



*Analysts Bemused
Markets Confused
&
Speculators Amused*

Presented by Mr Bismarck Rewane

July 6th 2022

Highlights

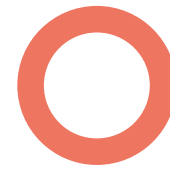
Global
Developments

Domestic
Economic
Performance

Policy and
Politics

Stock Market
Review

July Outlook



Outline

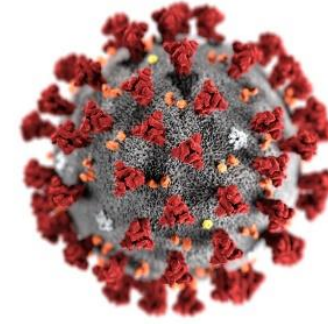


Macroeconomic Scorecard

Indicators	5-yr Avg.	2020	2022	% change
Real GDP growth (%)	1.22	-1.92	3.11 (Q1)	5.03
GDP per capita (\$)	2,157.4	2,100	2,080	-0.95
Total factor productivity growth (%)	-0.98	-0.90	0.7	1.60
Inflation rate (%)	14.04	15.75	17.71	1.96
Unemployment rate (%)	20.4 (Q4'17)	33.30 (Q4'20)	35*	14.6
Misery Index	34.44	46.5	52.71	1.7
Oil Production (mbpd) - end period	1.63	1.58	1.26	-20.25
Oil Price(\$'pb, end period)	63.91	51.34	115.75	125.46
External Reserves (\$'bn, end period)	38.94	35.37	39.25	10.97
Total Public Debt (N'trn)	14.5	28.7	41.60	186.7
Exchange rate (N/\$, end period)	363 (2017)	470	615	30.85
Stock Market Cap (N'trn) - end period	16.28	21.06	27.81	32.05

Conclusions from the Data Above

Underlying
fragilities masked
by exogenous
shocks



*Covid-19 and its attendant
oil price crash*



*Russian-Ukraine war and its
inflationary impact*

Buhari's Interview With Bloomberg

“Unorthodox policies are working”

“Naira would have crashed if not for top policies”

“Nigerians are better off today than in 2015”

“Subsidy removal is good in theory but it is impractical”




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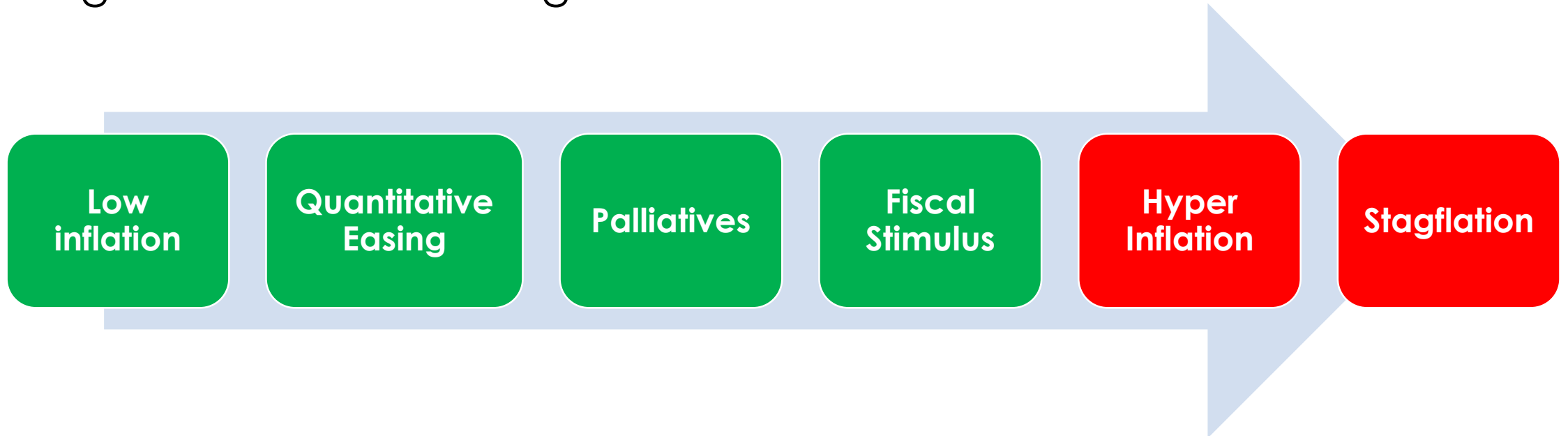


Nigeria Not Alone



Nigeria Not Alone

- ✓ Global economy has been faced with major challenges
- ✓ Exogenous shocks altering domestic economies



- ✓ The Nigerian experience is similar in certain respects



Nigeria in the Context of Global Trends

Consistencies

- ✓ Slow growth
- ✓ Spiraling inflation
- ✓ Monetary policy tightening

Inconsistencies

- ✓ Stock market struggling but NGX outperforms

Inflation Almost at the Tipping Point

- ✓ Central banks focus centered around price stability
- ✓ As inflation seems to be peaking

Global



US ↑ 8.6%

(41-year high)



UK ↑ 9.1%

(40-year high)



EU ↑ 8.8%

(Record high)



Russia ↑ 17.1%

(20-year high)



Nigeria ↑ 17.71%

(11-month high)

Regional



S/Africa ↑ 6.5%

(5-year high)



Ghana ↑ 27.6%

(18-year high)



Kenya ↑ 7.9%

(5-year high)



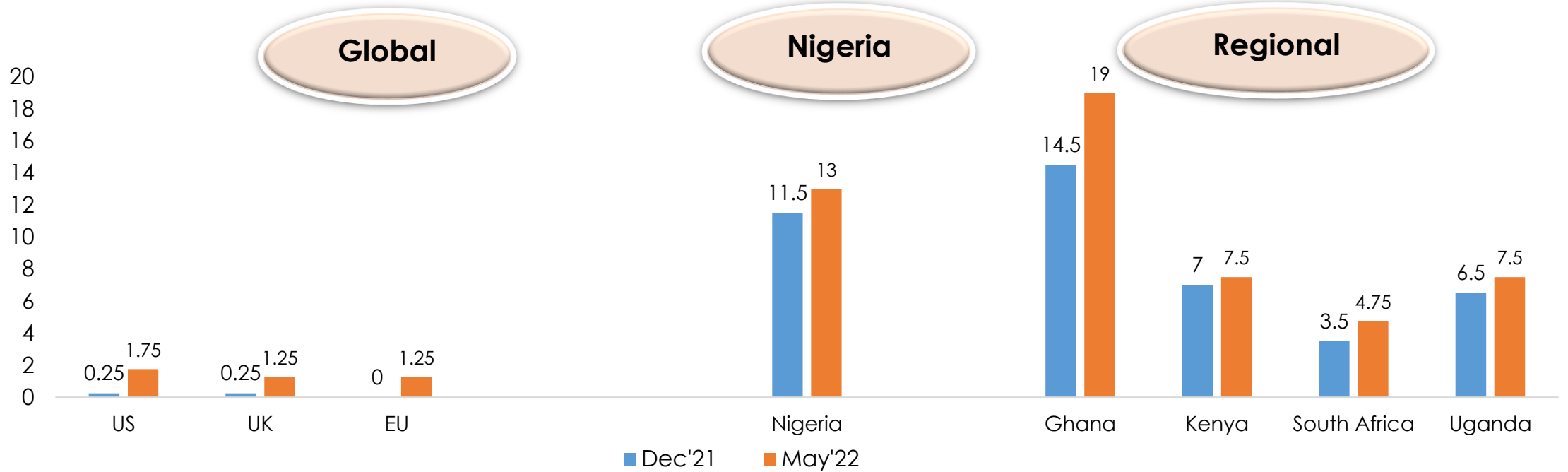
Uganda ↑ 6.8%

Has US Inflation Peaked?

- ✓ The core Personal Consumption Expenditures (PCE) price index rose 4.7% in May
 - ✓ Third consecutive monthly slowdown after peaking at a 5.3% in Feb
 - ✓ PCE does not include energy and food prices
 - ✓ Pandemic-induced inflation might have peaked, but what of the war-induced inflation?



How Effective is Interest Rate Hike in Curbing Inflation?



- ✓ Aggressive interest rate hikes to mop up excess liquidity and taper inflation
- ✓ Interest rate hike could be ineffective in containing inflation
 - ✓ Most stoking factors are structural and cost-push
- ✓ Finally oil price (WTI) falls below \$100pb

How is the US Economy Responding to the Tightening?

- ✓ US banks passed the stress test
 - ✓ Meaning that they are adequately capitalized
 - ✓ Have sufficient buffers to withstand shocks



- ✓ Fears of a major gas crisis during the winter as Russia has threatened to cut supplies
- ✓ Western economies facing hard political choices as the electorates remain frustrated
 - ✓ Tory party lost the last elections
 - ✓ Democrats in the US are in trouble
 - ✓ Macron govt troubled in the parliamentary elections

How is the US Economy Responding to the Tightening?

