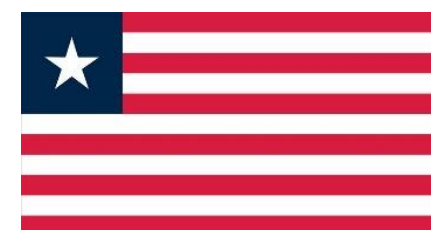
**Madagascar**



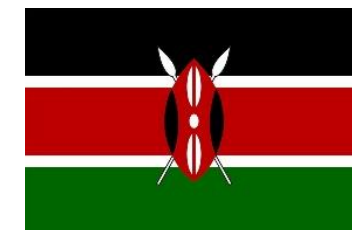
**Tanzania**



**Uganda**



**Liberia**



**Kenya**

# Nigeria's Trading Partners Facing Currency Pressures



	Share of trade (%)
China	27.65
India	23.61
Netherlands	19.79
US	10.97
Spain	10.59
Belgium	9.55
Indonesia	6.68
UK	4.84

	Exchange rate value (2021)	Exchange rate value (2022)	Currency depreciation
China	6.36	6.77	6.45
India	74.08	79.78	7.69
Netherlands	1.14	1.01	-11.40
US	95.97	107.04	11.53
Spain	1.14	1.01	-11.40
Belgium	1.14	1.01	-11.40
Indonesia	1428.7	1499.5	4.96
UK	1.35	1.20	-11.85
Nigeria	570	667	17.02

✓ We are all leaning together



# Exchange Rate Determining Mechanism

- ✓ Fundamentals show that the Naira should be stronger
- ✓ But is the data reliable? - **No**
- ✓ When discounted for subjective input, the picture changes



	2021	2022
Oil Price (\$'pb)	79.46	100.56
External Reserves (\$'bn)	40.52	39.18
Balance of trade (\$'bn)	8.7	4.1
Terms of trade (\$'bn)	28.4	32.0
Current a/c balance (\$'bn)	-6.8	7.5
Oil Revenue	14.41	20

# We are Passionate About Touching Lives



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# What Next?

## Short-term measures

✓ Increase  
dollar inflow

## Long-term measures

✓ Eliminate  
multiple  
exchange  
rates

✓ Maintain an exchange rate that keeps your exports competitive (non-oil)

# Exchange Rate is a Major Victim of Inflation



Address  
exchange rate

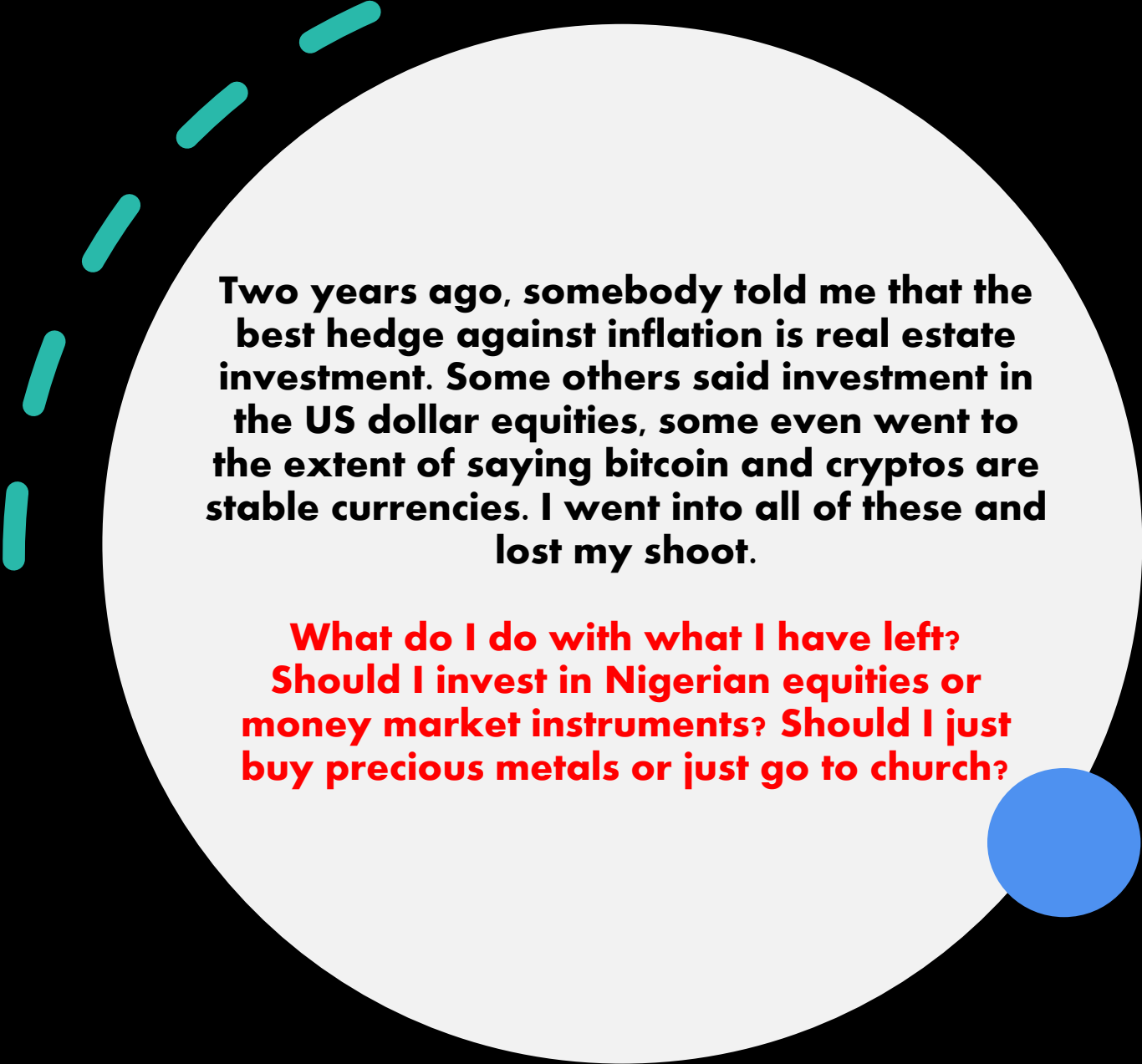


Inflation



Growth





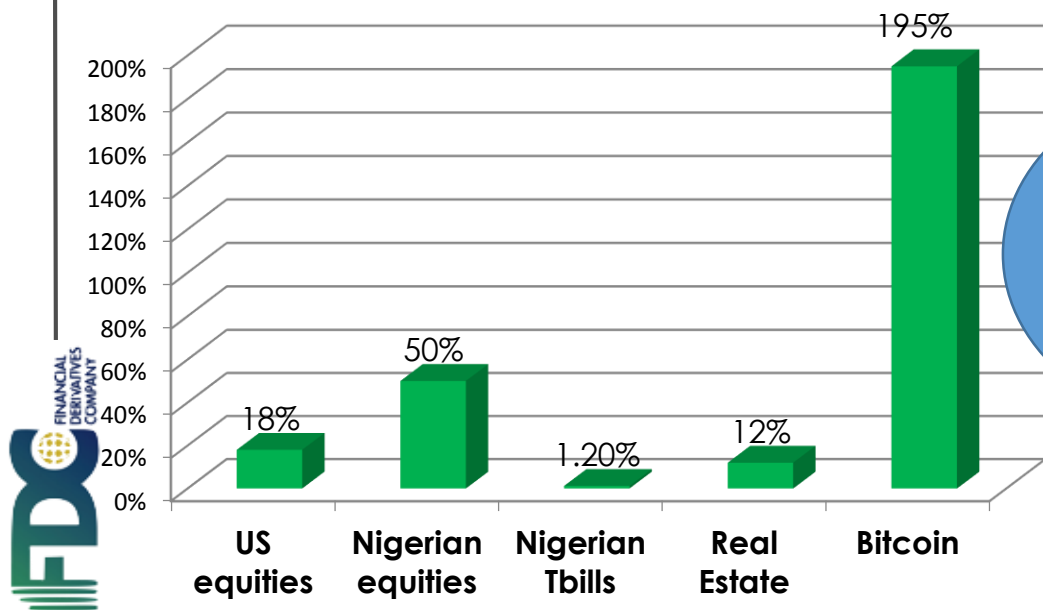
**Two years ago, somebody told me that the best hedge against inflation is real estate investment. Some others said investment in the US dollar equities, some even went to the extent of saying bitcoin and cryptos are stable currencies. I went into all of these and lost my shoot.**

