

The background of the slide features a photograph of a breakfast setup on a dark blue wooden table. In the upper left, a portion of a silver laptop is visible. To its right is a white ceramic cup of black coffee on a matching saucer. Further right is a silver spoon. In the center and bottom right, there are croissants; one is on the table, and a small white plate holds three more. The scene is lit with soft, natural light.

*LBS Breakfast Session*

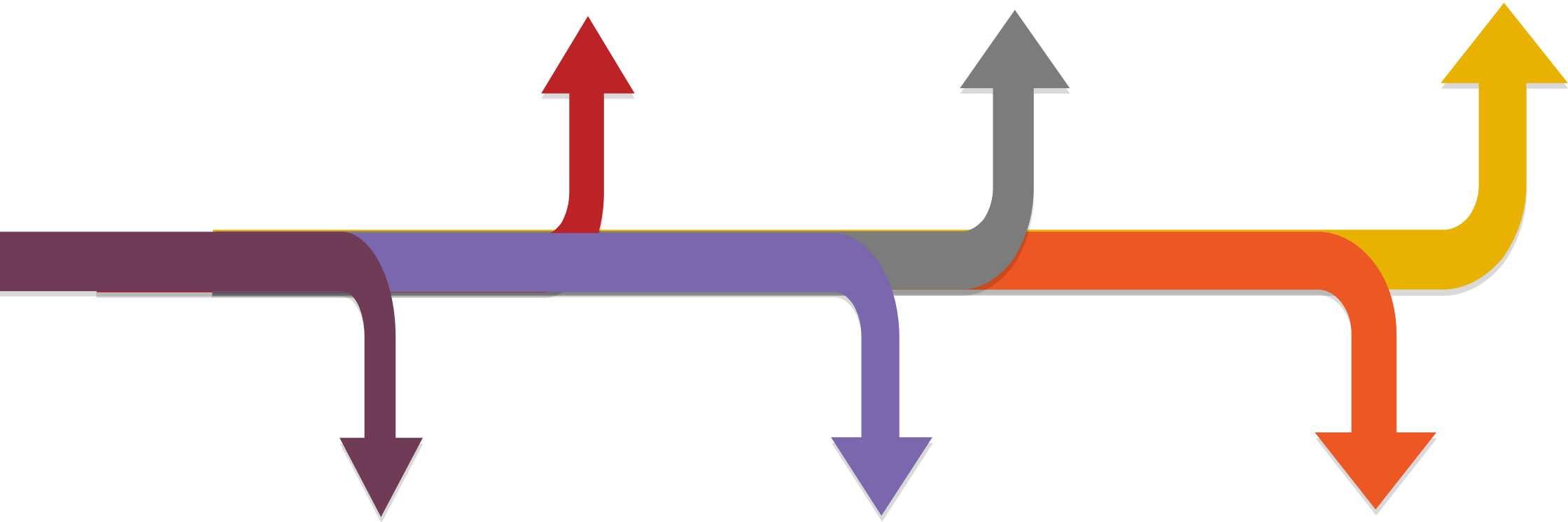
# *Cross Sector Commentary*

# *October Overview*

*Global Picture*

*Stock Market Review*

*Outlook for November*



*October Highlights*

*Domestic Overview*

*Policy and Politics*



# *October Review*

# October Review

- ❑ Oil price has fallen by 9.76% to \$74pb since September
- ❑ Oil production plus condensates is at 2.1mpb
- ❑ No reported force majeure in October
- ❑ On grid power rises by 6.8% to an average of 3,752MWh/h in October
- ❑ Constrained mainly by gas supply and transmission inadequacy
- ❑ Revenues from oil in October fell to \$7.1bn-\$7.4bn
- ❑ Terms of trade improved by 3.9 points to 26.9 in 2018
- ❑ External reserves fell 11.08% to \$41.9 since July