- ✓ Need for speedy end of the war in Ukraine
- ✓ Biden heads to Saudi Arabia to push oil prices lower
- ✓ Biden approves new offshore drilling permits in Gulf of Mexico
- ✓ New wave of Covid but less vicious because of herd immunity



Nigeria Displaying Features Consistent with the Global & Regional Economy

Consistencies

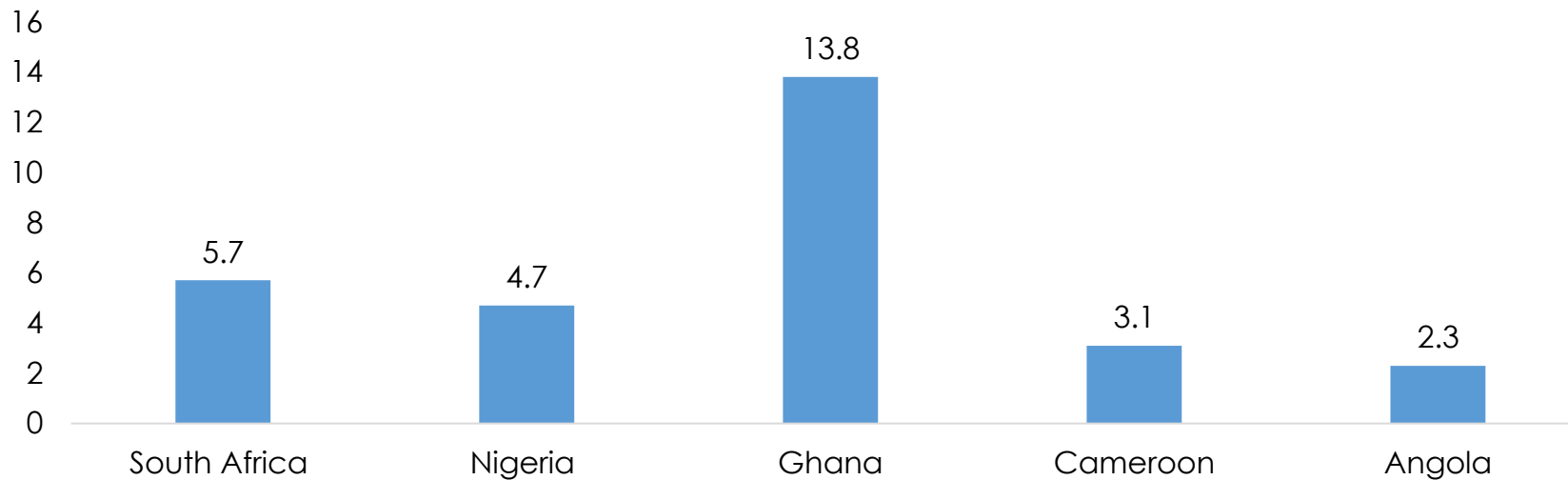
Fiscal

- ❑ Fiscal shocks in most African countries due to low revenue generation amid rising expenses

External

- ❑ Export commodity prices insufficient to offset higher import prices
- ❑ Worsening terms of trade

Fiscal deficit as a % of GDP



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Major Economic & Policy Concerns

Data Does Not Reflect Market Reality

Current Data

Official
inflation rose
by 0.89% to
17.71% in May

Reality

- ✓ Data does not reflect market reality
- ✓ Inflation will be much higher (45.64%) if the basket is reconstituted
- ✓ Our synthetic basket shows 84.09%

Reality: Basket Reconstitution is Masking the True Picture (45.64%)

Nigeria's basket	Weight at Nov, 2009	Proposed weight
Food and non-alcoholic beverages	51.8	55.54
Housing, water, electricity, gas	16.734	10.72
Clothing and footwear	7.65	4.53
Transport	6.508	6.04
Furnishing, household equipment	5.03	2.83
Education	3.944	6.04
Health	3.004	6.52
Entertainment	1.899	1.07
Miscellaneous goods and services	1.663	0.3
Restaurant and hotels	1.212	0.2
Alcoholic beverages; tobacco	1.087	0.25
Recreation and culture	0.687	0.22
Communication & information	0.68	5.53
Insurance and Financial service	-	0.5
Total	17.71%	45.64%

Why Reconstitute the Basket

- ✓ Weights of the CPI basket ought to be reviewed every 5 years
- ✓ To reflect:
 - ✓ Changing household consumption patterns
 - ✓ Covid-19 and its attendant economic shock altered spending patterns
- ✓ Changing demographic composition

Our Synthetic Basket – Weighted Average of 84.74%



Official inflation

=

17.71%

<

Synthetic basket

=

84.09%

Food

Non-food

	Jun'21 (N)	Jun'22 (N)	% Change	Weighted average
Flour	15,500	26,500	70.97	8.5164
Bread	400	900	125.00	7.5
Rice	27,000	32,000	18.52	1.6668
Pasta	250	400	60.00	2.4
Fish (1 Kilo)	1,200	2,200	83.33	4.1665
Chicken (1 Kilo)	1,600	2,600	62.50	1.25
Palm oil (25l)	16,500	20,000	21.21	1.2726
Crate of egg (medium)	1,200	2,000	66.67	4.0002
PMS	165	180	9.09	0.7272
Diesel	245	800	226.53	27.1836
Cooking gas (12.5kg)	3,600	10,000	177.78	17.778
Rent (2 bedroom)	700,000	1,200,000	71.43	5.0001
Data (10gb)	3,000	3,000	0.00	0
Flight ticket	38,000	50,000	57.90	2.316

Data Integrity is a Scarce Commodity



Official inflation

=
17.71%



Basket reconstitution

=
45.64%



Synthetic basket

=
83.78%

The odd equation

$$\begin{array}{rclclcl}
 \text{M2 growth} & - & \text{GDP growth} & + & \text{Exchange rate pass through} & = & \text{Annual inflation} \\
 25.51\% & & 3.11\% & & 22.11\% & = & 44.51\%
 \end{array}$$

✓ **Showing that the most potent factors in the inflation variable are money supply & exchange rate**



Inflation Stoking Drivers

Diesel & Aviation fuel
(Diesel price rose by 229.99% in the last year)

Liquidity
(M2 grew by 25.51% in the last year)

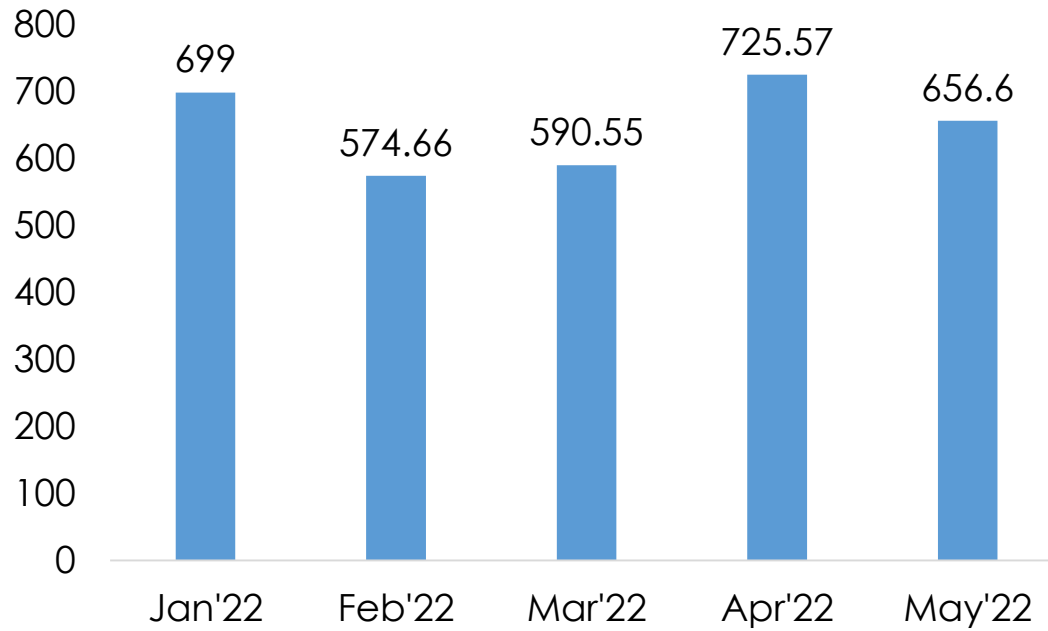
Exchange rate pass-through
(Naira lost 22.11% in the last year)

Seasonality
(Planting season effect)

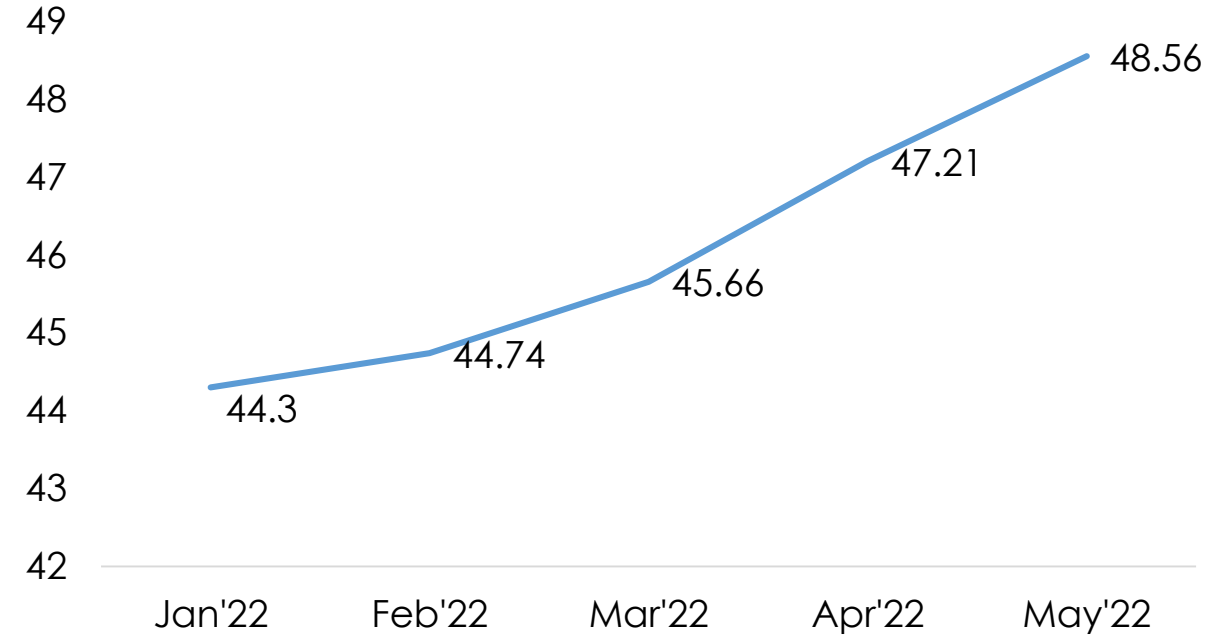
Higher energy costs is causing structural shift in demand

Broad Money Supply Maintains its Upward Trend

FAAC (N'bn)



Broad Money Supply (N'bn)



- ✓ Broad money supply maintained its upward trend
 - ✓ Grew by 229.99% in the last year
- ✓ FAAC disbursement down 9.51% to N656.6bn in May despite higher oil prices
 - ✓ Zero remittance from NNPC due to petrol subsidy payments

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Disconnect Between MPR & Market Rate of Interest

Current Data

Market rate of
interest increased
by an average of
79%

Policy Decision

Market interest rates
to increase by an
average of 150bps, in
line with the interest
rate hike

Disconnect Between MPR & Market Rate of Interest



	May'22	Jun'22	% Change
91-day T/bills	1.74	2.49	0.75
184-day T/bills	3.00	3.79	0.79
364-day T/bills	4.70	6.07	1.37
Average			0.97