**What do I do with what I have left?  
Should I invest in Nigerian equities or money market instruments? Should I just buy precious metals or just go to church?**



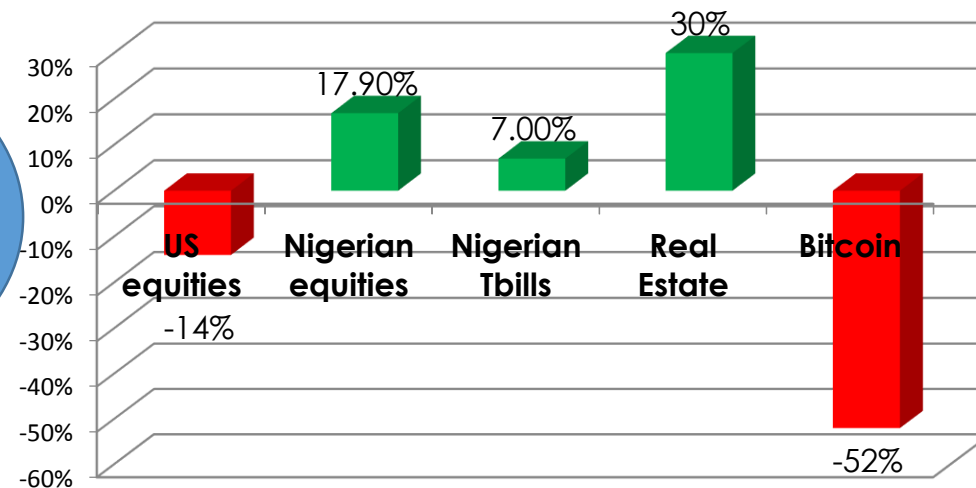
# Investment Environment - Two Years Ago Vs. Now

## ROI in 2020



Speculative investors cashed out in 2020

## ROI YTD'22



- ✓ All investment options reported a negative real rate of return except real estate so far in 2022
- ✓ Value of real estate appreciates in line with rising inflation – **A perfect hedge against inflation**
- ✓ Bitcoin made the highest loss
  - ✓ “High risk investment either earns you a robust reward or a handsome loss”
- ✓ Worsened by lingering Russian-Ukraine war, supply chain challenges, heightened inflation