# October Review

- ❑ Two bulge bracket banks, UBS and HSBC, close rep offices in Nigeria
- ❑ Foreign portfolio investment flows reduced in Nigeria to \$4.12bn
- ❑ The stock market lost 0.92% in September/October; 11 negative days and 11 positive days
- ❑ Average revenues of FMCG's declined by 7.25%, mainly flour millers
- ❑ The PMI jumped 5.21% to 56.5 on strong inventory orders
- ❑ Consumer confidence crashed to 60.8 on lower disposable income and purchasing power concerns
- ❑ Increasing consumer resistance, down trading and shifting behaviour



# October Review

- ❑ Headline inflation increased for the 2<sup>nd</sup> consecutive month
- ❑ Projected to rise in October to 11.35%
- ❑ Core inflation declined and food inflation up to 13.31%
- ❑ Retail price of diesel jumped to N255 per liter stoking logistic costs
- ❑ Subsidy on PMS reaches N63 per liter on 60 million tonnes per day
- ❑ Urban traffic in Lagos sharply worse after Ambode's distraction
- ❑ Peak average travel time between Lagos mainland and Island now 90 – 120 minutes
- ❑ Peak travel time between Ajah and Victoria Island 65 minutes
- ❑ Eating into worker productivity and motivation

# October Review

- ❑ Labor productivity growth for 2018 increases to -0.7% from -2%
- ❑ Minimum wage agreed at N30,000.00 (\$83) per month
- ❑ Inflation compensated wage should be N41,000.00 per month
- ❑ \$200 minimum wage (exchange rate reflective) is N76,000
- ❑ The CBN intervention in forex was sharply higher - 45% at \$1.51bn in October
- ❑ Leading to increased depletion of the external reserves to \$41.9bn
- ❑ Nigeria falls one place in the global ranking of “ease of doing business”

# October Review

- ❑ General Electric has pulled out of the Nigerian Railway Investment of \$2.8bn
- ❑ CBN increases minimum capital requirements for microfinance banks by 150% (national) and 900% (unit and state)
- ❑ To improve governance, increase consolidation and scale economies
- ❑ MTN blames delayed listing on CBN & AGF as misguided enthusiasm
- ❑ MTN and FGN now likely to settle out of court without prejudice
- ❑ EFCC accuses MTN of economic sabotage
- ❑ Seen widely by observers as another shakedown



# October Review

- ❑ Unemployment data release date postponed again to December 7
- ❑ Last data was released a year ago in Q4'18
- ❑ NBS under pressure to meet a congested time table for data release
- ❑ CBN expressed a preference for a stronger naira over higher reserves
- ❑ CBN revokes Skye Bank license
- ❑ Credit to the private sector increased by 0.94%
- ❑ Banks are risk averse and have no appetite for new loans

# Implications and Impact of October Highlights

❑ Shift in Nigerian trade flows in favor of

South Korea	7.5%
China	21.1%
Belgium	8.7%
USA	8.4%



- ❑ Nigerian importers are purchasing more from weaker currency countries
- ❑ Higher oil price and subsidy backlog is making diesel imports unattractive
- ❑ Increased oil production means Q3 GDP may reach 2%
- ❑ Inflation already increasing and will get worse as wages rise
- ❑ Corporate earnings are under pressure
- ❑ Leading to price wars and undercutting competition



# *Global Picture*

# US: Strong Jobs Report Just Before Midterms

- ❑ Democrats take control of the House & Republicans keep the Senate
- ❑ Checks and balances will restrain the excesses of Donald Trump
- ❑ Economic momentum strong in the face of tariffs, volatility in the stock market but high debt
- ❑ The US added 250k jobs in October – beating analysts' estimate of 188k
- ❑ October jobs report shows fastest wage growth in a decade
- ❑ Wages were 3.1% higher in September than they were a year ago – well ahead of expectations of 0.5%

# US: More Inflation Brewing?

- ❑ Unemployment rate is now at 3.7%, the lowest since 1969
- ❑ Wage growth expected to accelerate further as labor market tightens
- ❑ Feds preferred gauge of inflation – Personal Consumption Expenditure (PCE) – rose 2.5% in Q3