Disconnect Between MPR & Market Rate of Interest

MPR



150bps

Average
bond rates



7bps

	May'22	Jun'22	% Change
10-year	12.45	12.50	0.05
10-year	10.00	10.00	-
20-year	13.00	13.15	0.15
Average			0.07

Nigeria's Interest Rate Structure in the Context of the Regional Economy

Country	Monetary Policy Rate (%)	1-year Treasury Bill yield (%)	Policy Rate and Yield Gap
Kenya	7.5	9.985	+2.49
Ghana	19	26.86	+7.86
Rwanda	5	8.2	+3.2
Nigeria	13	6.07	-6.93

- ✓ Nigeria's interest rate structure is inefficient
- ✓ Hence, the disequilibrium of the 1-year t/bill rate from its monetary policy rate

Gross External Reserves is Much Lower than Published Data

Current Data

Gross external reserves rose marginally by 1.48% to \$39.17bn

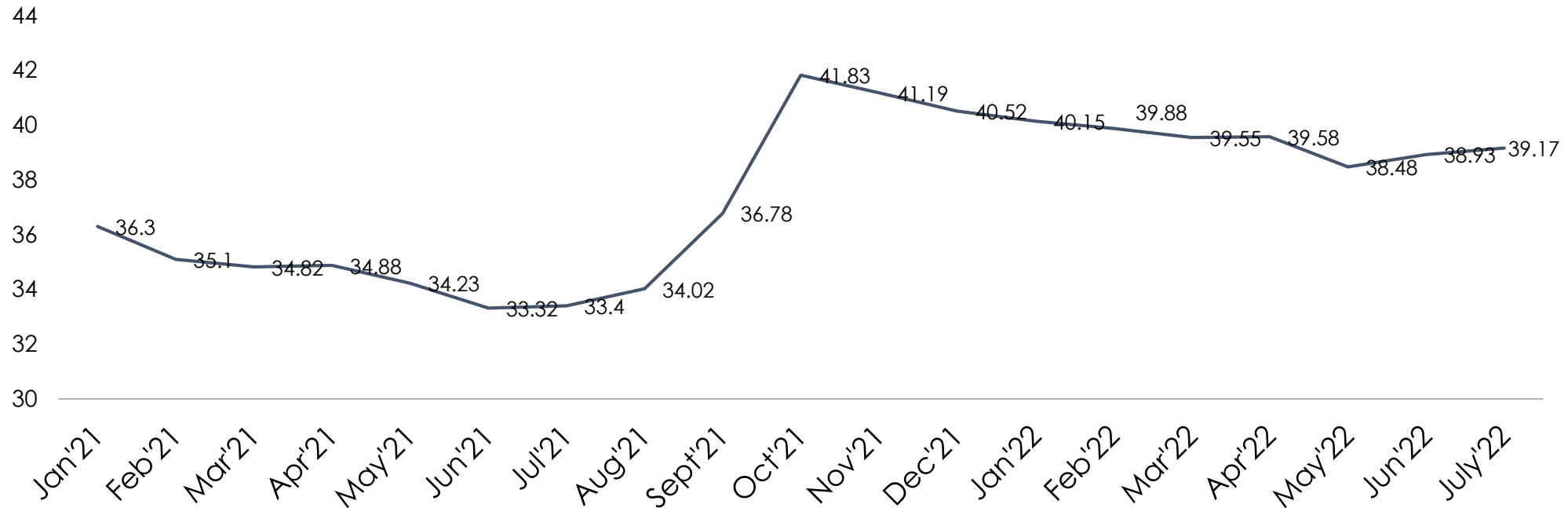
Investor Perception

When discounted for swaps and encumbrances, gross external reserves will fall to approx. \$27bn

Official Data: Gross External Reserves Up Marginally by 1.48%



External Reserves (\$'bn)



Source: EIU

- ✓ Gross external reserves resumed steady accretion in the second week of June
- ✓ Gained 1.48% to close at \$39.17bn on July 1
 - ✓ Import and payment cover now 8.89 months

Reality: Gross External Reserves May Be Lower

Gross external reserves \$39.17bn

- Swaps & encumbrance \$12bn

Net external reserves (unofficial estimates) **\$27.12bn**

Import and payment cover 6.11 months





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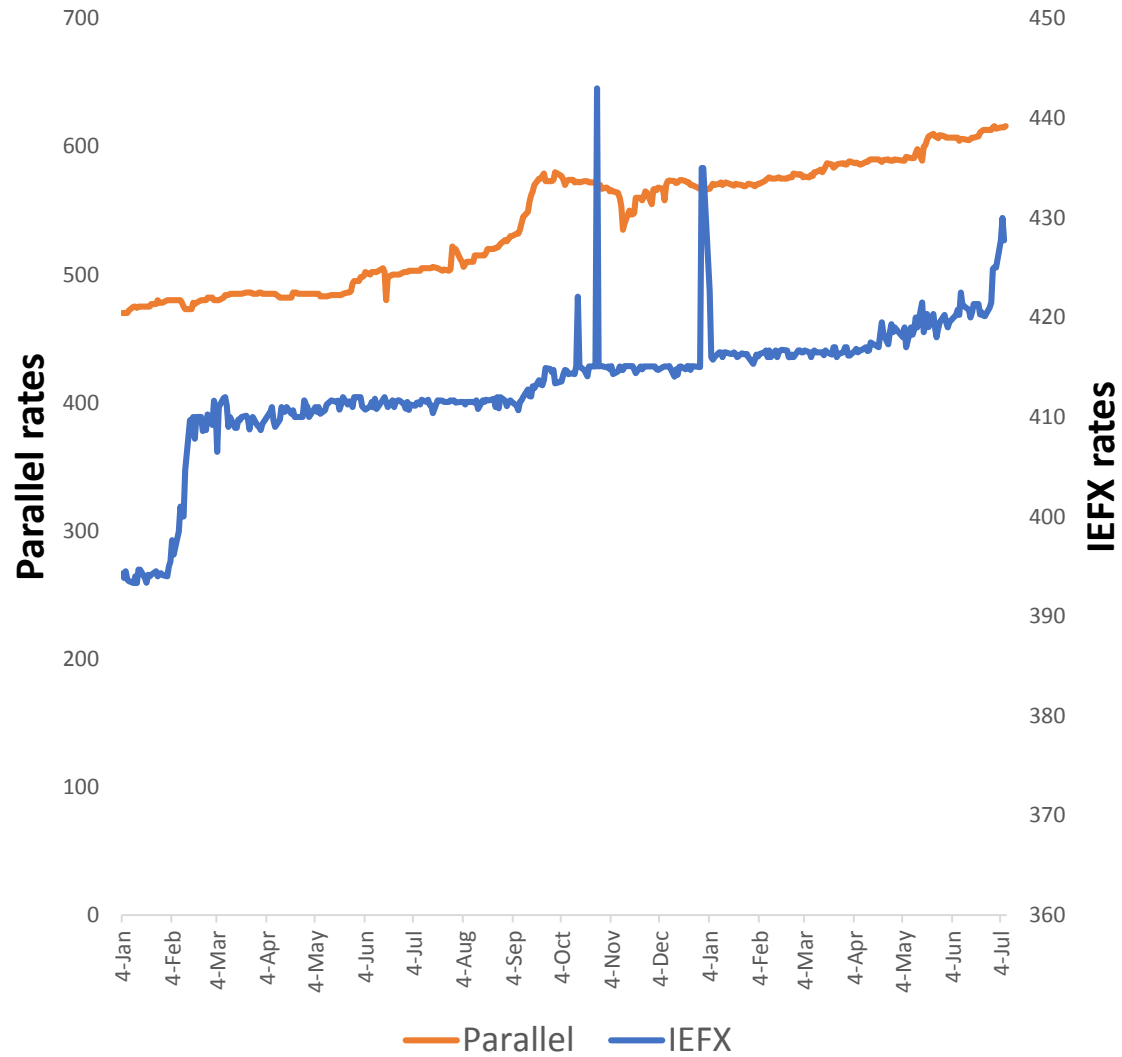
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Currency Weakness Persists

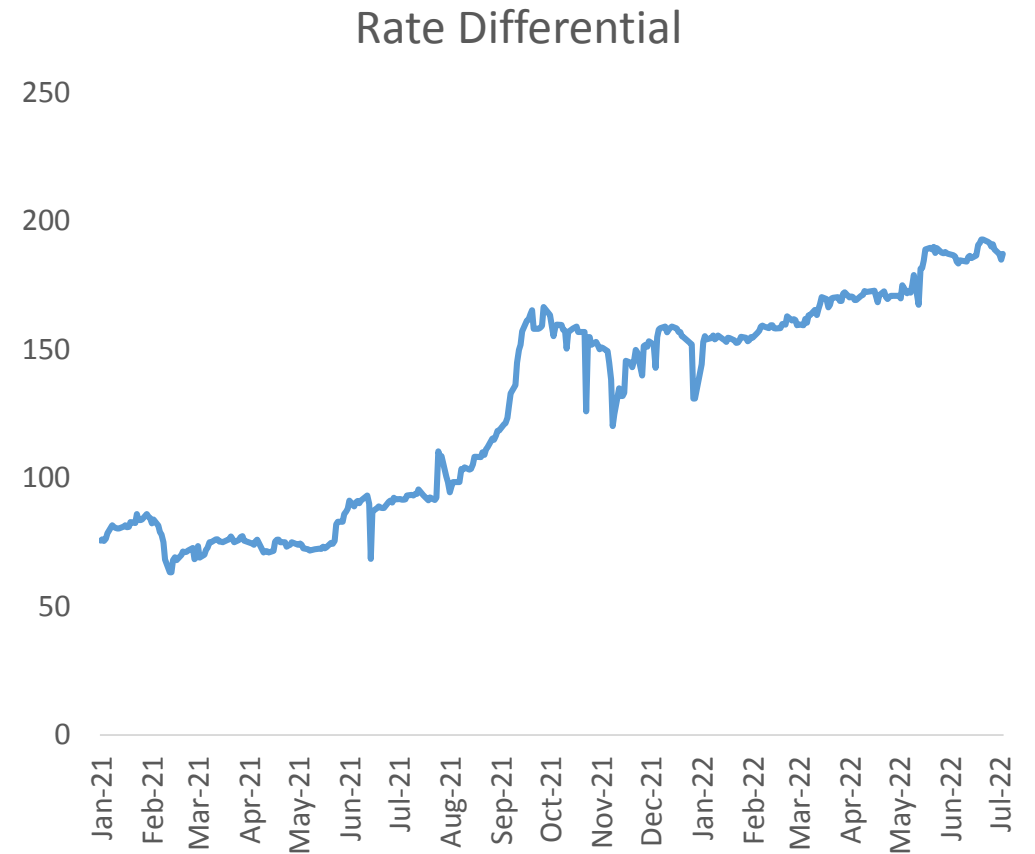
Parallel and IEFX Trend 2021 - Present



- ✓ Currency weakness is a function of
 - ✓ Market structure
 - ✓ Rigid regulation
 - ✓ Extortion & speculation
- ✓ Multiple exchange rate is distortionary
- ✓ Exchange rate subsidy fueling arbitrage opportunities