# NGX Indices in July

- ✓ NGX ASI gains contracts to 17.9% from 21.3% in June

Gradually falling in line with global market trend

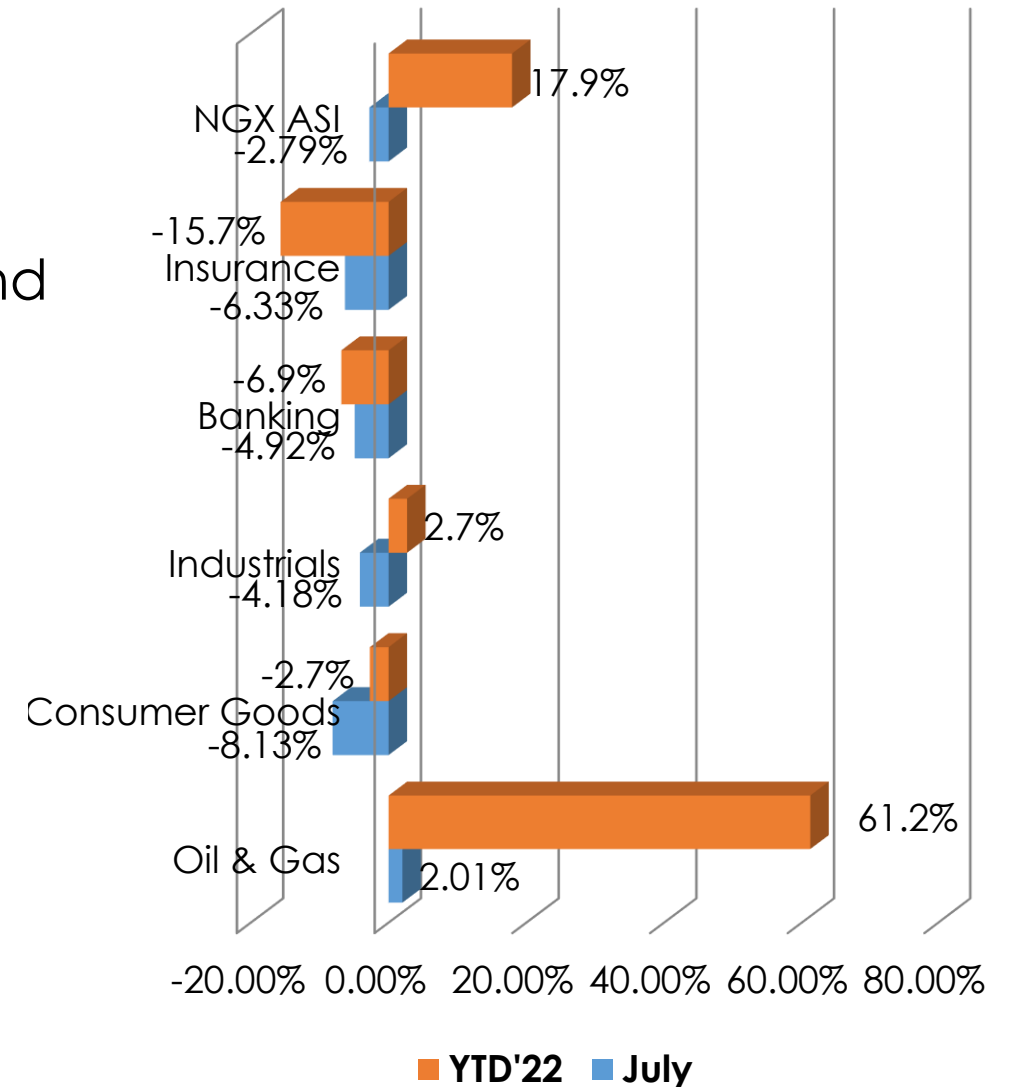


- ✓ Profit taking activities take a toll on industry performances





- ✓ Investors rotate funds towards dollar denominated assets as naira falls

- ✓ Market gain is confined to few stocks

July Vs YTD'22



# NGX Gains Confined to Few Stocks

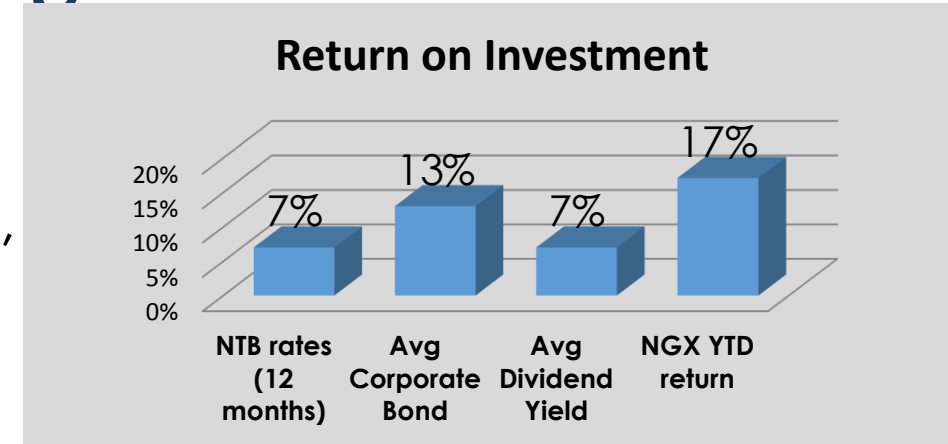
Stock	Market Cap	Rationale	YTD Return	Fundamentals
	N7.16Trn	<ul style="list-style-type: none"> <li>✓ Continuous expansion strategy</li> <li>✓ Strong earnings growth and profitability</li> <li>✓ Robust capital structure</li> </ul>	99.5%	<ul style="list-style-type: none"> <li>✓ P/E ratio 10.9x</li> <li>✓ Dividend Yield 0.63%</li> </ul>
	N198bn	<ul style="list-style-type: none"> <li>✓ Product innovation</li> <li>✓ Strong earnings growth and profitability</li> <li>✓ Growing demography</li> </ul>	132%	<ul style="list-style-type: none"> <li>✓ P/E ratio 12.67x</li> <li>✓ Dividend Yield 0.08%</li> </ul>
	N4.07Trn	<ul style="list-style-type: none"> <li>✓ Continuous expansion strategy</li> <li>✓ Strong earnings growth and profitability</li> <li>✓ Robust capital structure/ dividend</li> </ul>	1.57%	<ul style="list-style-type: none"> <li>✓ P/E ratio 12.02x</li> <li>✓ Dividend Yield 7.08%</li> </ul>
	N4.52Trn	<ul style="list-style-type: none"> <li>✓ Continuous expansion strategy</li> <li>✓ Robust dividend payout</li> </ul>	3.11%	<ul style="list-style-type: none"> <li>✓ P/E ratio 13.17x</li> <li>✓ Dividend Yield 7.55%</li> </ul>

# Money Market Instruments or Equities? August Outlook

- ✓ Investor sentiment will be driven by earnings

performance, GDP growth, interest rate movement,

dividend yields, and stock specific events



- ✓ Liquidity squeeze in the money market will prompt banks to offer more attractive interest rates to investors for deposits

- ✓ Aggressive and speculative investors will stick to attractive dividend yield
- ✓ Capital preservation remains priority for conservative investors
- ✓ Rally confined to sectors that are less exchange rate, interest rate and politically sensitive



## Money Market Instrument or Equities? - August Outlook

- Telecommunications and brewery sector likely to outperform the NGX with positive real rate of return for investors
- MTN and Airtel Africa to cannibalize the banking and payment service industry
  - Will begin to reap the benefits of PSB operations
  - Increased customer base will boost top-line performance and offset high operating cost
- Distraction for banks as they hunt for liquidity (Attractive interest rates and low cost of transaction)
- Brewery sector well positioned to benefit from increased marketing activities and previous hedge against currency volatility
- Investors expected to trade cautiously as political uncertainties and insecurity persists







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# Corporate Earnings

# H1'22 Corporate Earnings Summary



Companies on our earnings dashboard recorded a revenue growth of 23% to N2.8trn



Top-line grows faster than spiraling operating cost



Driven by higher prices, increased marketing activities, increased customer base and demand for digital services



Average profit growth of 15% to N551 billion



Driven by cost optimization and reduction in finance cost

# H1'22 Corporate Earnings Dashboard

Stock	Industry	Revenue Growth	Operating Expenses	PAT Growth	YTD Stock Return
Dangote Cement	Industrial	↑ 17% to N808bn	↑ 5% to N318bn	↓ 10% to N172bn	↑ 3.11%
BUA Cement	Industrial	↑ 52% to N188.6bn	↑ 78% to N13.52bn	↑ 41% to N61.36bn	↓ 6.94%
Lafarge Africa	Industrial	↑ 29% to N186.6bn	↑ 36% to N47.76bn	↑ 34% to N37bn	↓ 2.09%
Nigerian Breweries	Breweries	↑ 31% to N274bn	↑ 44.5% to N58.4bn	↑ 143% to N19.08bn	↓ 4.6%
Nestle	FMCG	↑ 30% to N222.5bn	↑ 13% to N34bn	↑ 28% to N27.8bn	↓ 16.5%
MTN Nigeria	Telecom	↑ 20% to N950bn	↑ 15% to N278bn	↑ 28% to N182bn	↑ 1.57%
Presco	Agriculture	↑ 94% to N42bn	↑ 177% to N8.85bn	↑ 33% to N13.5bn	↑ 80.4%
BUA foods	Food Products	↑ 11% to N169bn	↓ 29% to N6.16bn	↑ 14% to N39bn	↑ 15.5%

- **Corporate growth (23%) outperforms Nigerian economy**
- **Indicating an unleashed opportunity across sectors**





## 72 Years of Resilience, Stock Up 132% YTD, Declares N7.14 Dividend

- ✓ Guinness Nigeria deepens penetration- opens new £6.2mn ultra-modern headquarters in Lagos
- ✓ Four consecutive quarters of double-digit growth
- ✓ Top line up 29% to N206.8bn driven by
  - ✓ Higher prices, increased marketing activities
- ✓ Bottom line performance surged by 1147% underpinned by
  - ✓ Revenue growth, significant decline (95%) in net finance cost to N255.9mn
    - ✓ Reduction in net interest cost and increased interest income from financial assets





# 72 Years of Resilience, Stock Up 132% YTD, Declares N7.14 Dividend



Brand Guinness Up 23%



Mainstream Spirit  
Up 34%



Ready to Drink  
Up 56%



Premium spirit  
Up 19%

Double digits  
revenue growth  
across revenue  
segment



Malts  
Up 74%

# Airtel Africa

- ✓ Airtel Africa reports impressive top and bottom-line performance
- ✓ Despite outbound voice call bar on unregistered sim cards
- ✓ Top line grew by 13% to \$1.26bn driven by
  - ✓ 8.9% increase in customer base to 131.6mn
  - ✓ Mobile money revenue up by 28.6% to \$159mn
- ✓ Bottom line performance soared by 25.3% underpinned by
  - ✓ Strong revenue growth
  - ✓ EBITDA grew by 14.9% to \$614mn from \$534mn
- ✓ Airtel Africa's customer base will soar on super-agent license, PSB operations





# MTN Nigeria

- ✓ Mobile subscribers increased by 7.6% to 74.1mn (5.7mn subscribers in H1'2022)
- ✓ Revenue up by 20% to N948bn
- ✓ Supported by 4.2mn registered MoMo wallets in Q2'22
- ✓ Data revenue grew by 51.6% to N348bn
- ✓ Digital and fintech revenue grew by 61% and 28% respectively
- ✓ Net Income grew by 28% to N181.6bn
- ✓ Supported by top line growth and 22% growth in EBITDA to N509.3bn