# US: Fed vs Trump – Can the Fed be Independent?

- ❑ Trump has been vocal in his criticism of the Fed's monetary policy
- ❑ He insists rate hikes and stronger dollar makes US exports uncompetitive
- ❑ He is not the first US president to be opposed to Fed's policy direction
- ❑ Reagan ordered Fed chair Volcker to not raise rates before the election in 1984
- ❑ Even though it was something Volcker previously had no intention of doing
- ❑ The big question is – what if Volcker had wanted to raise rates?
- ❑ A central bank that appears subservient to political concerns will rapidly lose credibility in the markets



# US: Sanctions on Iran Take Effect

- ❑ New period of uncertainty as renewed sanctions on Iran take effect
- ❑ Trump hopes the policy will inflict pain on Iran without causing a spike in oil prices
- ❑ Initial impact has been relatively benign – prices have been on the decline
- ❑ Temporary waivers have been granted to eight countries including India and China – conditioned on steady reductions of imports
- ❑ Gradual approach allows European and Asian customers to find suppliers to replace Iranian crude
- ❑ Sanctions should cut roughly 2% of global oil supplies over the next year

# EU: Mixed Signals

- ❑ Euro-area growth disappoints; GDP rose 0.2% in Q3'18
- ❑ Slowest pace since 2014 and less than the 0.4% estimate
- ❑ Risks remain prominent: Italy budget crisis dragging on and a hard Brexit looming
- ❑ Inflation accelerated despite economic slowdown – to 2.2% in October from 2.1% in September, lifted by energy prices
- ❑ The mix of accelerating inflation and slowing growth comes at a crucial time for ECB as it prepares to scale back stimulus

# China

- ❑ China grew by 6.5% in Q3 – slowest pace since 2009
- ❑ The Chinese yuan hit its weakest point since 2008
- ❑ Almost seven yuan to the dollar
- ❑ Good for Chinese exports
- ❑ Bad for Nigeria in the swap deal

# The Chinese Century is Well Underway

- ❑ The US may be the global superpower, but China has replaced it as driver of global change

- ❑ On PPP basis, China became the world's largest economy in 2013



- ❑ GDP per person (PPP) in China has risen ten-fold since 1990

- ❑ Compared to two-fold in other countries that were as poor as China in 1990

- ❑ Its population and rapid development have made it responsible for a remarkable share of global change

- ❑ It has accounted for 45% of the gain in world GDP since the financial crisis of 2008

# The Chinese Century is Well Underway

- ❑ In 1990, 750mn people lived in extreme poverty; today that figure is down to fewer than 10mn
- ❑ This represents two-thirds of the worlds decline in poverty during that time
- ❑ China is also responsible for half of the total increase in patent applications over the same period
- ❑ China's growth means it is now in a position to compete with the US and Europe for influence in Africa
- ❑ It has become Africa's most important economic partner and infrastructure financier

# Implications

## On Nigeria

- ❑ Weaker yuan means Chinese loans are easier to repay
- ❑ Wage growth in the US likely to result in more rate hikes than anticipated
- ❑ To trigger increased capital outflows and put pressure on the naira
- ❑ Stronger dollar to dampen commodity prices – oil, LNG, cocoa
- ❑ Higher cost of borrowing at a time Nigeria plans to issue a \$2.8bn Eurobond

## On Corporates

- ❑ International financing will become more expensive
- ❑ Companies to hedge on forex-denominated transactions