Currency Weakness Persists

- ✓ The gap between IEFX and parallel market rate is now narrowing
- ✓ This is reflective of convergence
- ✓ Indicative of gradual devaluation



Disequilibrium in Exchange Rates

PPP Value – Mar 2022

Purchasing Power Parity			
	=N=	Mar-22	
		US \$	PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	150	2.50	60.00
Beer (60cl)	700	0.90	777.78
Hamburger (Burger King)	4,900	4.59	1067.54
Indomie (1 unit)	100	0.68	147.06
Toyota Corolla	18,000,000	21,000	857.14
Nestle Bottled Water (60cl 1 unit)	100	0.12	833.33
Big Loaf Bread	700	2.50	280.00
Irish Spring Soap (1 cake)	400	0.47	851.06
Chicken Breasts (1 kg)	2,700	8.00	337.50
Trolley	2,500	6.00	416.67
Peak evaporated milk (pack of 12)	4,800	34.40	139.53
Uncle Ben's rice (5.44kg 1 pack)	8,500	14.85	572.39
Eggs (30 large eggs)	2,200	2.30	956.52
Average PPP			590.00
Naira Price at IEFX			417.00
PPP (%)			
Decision: Naira is		Overvalued	41.49%
Spot Rate (Parallel)			590
Outcome: Compared to IEFX rate of N417/\$1, the Naira is Overvalued by 41.49%			

PPP Value – Jun 2022

Purchasing Power Parity			
	=N=	Jul-22	
		US \$	PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	150	2.50	60.00
Beer (60cl)	700	0.90	777.78
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	900	2.50	360.00
Irish Spring Soap (1 cake)	400	0.47	851.06
Chicken Breasts (1 kg)	3,200	8.00	400.00
Trolley	2,500	6.00	416.67
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)	2,800	2.30	1217.39
Average PPP			635.16
Naira Price at IEFX			427.75
PPP (%)			
Decision: Naira is		Overvalued	48.49%
Spot Rate (Parallel)			616
Outcome: Compared to IEFX rate of N420.28\$1, the Naira is Overvalued by 47.77%			

- ✓ Naira moves further away from its PPP value
 - ✓ The more the controls, the more the deviation

The League Of Junk Currencies By Hanke

Hanke's Currency Watchlist			
Currency	Date	Exchange Rate	Depreciation since January 1, 2020
Venezuelan Bolivar	7/1/22	5,710,000.00 VES/USD	-99.11%
Zimbabwean RTGS Dollar	7/1/22	690.00 RTGS/USD	-96.71%
Lebanese Pound	7/1/22	28,600.00 LBP/USD	-91.96%
Sudanese Pound	7/1/22	570.00 SDG/USD	-84.74%
Syrian Pound	7/1/22	3,985.00 SYP/USD	-77.11%
Argentine Peso	7/1/22	239.00 ARS/USD	-67.78%
Turkish Lira	7/1/22	16.77 TRY/USD	-64.52%
Iranian Rial	7/1/22	320,500.00 IRR/USD	-58.44%
Sri Lankan Rupee	7/1/22	391.47 LKR/USD	-53.56%
Malawian Kwacha	7/1/22	1,350.00 MWK/USD	-41.78%
Lao Kip	7/1/22	15,015.90 LAK/USD	-40.84%
Nigerian Naira	7/1/22	610.00 NGN/USD	-40.49%
Ethiopian Birr	7/1/22	72.50 ETB/USD	-38.62%
South Sudanese Pound	7/1/22	494.60 SSP/USD	-36.31%
Ukrainian Hryvnia	7/1/22	35.48 UAH/USD	-33.01%
Ghanaian Cedi	7/1/22	8.04 GHS/USD	-28.95%
Brazilian Real	7/1/22	5.33 BRL/USD	-24.58%
Pakistani Rupee	7/1/22	204.08 PKR/USD	-24.12%

Forex Supply Still in Trickle

- ✓ Forex supply to the real sector has declined substantially
- ✓ Manufacturers now get about 0-5% from the official window and blend the bulk from autonomous sources
 - ✓ Down from approximately 20%
- ✓ Increasing the demand pressures at the parallel market
- ✓ Airlines facing difficulties in repatriating funds due to forex rationing
- ✓ Blocked fund up 12.5% to \$450mn, 45% of total blocked funds in Africa



Forex Supply Still in Trickle

- ✓ CBN moved belatedly adjusting the naira 1.7% down from N420/\$ to N428/\$ in one week
- ✓ The currency was moved in a crawling peg of N1 per day towards N4287/\$
- ✓ It is expected to slide towards N435/\$ in the next fortnight



What Should the Government do?

What Next?

What we want to do

- ✓ Maintain subsidies
 - ✓ Petrol
 - ✓ Electricity
 - ✓ Exchange rate
- ✓ Continue unorthodox policies & interventions

What we need to do

- ✓ Change the structure of interest rates
 - ✓ Exchange rate unification
- ✓ Cost reflective tariff
- ✓ Gradual phase out of petrol subsidies

In the end, Nigeria will move from disequilibrium through partial equilibrium to dynamic equilibrium



Investment Opportunities

Expanding Sectors & Opportunities

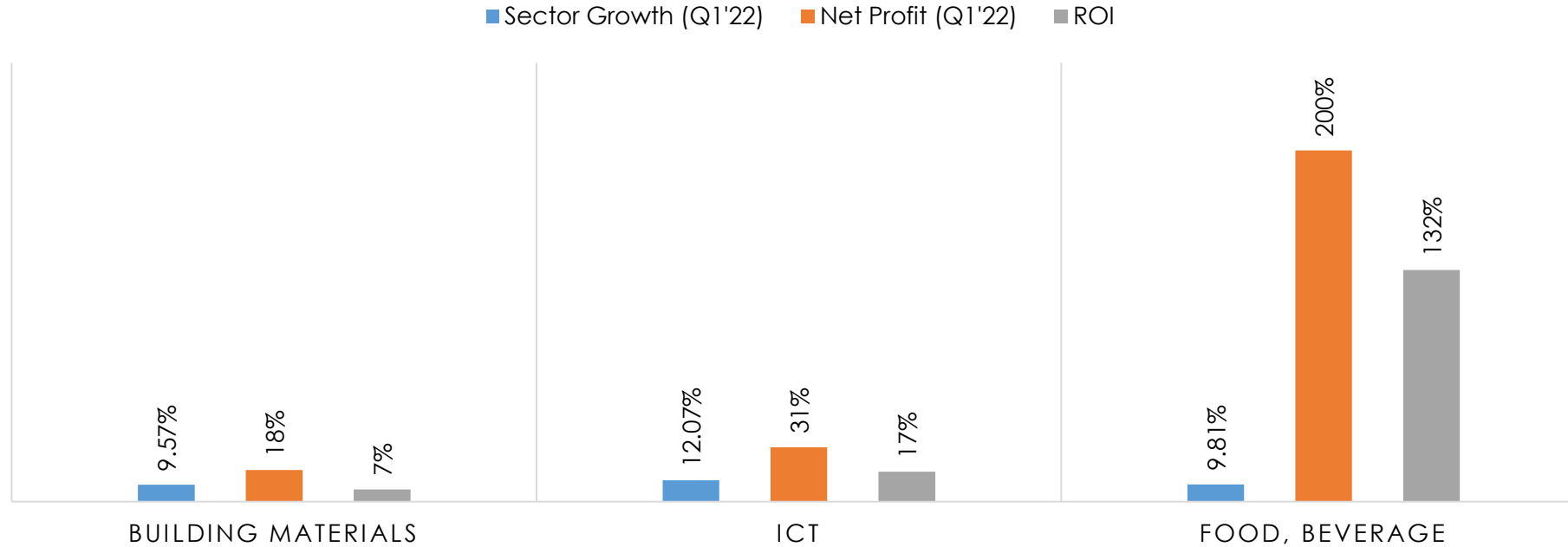
Sectors	Q1'22	Q2'22*	YTD Stock Performance	Why?
Construction	4.83	6.32	Dang Cem (7%) Julius Berger (20.4%)	<ul style="list-style-type: none"> ✓ Increased public sector spending on road and rail infrastructure as elections draw closer
ICT	12.07	13.52	MTN (17%) Airtel (83%)	<ul style="list-style-type: none"> ✓ E-commerce & hybrid work increasing demand for internet services ✓ Financial institutions to increase demand for internet services as activities improve
Trade	6.54	7.35		<ul style="list-style-type: none"> ✓ Border re-opening to boost trading activities ✓ Increased election spending to bolster aggregate demand ✓ Forex rationing remains a major threat

Expanding Sectors & Opportunities

Sectors	Q1'22	Q2'22*	YTD Stock Performance	Why?
Financial services	25.43	26.58	Zenith (-13.7%) UBA (-8.07%) Custodian (-11.4%)	<ul style="list-style-type: none"> ✓ Higher interest rates to incentivize savings ✓ Increasing bank deposits ✓ However, loan default rates could increase
Manufacturing	5.89	6.12	Guinness (132%) Nig. Breweries (15.9%)	<ul style="list-style-type: none"> ✓ To benefit from border re-opening ✓ Forex rationing will continue to weigh on sector growth