# MTN Nigeria



## Earnings Momentum

- ✓ Increased capex - acquired 100MHz in the 3.5GHz spectrum band
- ✓ Expected to launch 5G services in Q3'2022- to launch customers into uninterrupted internet experience
- ✓ Leverage on digital and fintech channels to boost top line
  - ✓ Momo wallets likely to soar to about 13mn in Q3'2022
- ✓ Aggressive collaboration with the Nigerian Identity Management Commission (NIMC) expected to boost customer base and volume of subscribers





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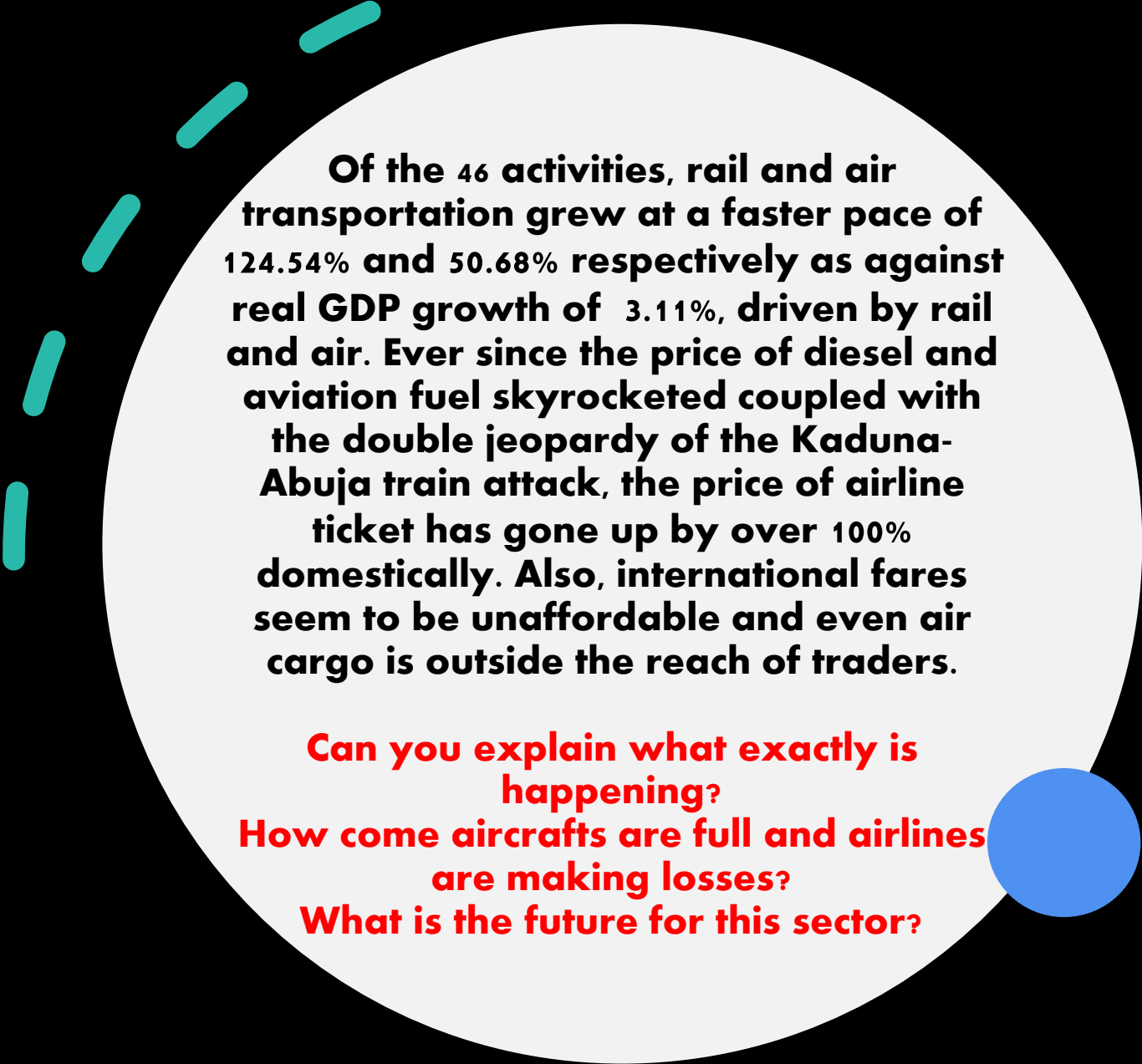
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**Of the 46 activities, rail and air transportation grew at a faster pace of 124.54% and 50.68% respectively as against real GDP growth of 3.11%, driven by rail and air. Ever since the price of diesel and aviation fuel skyrocketed coupled with the double jeopardy of the Kaduna-Abuja train attack, the price of airline ticket has gone up by over 100% domestically. Also, international fares seem to be unaffordable and even air cargo is outside the reach of traders.**

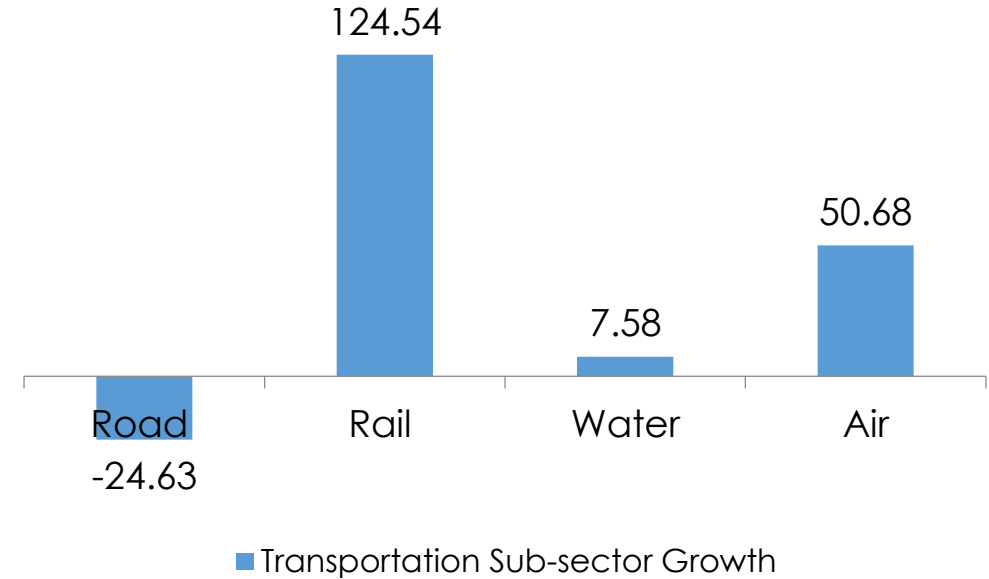
**Can you explain what exactly is happening?  
How come aircrafts are full and airlines are making losses?  
What is the future for this sector?**



# How Has Each Subsector Fared?

	Nominal GDP Growth (N'Mn)	%share of the transport sector	Contribution to GDP (%)
Overall Transport Sector	702,223.99	100.00%	1.100
Road Transport	615,595.82	87.66%	0.876
Rail Transport & Pipelines	87.06	0.01%	0.0002
Water Transport	1,815.74	0.26%	0.005
Air Transport	84,725.37	12.07%	0.146