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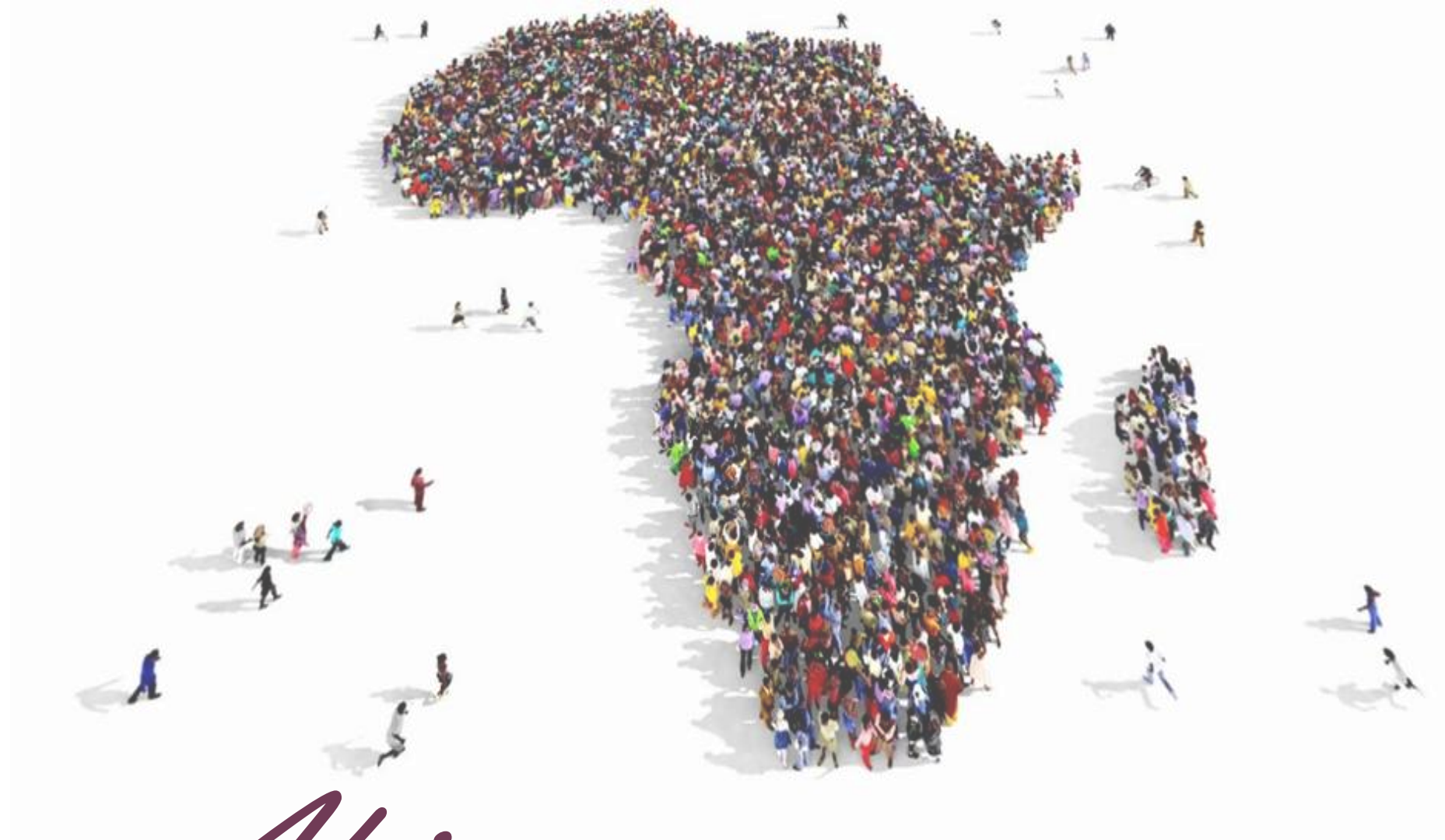
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# *Sub-Saharan Africa*

*Small is nimble and big is humble*

*Nigeria and South Africa eat humble pie*

# South Africa – SARB to Raise Interest Rates

- ❑ South Africa's central bank says monetary authorities will soon be faced with a single policy option to raise interest rates
- ❑ Central bank says price stability is under much pressure
- ❑ Rand has lost approximately 16% year to date
- ❑ South Africa will hold its MPC meeting on November 22nd
- ❑ Unemployment rate rose further to 27.5% in Q3 from 27.2%
- ❑ Higher unemployment rate, coupled with an economic recession could compel monetary authorities to delay monetary tightening