Markets Typically Reward the Brave & Forward Looking

EXPANDING SECTORS

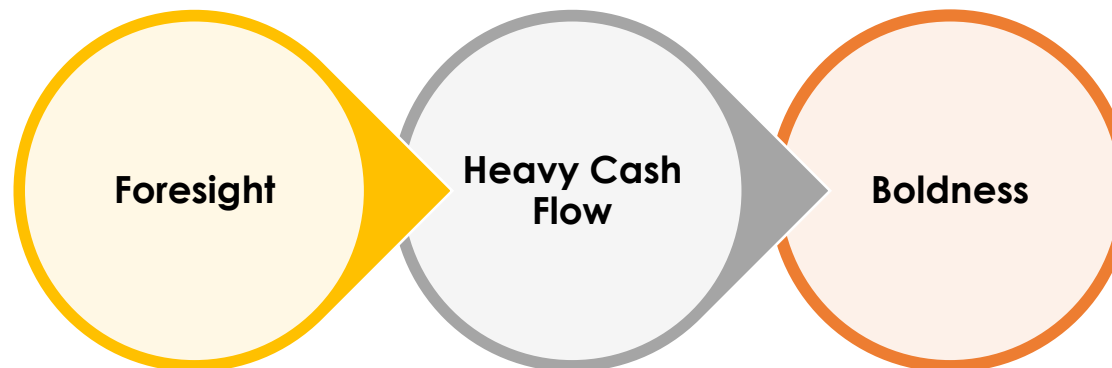


- ✓ The market is efficient
- ✓ And reflective of earnings' performance
- ✓ Rewarding companies that are cost effective and bold

Markets Typically Reward the Brave & Forward Looking

- ✓ History likely to repeat itself – Taking the bull by the horns
- ✓ Betting against the naira – Investment in long Nigerian assets
- ✓ Dangote's bet - Obajana Plant, edible oil, BIT, fertilizer and now oil refinery
- ✓ MTN Nigeria's bet – Massive CAPEX
- ✓ Guinness's bet – Plant expansion and modernization

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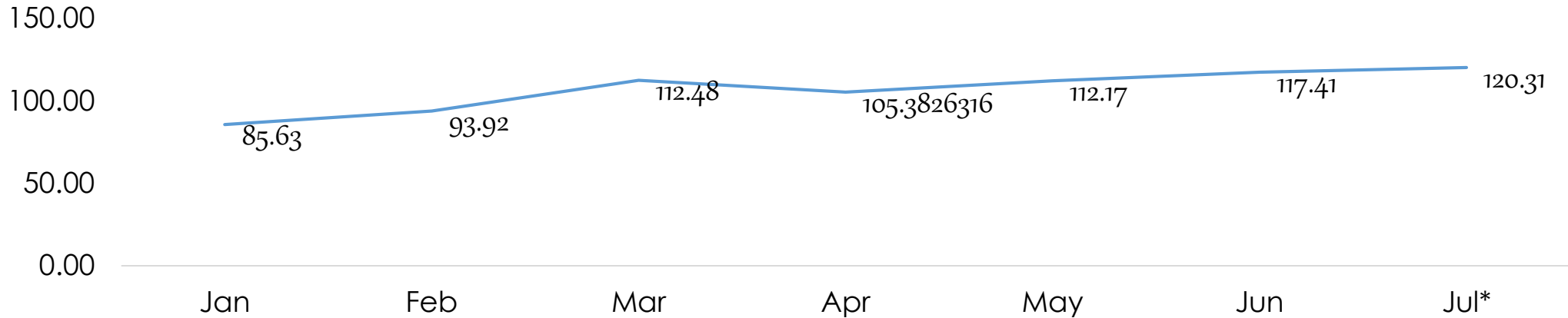
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Domestic Economic Performance

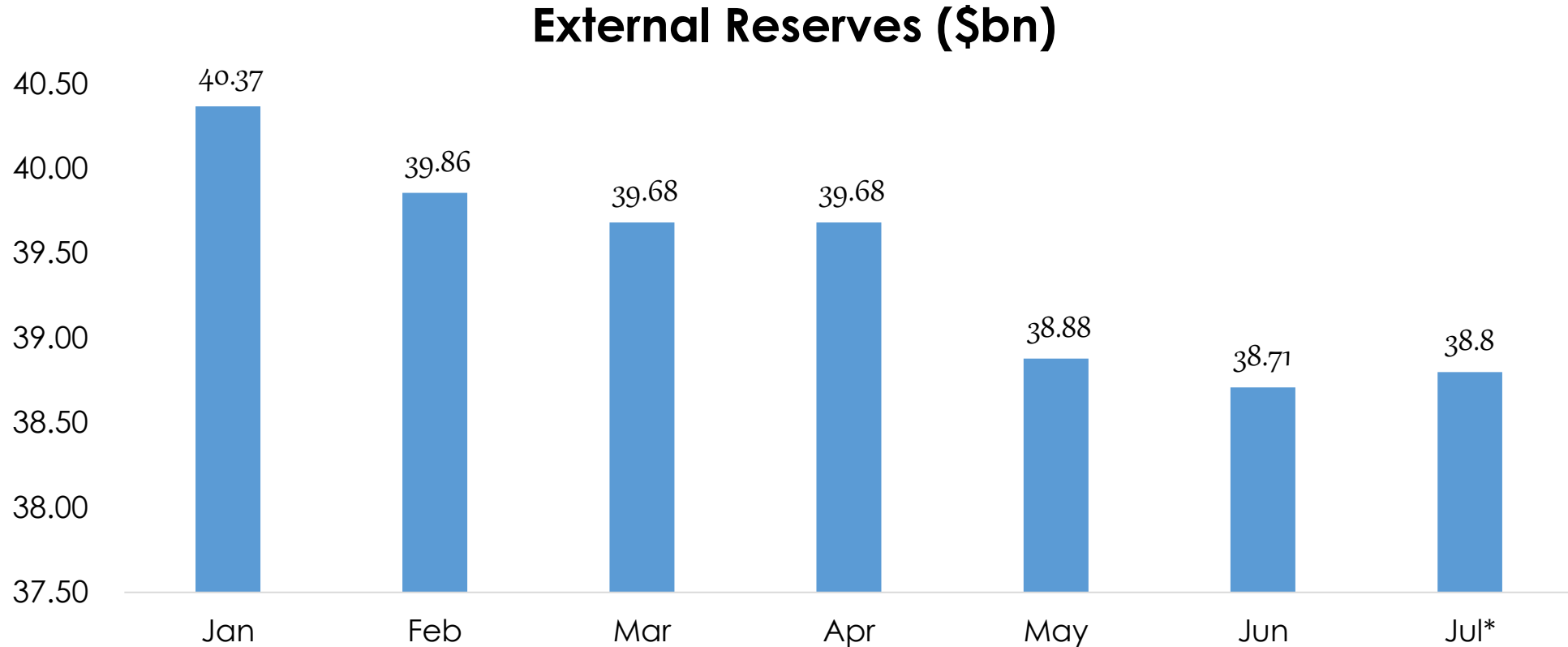
Staggered Demand Recovery is Keeping Oil Prices in a Range

Brent Oil (\$pb)



- ✓ Oil prices dropped below \$100pb for the first time in three months
 - ✓ But have recovered towards \$105pb this week
- ✓ Citibank is more bearish projecting that oil prices could fall to \$65pb before December 2022

External Reserves to Increase Further on Elevated Oil Prices

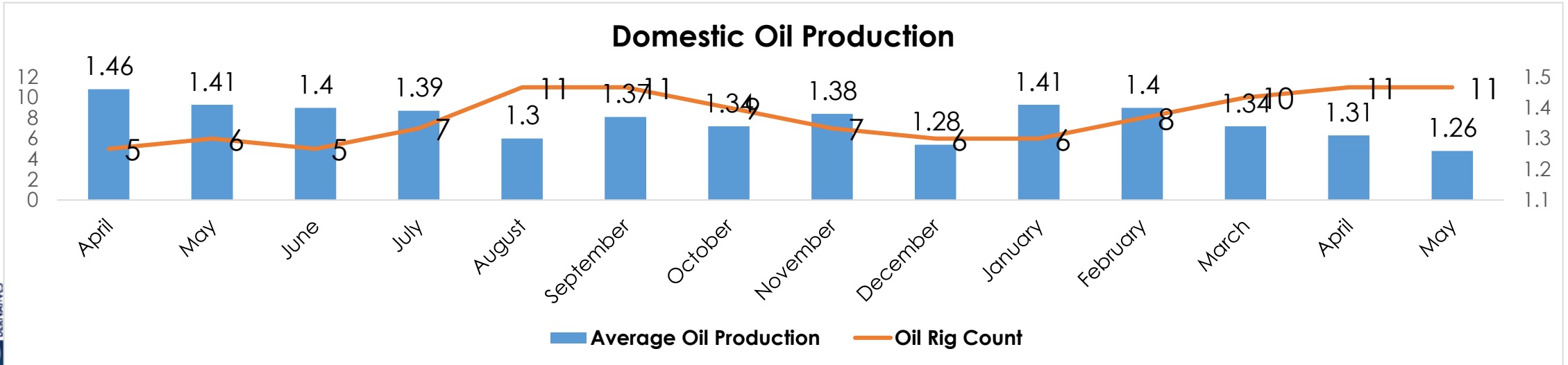


- ✓ Gross external reserves to continue its upward trend as oil prices stay elevated
- ✓ Would cross the \$40bn threshold



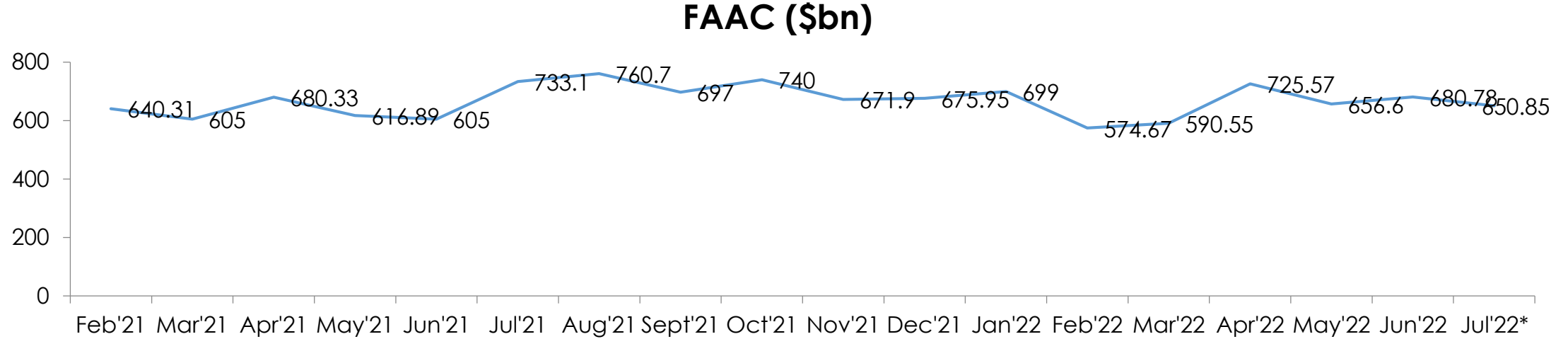
**Market
Proxies**

Oil Production Still Sub-Optimal



- ✓ Oil production declines to 1.26mbpd in May from 1.31mbpd in April
- ✓ Production still below OPEC+ quota (1.80mbpd)
- ✓ Due to sub-optimal production resulting from pipeline vandalism, theft, poor upstream infrastructure and other operational challenges
- ✓ Would impair government revenue and external reserves accretion
- ✓ Oil rig count remained flat at 11