Q1 '22 Growth in the Transportation Sub-sectors



- ✓ Overall contribution of transport sector is very low at N702bn (or 1.10% of GDP)
- ✓ Road transport contributed N615bn (0.88%) which is about 87.7% of the entire sector's GDP
- ✓ Rail contributed only N87mn to the GDP (or 0.0002%)
- ✓ Rail grew exponentially in Q1 by 124.5%

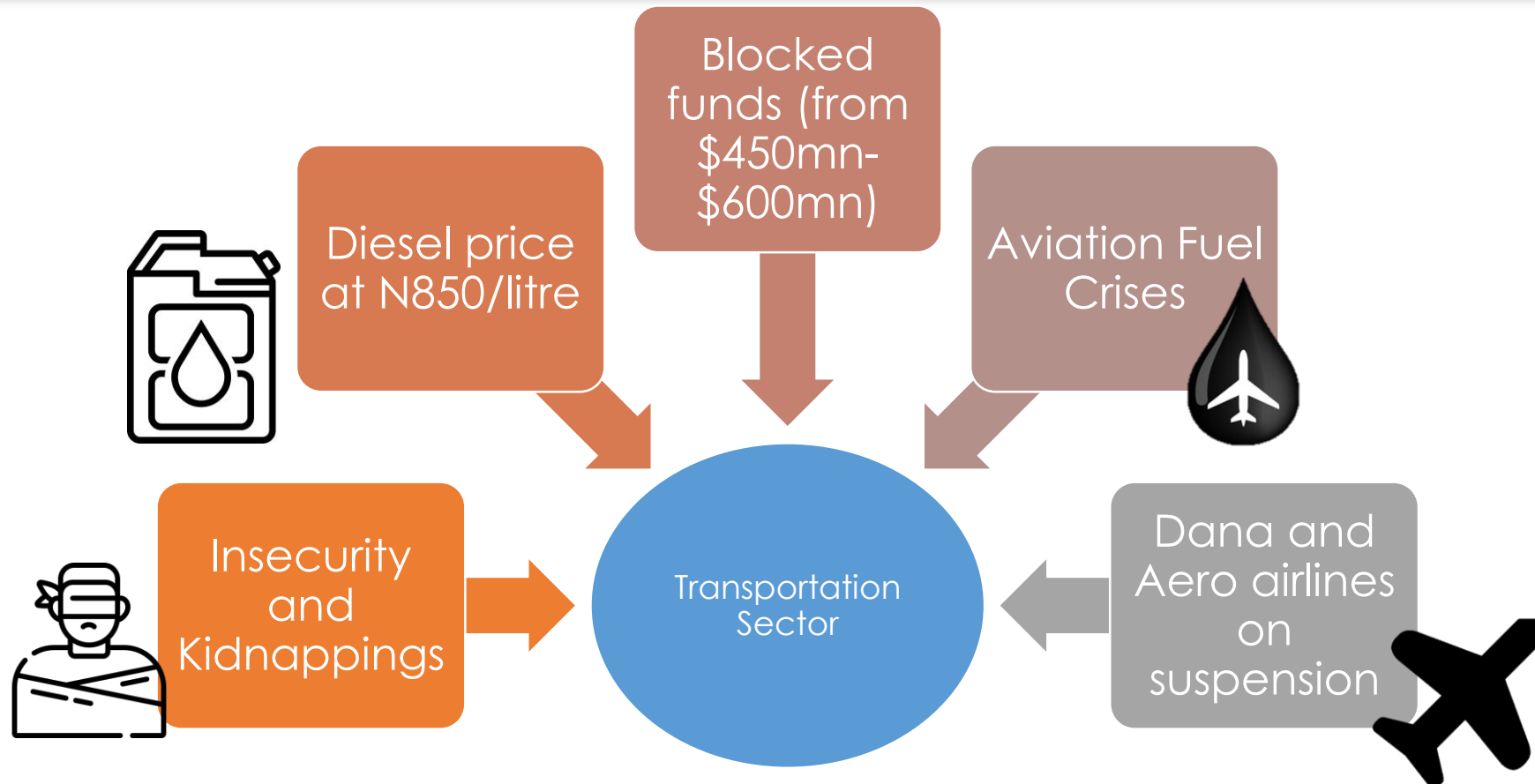
# Rail and Road in Q2??

- Kaduna-bound train attack on the Kaduna-Abuja railway in March
  - Almost paralyzed hitherto emerging new subsector
  - Rail transport to contract in Q2
- Insecurity and high diesel price hobbling growth in road transport
- Shift from road transport supports growth in air transport
- But air travel is facing new challenges



# What is the Future of the Transportation sector?

**Fallout:** Sectors are going nowhere



- ✓ Price and insecurity are taking its toll on the transportation sector



# Aviation Sector



# Global Aviation



- International revenue passengers' kilometers (RPK's) is driving industry recovery
- The global industry is at 64.1% of the pre-pandemic levels
- The rebound continues despite inflation, high jet fuel prices and low consumer confidence
- Despite Russia/Ukraine war, the industry is roaring along
- International traffic continues to soar in all markets especially in Asia/Pacific



# Global Aviation



- In May, the industry expanded by 325% (y-o-y)
- Asia/Pacific 453%, Europe 477%, Africa 135%
- In SSA, international recovery remains slower than in other regions
- Air cargo tonne-kilometers expanded slightly up by 0.3% in May
- Compared with a year ago, were 8.3% lower