# Kenya– Government to Borrow \$2bn

- ❑ Kenya to offer Eurobonds and seek a syndicated loan to raise \$2.8bn in net external financing in 2018/2019
- ❑ In February, Kenya raised \$2bn in a Eurobond issue, six times oversubscribed
- ❑ Priced at 7.25% pa for the 10-year and 8.25% pa for the 30-year tenors
- ❑ Higher interest rates in advanced economies could raise prices on the imminent issue
- ❑ The IMF also raised the country's risk of defaulting on debt repayments to moderate from low on concerns of higher spending and revenue shortfall
- ❑ This would threaten the government's proposed borrowing



# Ghana– Economic Growth Flat in Q2

- ❑ Ghana's economic growth (y/y) rate was flat at 5.4% in Q2 2018
- ❑ Q1 '18 GDP growth figure was revised downwards to 5.4% from 6.8%
- ❑ Quarter on quarter growth was 1.3% in Q2, also the same as Q1
- ❑ Q2'18 growth (y/y) was the weakest since Q3'16
- ❑ Lower than 11% in Q2'17
- ❑ Slow growth reflective of a higher GDP after September's rebasing exercise
- ❑ Growth rate will likely remain below its 2017 levels due to a higher GDP base

# Is the Chinese Debt a Poison Chalice?

- ❑ Africa's total external debt currently stands at \$417bn, approximately 12% of Africa's GDP
- ❑ An estimated 20% of this is owed to China
- ❑ China is the single largest creditor country to the continent
- ❑ A ticking time bomb
- ❑ Most Chinese loans go into infrastructure (roads, railways, ports)
- ❑ There is concern over the real returns of these projects



# Is the Chinese Debt a Poison Chalice?

- ❑ Congo Brazzaville and Zambia are most exposed to Chinese debt distress
- ❑ A low interest rate makes Chinese loans attractive to African countries
- ❑ Higher US interest rates and a stronger dollar could raise repayment burden
- ❑ African countries would likely have to adopt austerity measures to repay
- ❑ Refinancing may not be a feasible option; potential creditors would be sceptical about repayment abilities
- ❑ Repayment would reduce government finances and slowdown economic activities on the continent in the long run