FAAC Disbursement Increases as Oil Prices Remain Elevated



- ✓ FAAC allocation rose by 3.68% in June from N656.6bn in May'22
- ✓ CIT, VAT and import duties all recorded significant increases
- ✓ While PPT, Excise Duties and Oil and Gas royalties decreased
- ✓ Subsidy payments will continue to depress FG revenue and affect subsequent FAAC disbursements
 - ✓ NNPC plans to deduct N126bn from June FAAC remittances

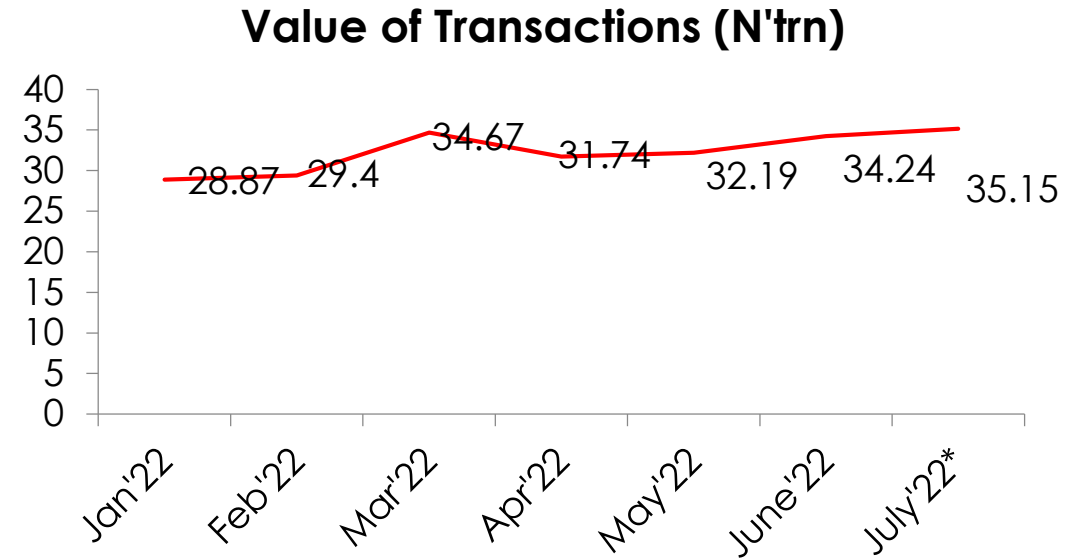
Ships Awaiting Berth

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

- ✓ Ships awaiting berth rose by 83.33 % in June'22 from 12 vessels in May'22
- ✓ Onne remains underutilized because of lower oil production
- ✓ Warri remains the most congested port in Nigeria
 - ✓ More cargoes build up at Warri ports as the rail and road linkage improves

Value of Transactions

Channels	May'22 (N'bn)	Jun'22 (N'bn)	% Change
Cheques	271.79	274.01	0.82 ↑
POS	682.82	666.36	-2.41 ↓
NIP	29,653.21	29,653.21	7.03 ↑
NEFT	1,581.88	1,560.34	1.36 ↑



- ✓ Aggregate value of transactions rose by 6.36% in June, an uptick from 1.42% in May
 - ✓ Partly supported by increased spending ahead of the Eid –al-Adha celebration
- ✓ Analysis signals a new trend in value of transaction growth
 - ✓ Value of transactions rose by 11.45% in June 2021
 - ✓ After declining consistently through 2017 to 2020

Value of Transactions

- ✓ Velocity of circulation rose to 4.32x from 4.09x
- ✓ Supporting the strong growth in the value of transactions
- ✓ Increased use of payment service banks reflecting in the market





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Power Update – June 2022 Energy Summary



3,920MW
Peak Energy Generated



3,212MWH/H
Average Energy Generated



1
Total Grid Collapses



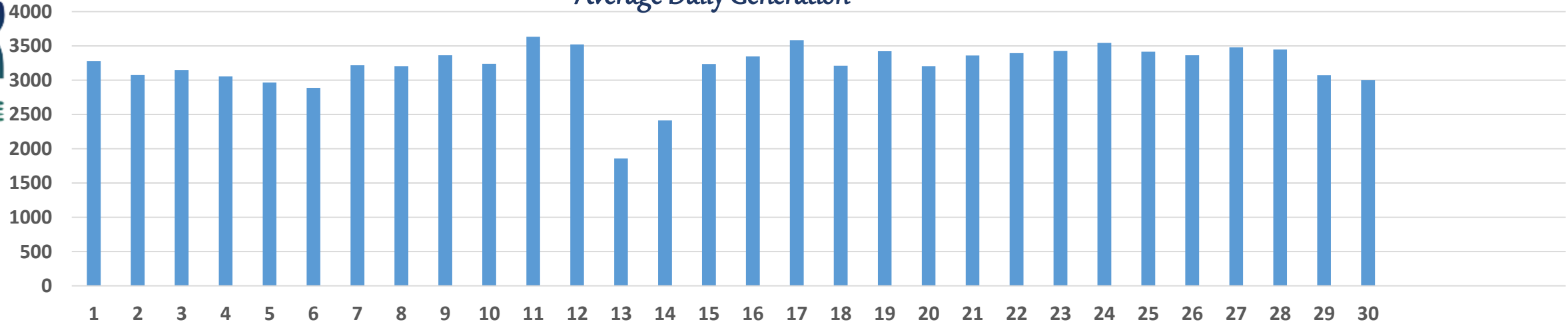
-
Constrained Revenue (Million Naira)



1,111MWH/H
Total constrained energy



Average Daily Generation





Stock Market Review

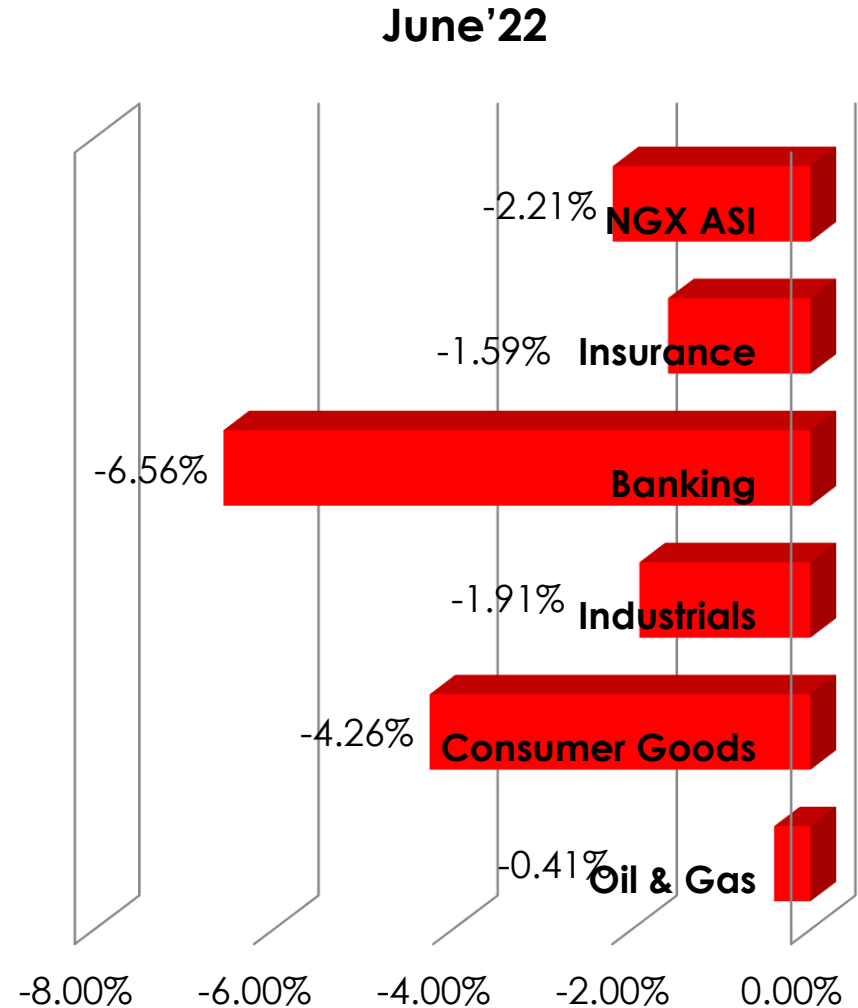


Stock Markets are Struggling And NGX Outperforms

Market	YTD'2022 Return	Driver
SSE	 6.48%	<ul style="list-style-type: none"> ✓ Capital flight to safety due to geopolitical rifts and covid outbreak ✓ Improved sentiment in June due to economy reopening and ease of covid restrictions
S&P 500	 20.91%	<ul style="list-style-type: none"> ✓ Lingering Russian-Ukraine war, Supply chain disruptions, rising interest rate ✓ Fear of a possible recession due to aggressive monetary policy tightening
JSE	 11.81%	<ul style="list-style-type: none"> ✓ Listed companies systematic withdraws from the equities market ✓ Exacerbated by low valuations
GSE	 8.74%	<ul style="list-style-type: none"> ✓ Equities market dwindles due to high interest rate ✓ High volume of trades for bellwether stocks boost activities in June
NGX	 20.76%	<ul style="list-style-type: none"> ✓ Outperforms peers ✓ Supported by gains on telecom stocks (40% of total market cap)

NGX Indices in June

- ✓ NGX ASI lost 2.21% to 51,817.59
- ✓ All index in red
- ✓ Investors portfolio rebalancing
- ✓ Profit taking activities takes a toll on the NGX
- ✓ Banking sector tops the losers
- ✓ Weakened appetite for banking stocks



Nigerian Equities Market - July Outlook

- ✓ Short term sell off and long term value to come to play
- ✓ Sharp increase in interest rates in H2'22
- ✓ Institutional investors will rebalance their portfolio for attractive fixed income yields
- ✓ All eyes on H1 '22 corporate results
- ✓ Q2'22 performance will capture the effect of electricity challenges, forex crises and political uncertainties

Nigerian Equities Market - July Outlook

- ✓ Inflationary pressures and heightened borrowing cost to hit top and bottom-line performance
- ✓ Corporates expected to build up inventory to hedge against spike in global commodities prices
- ✓ Rally confined to sectors that are not politically sensitive
- ✓ Growth in NGX to depend on sectors' level of consolidation
- ✓ Investors expected to trade cautiously as political uncertainties and insecurity issues persist

Pension Funds Plunge As Unemployment Climbs

- ✓ Pension funds are historically investing very conservatively
- ✓ The stock and bond markets struggle due to monetary policy tightening- high interest rates
- ✓ The use of leverage by pension funds is spreading faster -Increased investment risk for higher returns
- ✓ Investing with borrowed money can juice returns when markets are rising, but make losses more severe in a down market
- ✓ the losses could affect not just the pension funds but also ordinary citizens (higher taxes)

What Should Investors Be Doing Now?