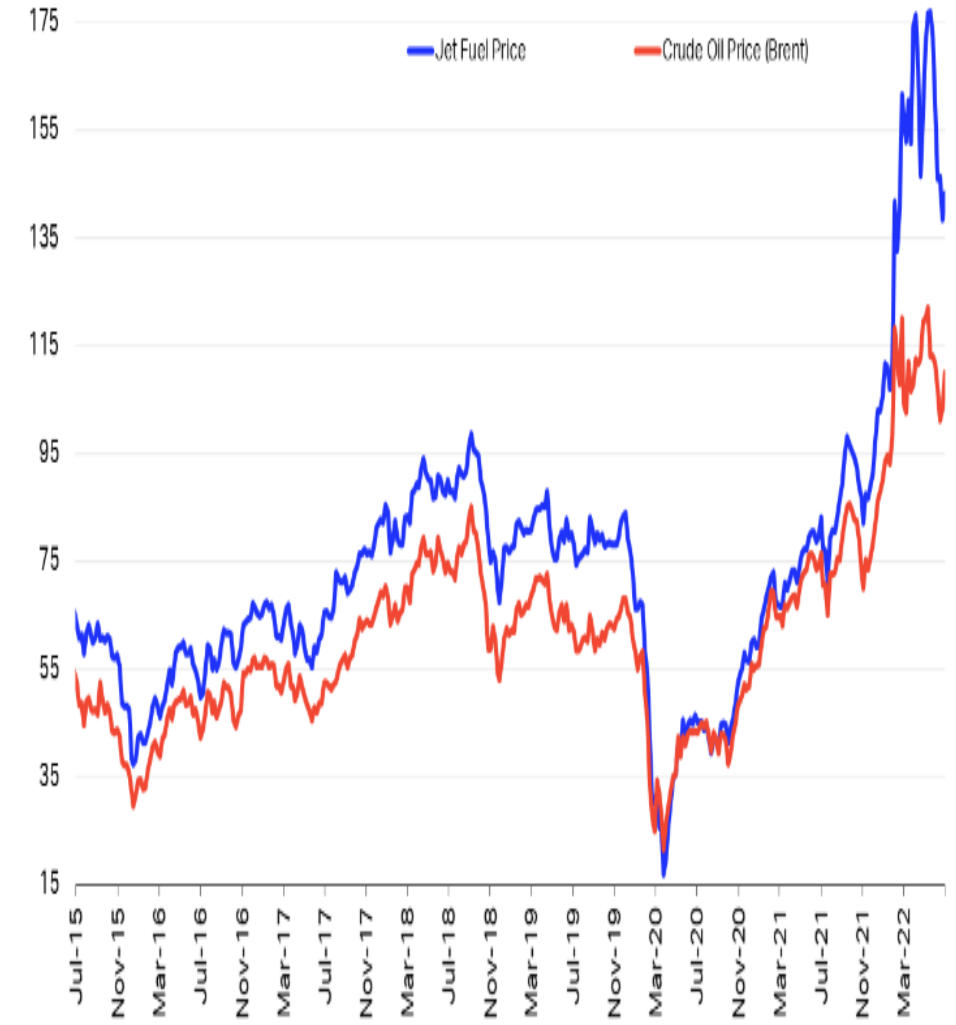
## Global Aviation – Air Traffic Surge

- Air travel demand has ramped up strongly globally
- Global traffic now rose to 68.7% of pre-pandemic level
- African airlines had 134.9% rise in May (YoY)
- But the demand surge is raising new challenges: **limited capacity**
- How regions are adjusting to address this challenge differs
  - British Airways cancelled 1,500 more flights



# Global Aviation – Air Traffic Surge

- ✓ London Heathrow airport places cap on daily flights
  - ✓ A limit of 100,000 daily departing passengers
  - ✓ May last for more than 2 months (at least July to August)
  - ✓ Due to summer pressures
- ✓ Another challenge is the surging price of jet fuel
- ✓ Rose xx% (YoY)



Source: S&P Global, Refinitiv Eikon

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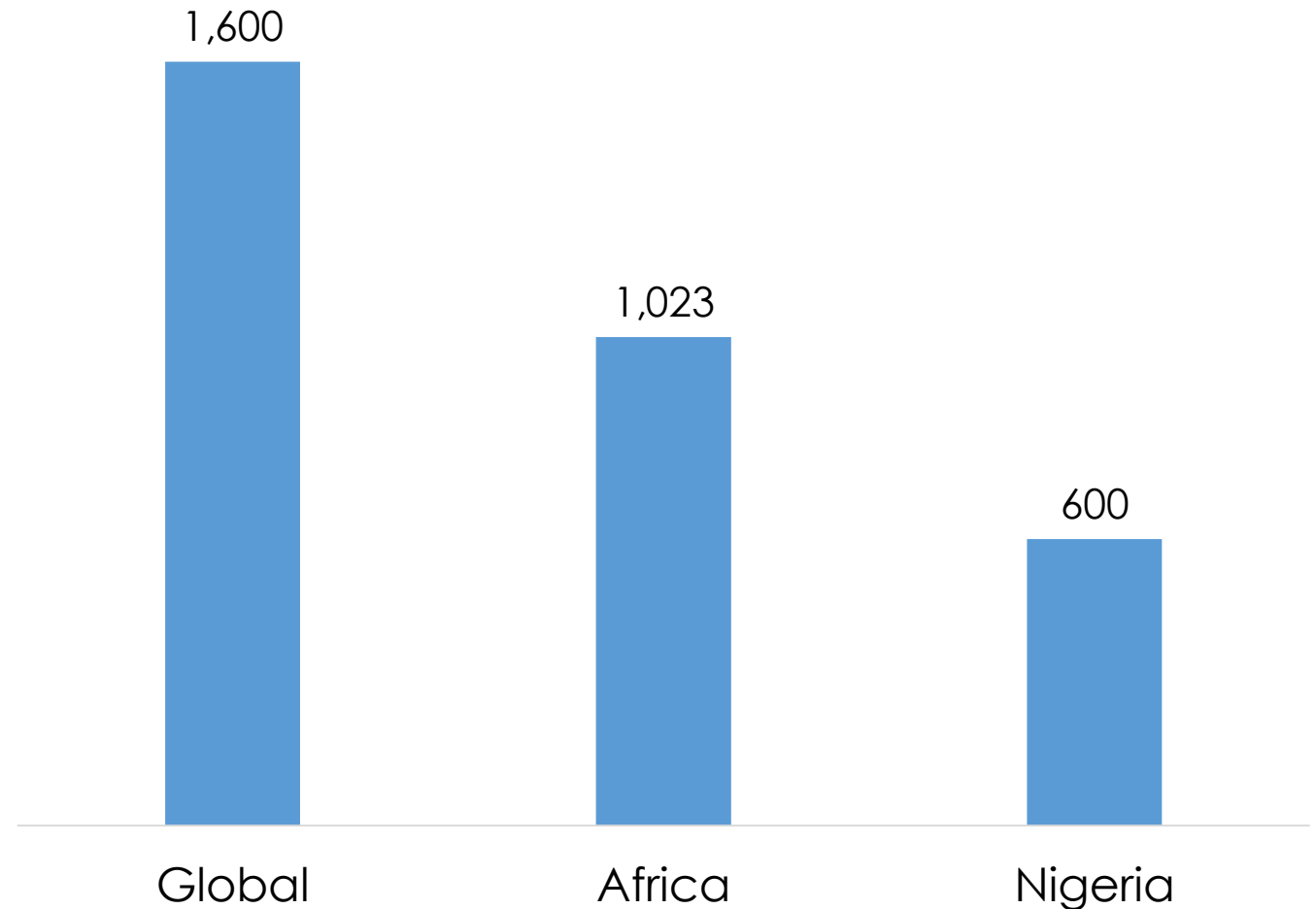
# Events in Nigeria

- ✓ Aero Contractors suspend operation temporarily but indefinitely
  - ✓ Due to depletion of aircraft to run scheduled commercial services
  - ✓ Buoyed by challenging operating environment
- ✓ Dana Air suspended indefinitely by NCAA
  - ✓ On safety concerns – airline is accident-prone
  - ✓ Air Transport Operating Licence (ATL) and Air Operator Certificate (AOC) seized
- ✓ Travellers who purchased FX from banks and failed to utilize it in 2 weeks will be penalized - **CBN**

## Events in Nigeria

- Nigeria now holds about \$600mn of blocked aviation funds as at June
  - Up from \$450mn in the last two months
- May lead to withdrawal of more foreign airlines
- Air Peace commenced direct flight operations to China and India
  - From Lagos to Guangzhou in China
  - From Lagos to Mumbai, India

Blocked Fund (\$'mn)





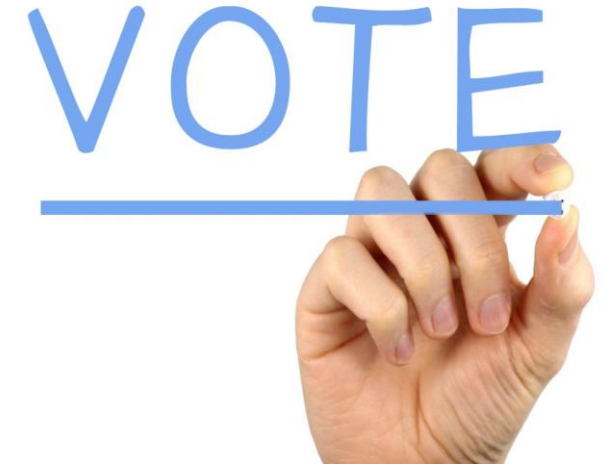
**With all of these economic challenges – slow growth, rising inflation, high debt levels, rising poverty and unemployment – some people say the only solution is getting a PVC**

**How does getting a PVC solve an unresolvable problem?**



# Will Having Your PVC Solve Your Economic Woes?

***“Not necessarily”***



- ✓ 100 fools cannot make a wise decision
- ✓ If you register and don't vote - ***no impact***
- ✓ If you sell your PVC, ***you are guaranteed to be in the pocket of money bags***
- ✓ If you vote and stay to count your vote, ***you are likely to change the outcome***
- ✓ If you collect the money and vote your conscience, ***it's a win-win***
- ✓ You have screwed the moneybag and empowered a good leader

# Political Calculus

- ✓ Peter Obi will cannibalise the South/South and urban South West
- ✓ Hurting the APC more but punishing the PDP
- ✓ The APC are on the ropes
- ✓ The Muslim/Muslim ticket is a hard sell
- ✓ The strategy is to dominate the North West and South West
- ✓ The zones with the highest voter concentration

# Political Calculus

- ✓ APC to be competitive in the North East and grab 2 states in the North Central - ***Kwara & Kogi***
- ✓ The PDP want the South East & South/South and will take the North East and be competitive in the North West
- ✓ The NNPP will be very competitive in Kano, Kaduna & Jigawa
- ✓ Our model is still showing no winner in the first round
- ✓ In a run-off , it will depend on an alliance between Labour and PDP
- ✓ At this point, the race is wide open



## Leadership Style and Economic Outcomes

- A political leader can either be:
  - Fully engaged – hands on
  - Aloof and effective
  - Incompetent and ineffective
  - Willing but unable





# Leadership Style and Economic Outcomes

Regime	Average GDP Growth Rate (%)	Average Inflation Rate	% Change in Exchange Rate Beginning-End Period	External Reserves (End Period)	External Debt (\$bn)	Reserves Minus External Debt
Obasanjo	7.7	12.19	26	43.17	3	40.17
Yaradua	7.1	13.18	27.4	32.34	10	22.34
Jonathan	5.5	9.70	63.5	28.57	15	13.57
Buhari	1.1	14.07	150.2	39.18	40	-0.82

# Nigeria Approaching The Fiscal Cliff



## Revenue

Projected  
(Jan-Apr)

N3.32trn

>

103.68%

Actual  
(Jan-Apr)

N1.63trn

## Expenditure

Projected  
(Jan-Apr)

N5.77trn

>

22.25%

Actual  
(Jan-Apr)

N4.72trn

## Capital Expenditure

Projected  
(Jan-Apr)

N1.82trn

>

136.36%

Actual  
(Jan-Apr)

N0.77trn

## Debt Service

Projected  
(Jan-Apr)

N1.22trn

<

37.11%

Actual  
(Jan-Apr)

N1.94trn

Fiscal deficit: -  
N3.09trn

- ✓ Actual debt service was more than revenue between Jan-Apr
- ✓ Excess crude oil account was depleted to \$375k in July from \$35.7mn in June

**\*770**

Start now. Dial \*770#



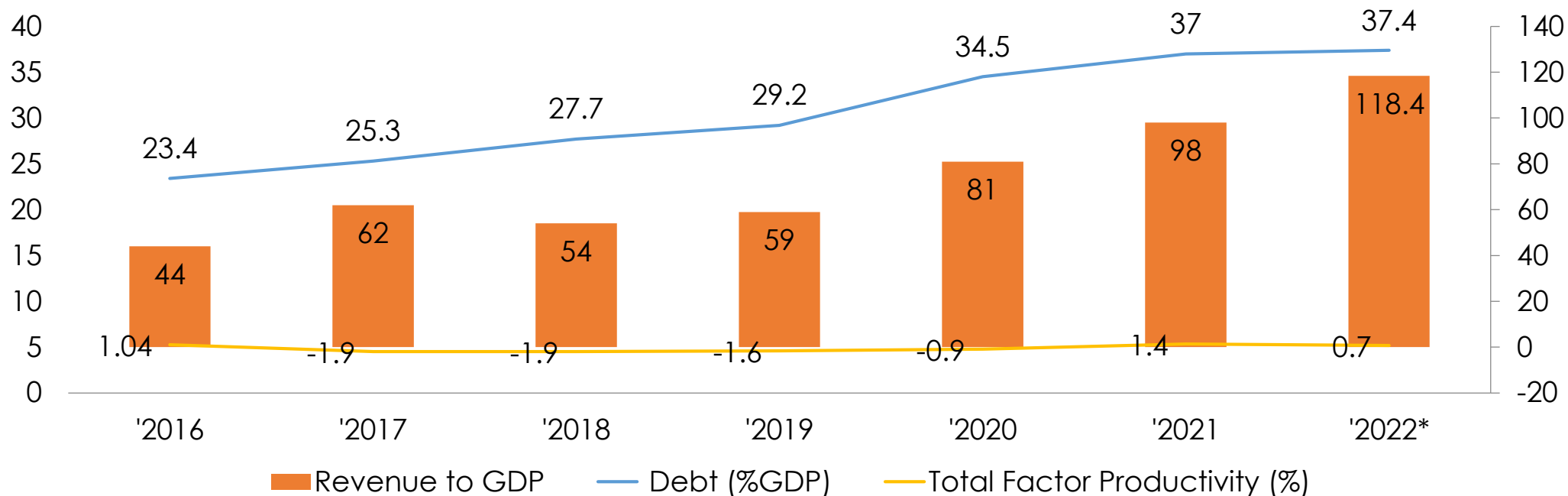
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# Debt Levels May Be Unsustainable



- ✓ Nigeria's debt level still sustainable
- ✓ However, Nigeria moves towards high debt distress risk as debt service rises faster than fiscal revenue
- ✓ Signaling a debt management problem

A close-up, slightly angled view of a tablet screen displaying financial data. The screen shows a dark background with a grid of dashed white lines. On the left side, there is a bar chart with blue and red bars. On the right side, there is a line chart with a green line. The text 'Market Proxies' is overlaid in the center in a white, serif font.

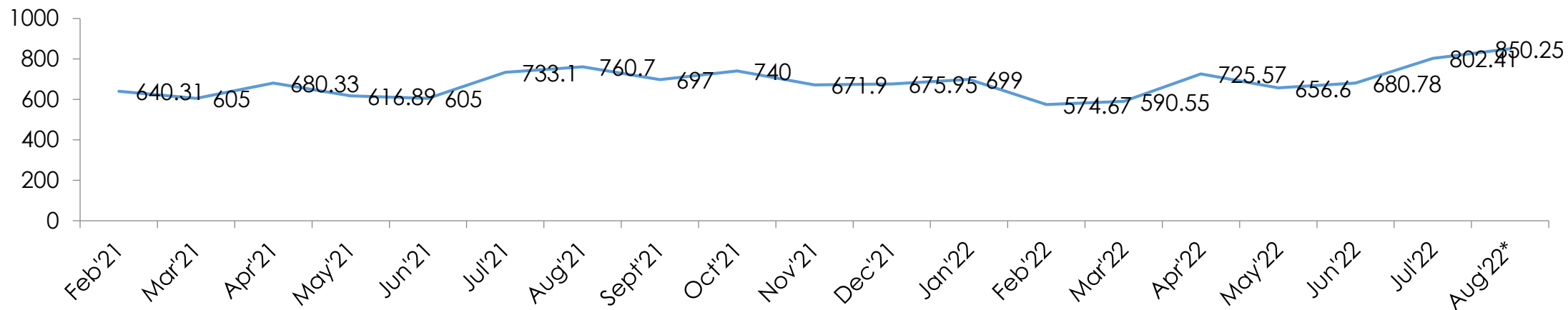
# Market Proxies



# Higher Oil Prices Boost FAAC Disbursement



FAAC (\$bn)