Heightened
Inflation

High Interest
Rates



Equities market
downturn

- ✓ Higher interest rates decreases the value of expected future cashflows
- ✓ Spread your risk
- ✓ Investors should increase diversification to less risky and more attractive asset classes (bonds, treasury bills)
- ✓ Buy the dip- invest in potential stocks with long-term potentials
- ✓ Real estate is usually the best bet against rising inflation



Aviation

Global Aviation



- ✓ Leading network carriers are cancelling flights
- ✓ Lufthansa has cancelled 1,000 flights in July
- ✓ British Airways has cancelled 1,100 flights in July
- ✓ Pilot shortage and ground crew labour disputes
- ✓ Time lag between aircraft rehabilitation and surging demand growth
- ✓ British Airways reduced their frequency to Lagos from daily to 5 per week



Global Aviation



- ✓ Lufthansa has maintained 5 flights per week to Lagos
- ✓ Virgin Atlantic has kept 7 flights per week
- ✓ Aviation fuel costs has compressed the thin margins of carriers
- ✓ Domestic operators are cutting capacity with less lucrative destinations
- ✓ NCAA is enforcing safety standards for domestic carriers
- ✓ Fears of carriers cutting corners is prompting higher scrutiny



✓ \$450mn of blocked funds in Nigeria is affecting ticketing endorsement for international travellers

✓ International carriers may resort to dollar-only ticketing in Q4



✓ It will also have a detrimental impact on the air cargo business

✓ We expect the bookings for Q4 to decline substantially

✓ Nigerian travellers will be challenged by lack of forex

✓ The visa renewal process in most embassies is also becoming cumbersome

Domestic Aviation Update – Forex Shortage Affects Airlines'

- ✓ Nigeria grappling with sustained forex shortage
- ✓ International airlines unable to repatriate revenue due to severe forex shortage
 - ✓ Withheld revenue reached \$450 million in May
 - ✓ 12.5% higher than previous month
- ✓ This is the largest amount withheld by any African nation – **IATA**
- ✓ Growth in withheld revenue points to CBN's inability to meet forex demand
- ✓ Currency volatility had earlier prompted international airlines to request for payments in foreign currency (US\$)



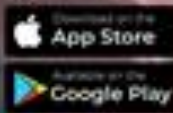


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Real Estate



Real Estate Sector – Positive Growth Outlook Boosts Activity

- ✓ Real estate sector poised to ride on sustained economic growth momentum
 - ✓ Sector projected to expand by 5% in 2022 – **EstateIntel**
 - ✓ Following robust uptick in market activity in H1 '22
- ✓ Entrance of international tech companies continues to underpin demand for office space
 - ✓ Microsoft launch of its Africa Development Centre was a significant occupier activity during the period

Real Estate Sector – Positive Growth Outlook Boosts Activity

- ✓ However, the residential sector is emerging as the market's bright spot
 - ✓ Growing shift in investor interest from the high-income market to low-income market
 - ✓ Large market size and strong demand fuelling attraction to “low-income” market
 - ✓ Demographics include students and young professionals
- ✓ Demand in the retail segment remained dampened
 - ✓ Owing to a shallow tenant pool, rising construction costs and diminishing disposable incomes
- ✓ Long-standing challenges such as product mismatch, currency fluctuation and rising inflation rates will continue to impact the broader real estate sector.

Real Estate Sector Outlook

- ✓ Inflation rate will continue to erode consumers' income
 - ✓ Leading to a widening in vacancy factor
- ✓ Higher interest rates will weigh on new investments in the sector
- ✓ Demand for residential real estate to continue to outpace supply
 - ✓ as growing population spurs demand
- ✓ Cheaper lands and properties are giving Ogun state some leverage, but
Lagos remains the real estate hub





Political Update

Short-term Outlook (Before the Next Administration)

- ✓ Nigerians are rattled and the economy is in a state of disrepair
 - ✓ No matter who wins, reforms are inevitable
- ✓ 2023 election to be the costliest election in the history of Nigeria
- ✓ Moneybags are ready to pay whatever price to win
- ✓ But it could be a case of “damned if I win, damned if I don’t”

Short-term Outlook (Before the Next Administration)

- ✓ 2023 election could be a referendum
 - ✓ On the performance of this administration
 - ✓ On the past administration
 - ✓ None of the above
 - ✓ How viable are the alternatives?
 - ✓ How impoverished is the electorate?
 - ✓ High correlation between poverty and vote buying

Geo-political zones	Average poverty index (%)
North-east	74.50
North-west	64.84
North-central	42.70
South-east	42.44
South-west	21.28
South-south	12.12

Weaponizing Poverty - Cost of Electoral Victory

Assumptions:

- ✓ Total registered voters in 2019 = 84mn
 - ✓ Voters turn out in 2019 = 34.75%
- ✓ Expected registered voters for 2023 election (2019 numbers plus 25%) = 105m
 - ✓ Voter turnout in 2015 = 44%
 - ✓ Expected voter turnout in 2023 (2015 proportion plus 25%) = 55% = 57.75mn voters
- ✓ Suppose 60% of voters are vulnerable to sell their votes:
 - ✓ Total vote to be bought = 34.65mn voters
- ✓ Number of years to be used to recover electoral expenses = 2 years
- ✓ Cost of capital = 17%

Weaponizing the Poor - Cost of Electoral Victory



Marginal Cost of Winning Presidential Election for a Single Tenure

- ✓ Cost of winning party primaries = N1.178trn
- ✓ *(including cost of compensating rivals that lost)*
- ✓ Cost of campaign and ground game = N950bn
- ✓ Vote buying costs = N1.1trn
- ✓ *(including logistics for vote buying)*
- ✓ Cost of electoral victory = N3.288trn
- ✓ Cost of post-election litigation = N20,000
- ✓ Cost of funding (17%) = N1.104trn
- ✓ Fair return on investment (40%) = N1.741trn
- ✓ **Marginal Cost of Electoral Victory = N6.094trn**



Borderless growth. Boundless Opportunities. The Future Reimagined.

Theme:

The Power of Global
Interconnection

Date:

Thursday, June 23rd, 2022

Time:

10:00 am



To register: bit.ly/NerdsUnite2022



Weaponizing the Poor - Cost of Electoral Victory

**Marginal Utility
(MU)
of Contesting for
the
Office of the
Presidential
(a Single Tenure)**

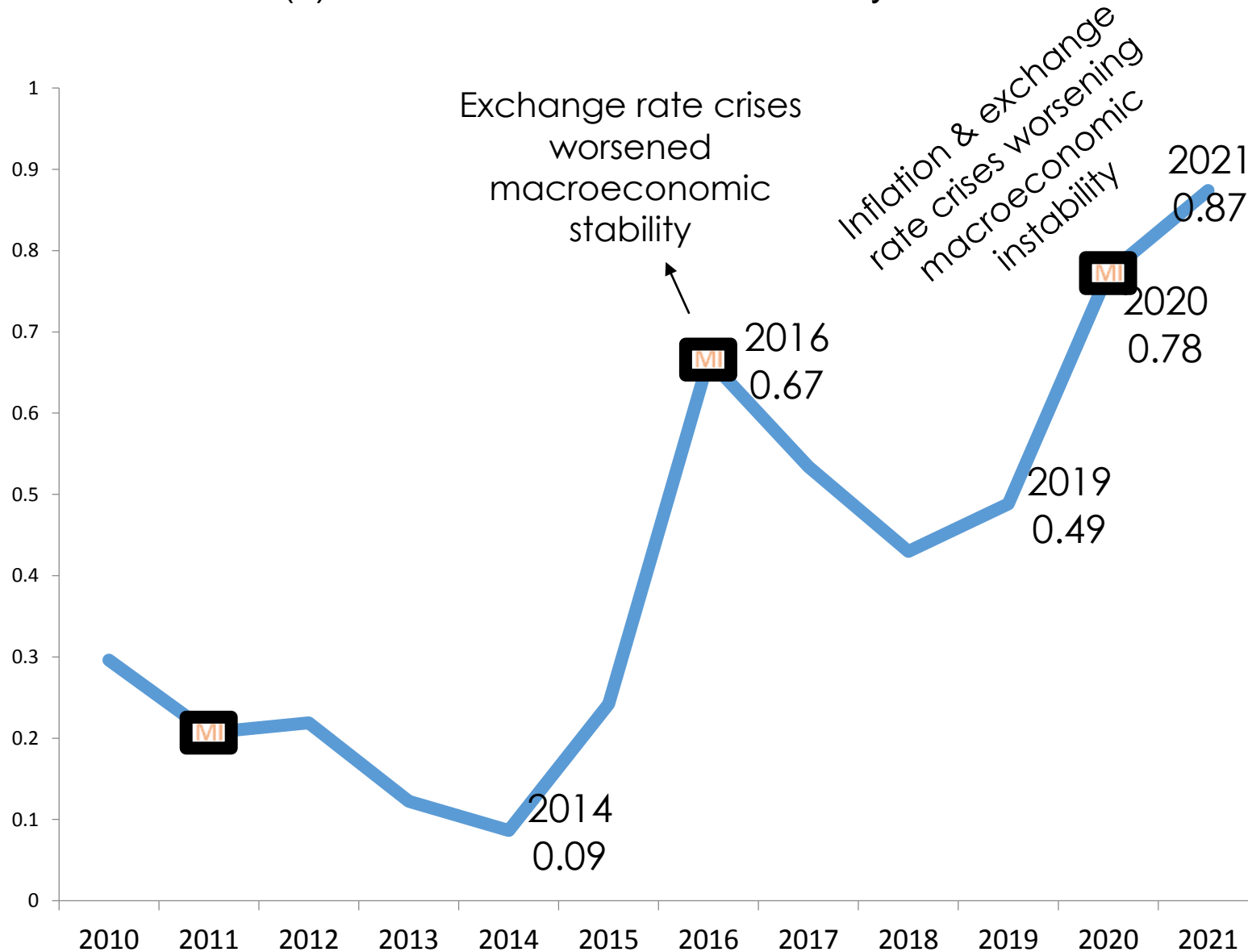
- ✓ Total cost of winning election = N6.093trn
- ✓ Annual budget = N18trn
- ✓ 2-year CAPEX (40%) = N14.4trn