- ✓ FAAC allocation spiked by 17.86% to N802.41bn in July
  - ✓ Increases were recorded in CIT, PPT, import duty and oil and gas royalties
  - ✓ Increase in non-oil export revenue and taxes to boost FAAC allocation in the near term
  - ✓ Excess crude account balance dipped to \$376,655.09 from \$35.37mn in May

# Ships Awaiting Berth

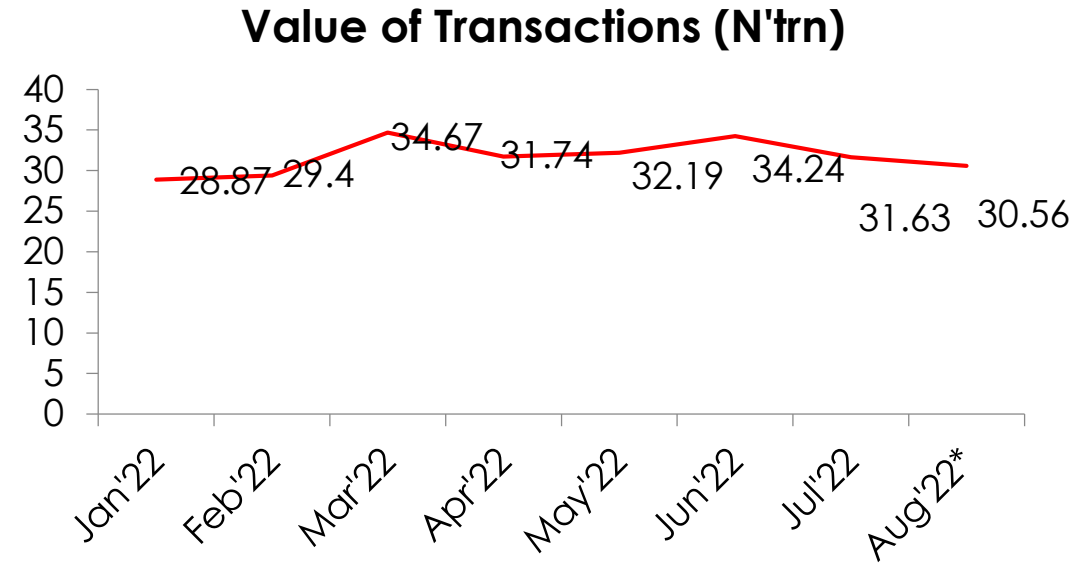
Ships Awaiting Berth	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	Jul'22
Apapa	6	3	8	3	3	8	10
Tincan	2	3	4	3	1	2	2
Rivers	1	0	1	0	2	2	0
Calabar	2	2	2	1	2	1	2
Warri	3	3	6	5	4	9	4
Onne	0	0	0	0	0	0	0
Total	14	11	21	12	12	22	18



- ✓ Ships awaiting berth declined by 83.33 % to 18 in July from 22 in June
- ✓ Onne and Rivers are underutilized because of lower oil production
- ✓ Apapa becomes the most congested port in Nigeria
  - ✓ More cargoes build up Lagos-Apapa port as the rail and road linkage improves

# Value of Transactions

Channels	Jun'22 (N'bn)	Jul'22 (N'bn)	% Change
Cheques	274.01	240.32	-12.30 ↓
POS	666.36	724.73	8.76 ↑
NIP	31,736.59	29,285.45	-7.72 ↓
NEFT	1,560.34	1,375.94	-11.82 ↓



✓ Total value of transactions across the e-payment channels declined by 7.62% to N31.63trn in July

- ✓ Compared to N34.24trn recorded in June
- ✓ Partly due to the decline in consumer demand and spending as inflation bites hard
- ✓ Value of transactions to decline further to N30.56trn in August due to exchange rate swings

Source: NIBSS, FDC Think Tank

# Value of Transactions

- ✓ Velocity of circulation declined to 0.35x in Q1'22 compared to 0.44 in Q1'21
- ✓ Indicating the decline in the value of transactions
- ✓ The market-reflective decline in the use of payment service banks
- ✓ As interest rate hike squeeze liquidity from the system



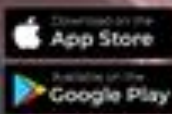


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# *August Outlook*



# Outlook



- ✓ The August break came in July this year
- ✓ Global warming is changing weather patterns
- ✓ Headline inflation will come in at 19.25% for July
- ✓ Primary T/Bills for 365 days will rise to 9% p.a, 91 days to 3.5% p.a
- ✓ Oil price will be stuck in the \$95pb – \$100pb range
- ✓ FAAC disbursement will drop again to N650bn
- ✓ Excess crude account is now dried up

# Outlook

- ✓ The Naira will likely depreciate again towards the N695/\$-N700/\$ range at the parallel market
- ✓ The CBN will allow for a partial crawling peg in the forex market, bring the I & E rate down to N440/\$ in September
- ✓ Interbank money market rates already surging, will test 18%p.a. – 20%p.a.
- ✓ Total outstanding at the CBN discount window will reach N1.5trn
- ✓ The stock market will continue with a very narrow rally



# Outlook

- ✓ Winners will continue to be the telcos, building materials, FMCGs, especially the beverage producers
- ✓ The political rivalry between the parties will intensify with serious de-marketing of opponents



# Corporate Humour

A woman is as young as her knees  
– *Mary Quant*



When you get to my age you either run away or jump in  
with both feet  
– *Jam leeming*

Old age is a very high price to pay for  
maturity  
– *Tom Stoppard*



# Corporate Humour

Bad humour is an evasion of reality; good humour is an acceptance of it

– *Malcolm Muggeridge*

A pessimist is a man who thinks everybody is as nasty as himself, and hates them for it

– *George Bernard Shaw*

A Cynic is what an idealist calls a realist

– *Nigel Hawthorne*

# Corporate Humour

Happiness is the perpetual possession of being well deceived

– *Lytton Strachey*

I go to women dentists because it is a relief to be told to open your mouth instead of shut up

– *Bob Monkhouse*

Life is nothing but a competition to be the criminal rather than the victim

– *Bertrand Russel*



# Corporate Humour

The difference between tax evasion and tax avoidance is the thickness of the prison wall

– *Unknown*

If there were no bad people, there would be no good lawyers

– *Charles Dickens*

No news is good news. No Journalists is even better

– *Nicolas Bentley*

# Corporate Humour

Love is an ocean of emotions entirely surrounded by expenses

– *Lord Dewar*

A woman's best love letters are always written to the man she is betraying

– *Lawrence Durrell*

Big girls need big diamonds

– *Elizabeth Taylor*

## Corporate Humour

When a man opens a car door for his wife, it's either a new car or a new wife  
– *Prince Philip*

Love is blind and marriage is the institution for the blind  
– *James Graham*

When you marry your mistress  
you create a job vacancy  
– *James Goldsmith*

*Thank  
you*







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