Breakeven Point
 $MC = MU$
 @42.32% of CAPEX



Macroeconomic instability (MI) index

The closer to one (1) the unstable the macroeconomy is



✓ Macroeconomic instability index has worsened

✓ High Inflation

✓ Persistent volatility in the exchange rate

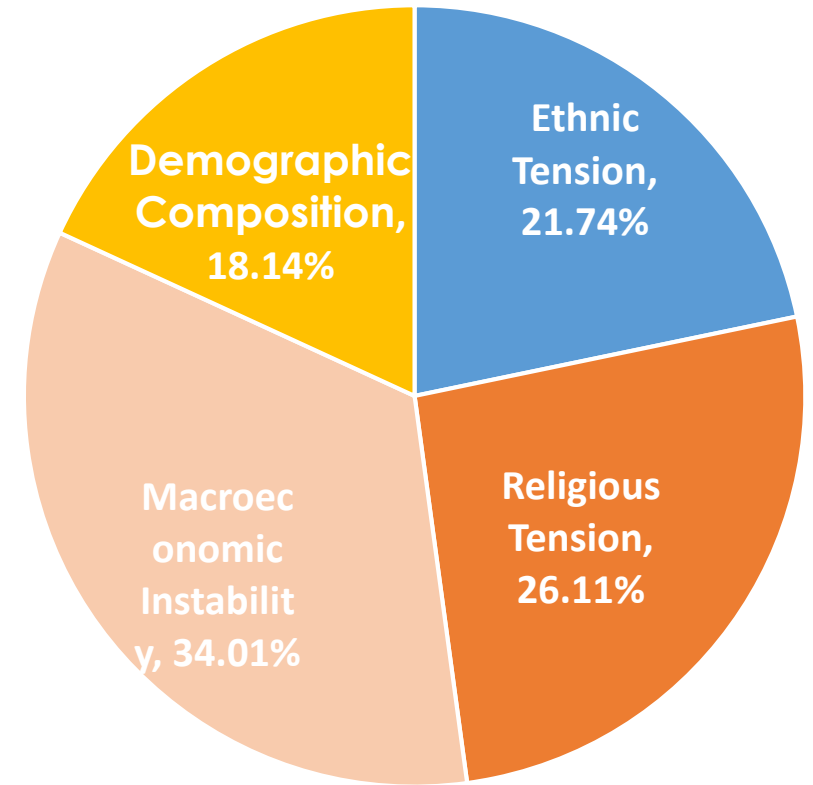
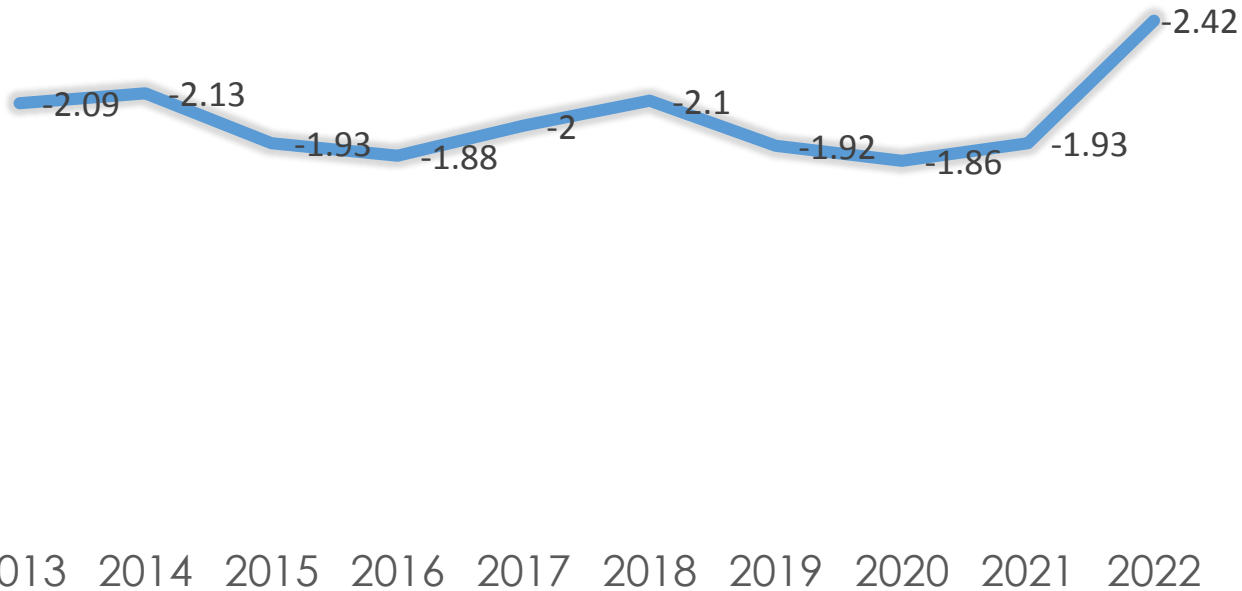
✓ External debt-GDP ratio ballooning

✓ Fiscal deficit – GDP ratio rising faster than revenue - GDP ratio

Coefficient of Political Instability

Drivers of Political Instability

+2.5 = Strong political stability; -2.5 = Weak political stability



Political Update – The more the Merrier

- ✓ The choice of V.P. running mates by the APC, Labour Party & NNPP are expected next week
- ✓ The Osun state election will be handily won by the APC
- ✓ It will help the momentum of the incumbent party
- ✓ The PDP will mend fences over the V.P. pick
- ✓ Governor Wike will be placated with unenforceable promises
- ✓ The proposed Labour Party/NNPP accord is a bridge to nowhere

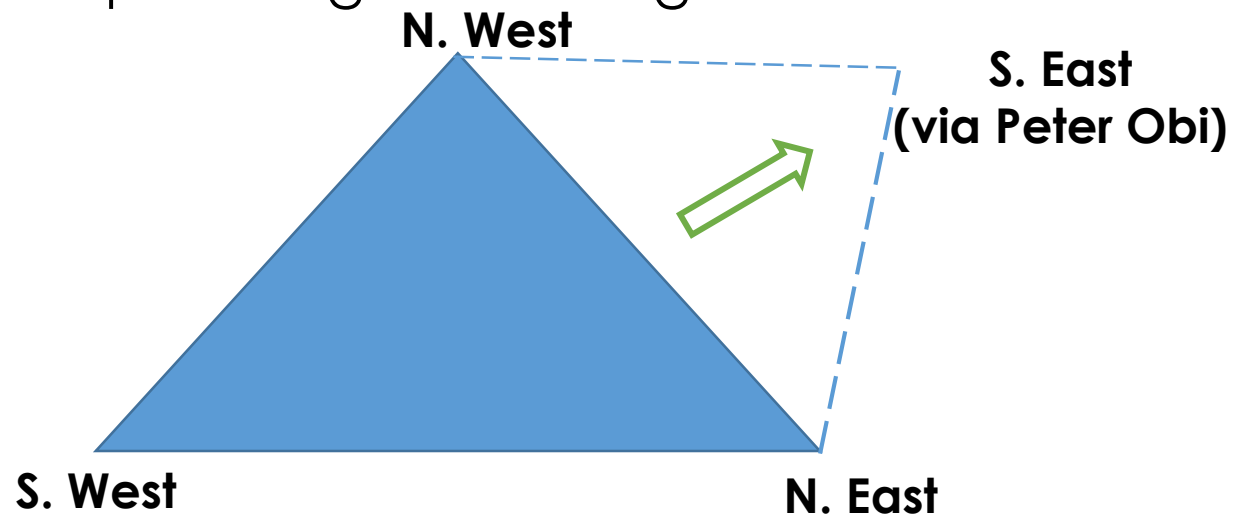
Political Update

- ✓ The choice of a V.P. candidate in the APC will rock the party
- ✓ The traditional rivalries between the North East and North West will resurface
- ✓ It will reflect the following characteristics



- ✓ The struggle in the triangle of power in Nigeria will be tested

- ✓ Now likely to be a new quadrangle including the South East



Political Update

Zone	Strength
North West	Population
South West	Population and wealth
North East	Population
South East	Dispersed population and fragmented wealth

Political Update – No Clear Pattern at this Time


- ✓ Massive youth voter registration will tilt in favour of the newer parties:
Labour and NNPP
- ✓ Regional and ethnic bias will favour APC in the South West and North West
- ✓ But the PDP may have an edge in the North-East
- ✓ Labour Party will have a strong showing in the South-East, and urban centers in the South-West

Political Update

- ✓ Labour Party and PDP will split the North-central
- ✓ The South-South will be the fierce battleground
- ✓ The voting pattern will reflect
 - ✓ Anger
 - ✓ Frustration
 - ✓ Poverty
 - ✓ Fear
 - ✓ Resentment

Political Update

- ✓ Characteristics similar to the EndSars protests
- ✓ Traditional voting myths and patterns will be shattered
- ✓ Our model shows that there will be no winner in the first round
- ✓ In the second round, a simple majority is required
- ✓ But elections are 220 days away
- ✓ As Harold Wilson once said – “24 hours is a long time in politics”



July Outlook

July Outlook

- ✓ VP picks will be made by the APC, Labour party & NNPP
- ✓ Inflation data will show headline inflation spike to 18.3%
- ✓ The MPC will likely increase the MPR by 25-50 basis points to 13.25%-13.5%pa
- ✓ The 365 t/bills primary rates will be increased to 8%pa
- ✓ Stock market will trade horizontally until Q2 earnings are released
- ✓ The Naira will slip towards N620/\$ on back to school pressures

July Outlook

- ✓ Gross external reserves will slide again towards \$38bn
- ✓ Oil prices will trade lower between \$95-\$100pb
- ✓ The Euro will fall against the dollar to parity

Thank you

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