# *Domestic Economic Performance*

# Economic Indicators



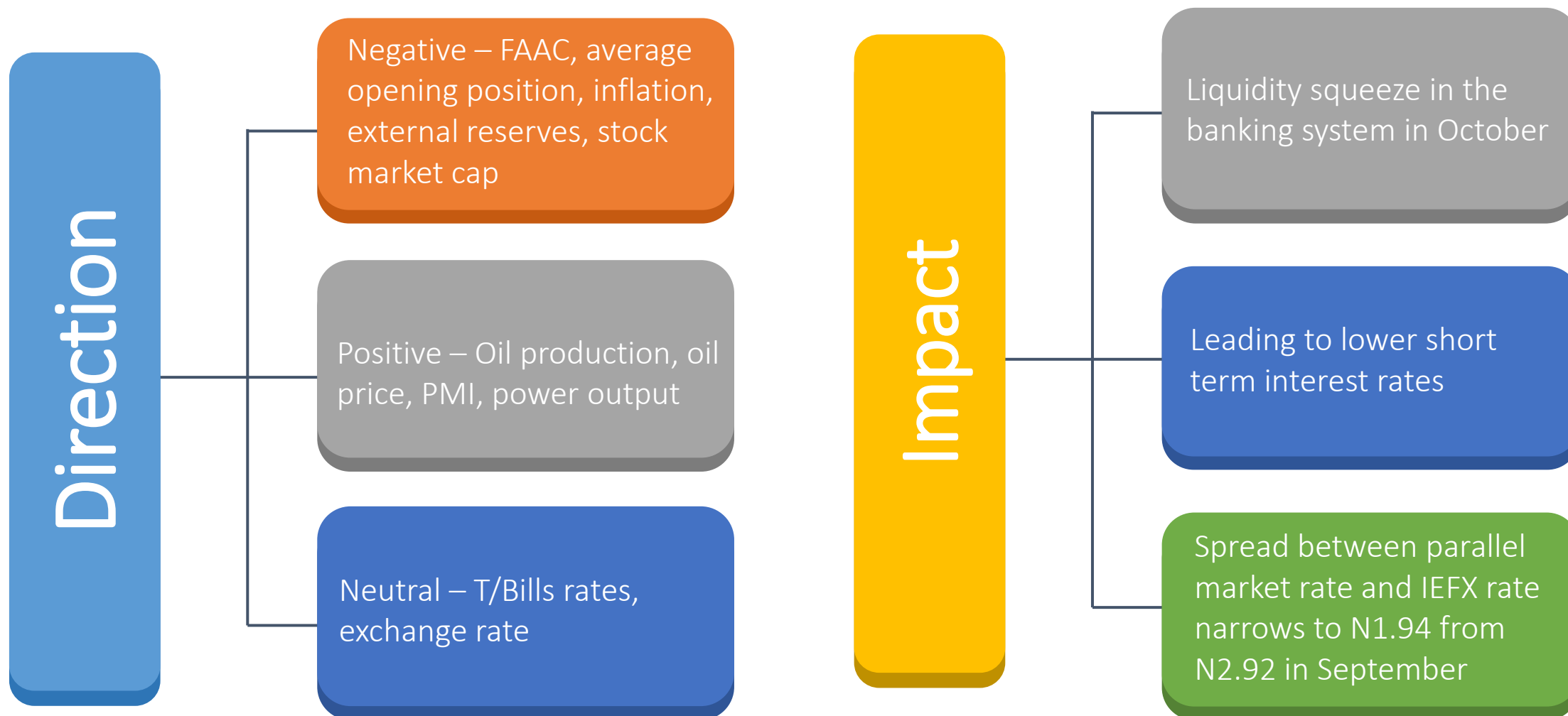
Leading Economic Indicator	September	October	% Change	Impact	November's Forecast*
YTD M2 growth (%)	4.04 (July)	3.58 (August)	-0.46	Still below CBN's benchmark of 10.48%	3.5-4.0 (September)
Average Opening Position (N'bn)	423.23	202.12	-52.24	Leading to higher interest rates	250-300
FAAC (N'bn)	741.8	698.71	-5.81	Increases salary backlog across states and reduce government investments	650-700
T Bills (91 days) (%) – Primary	11.00	10.98	-0.02	Increases government debt service	10.20-10.50
T Bills (182 days) (%) – Primary	12.20	13.49	+1.29		13.20-13.50
Average NIBOR (%) (OBB, O/N)	7.69	14.81	7.12	In tandem with decreased naira liquidity	12-15
Average Lending Rate (%) (pa)	18.00	18.00	-	Still high; lower lending rates needed to boost activities in the real sector	18-21
Inflation (%)	11.23 (August)	11.28 (September)	0.05	Higher inflation will be a front burner issue at the next MPC meeting	11.35 (October)
PMI	FBN: 53.7 CBN: 56.2	FBN: 56.5 CBN: 56.8	5.21 1.07	Projected to remain in the expansion territory for the last two months in 2018	56-58 57-57.5
Oil Price (\$pb; avg)	79.22	80.69	1.86	<ul style="list-style-type: none"> <li>Higher oil price is positive for dollar and fiscal accretion</li> <li>But negative for subsidy payment</li> </ul>	75-77

# Economic Indicators

Leading Economic Indicator	September	October	% Change	Impact	November's Forecast*
<b>Oil Production (mbpd)</b>	1.72 (Aug)	1.75 (Sept)	1.74	Minimal disruptions to pipelines expected ahead of 2019 elections	1.75-1.80 (Oct)
<b>Power (MW; avg)</b>	3,513	3,752	6.80	Average output still below 4,000MWh/hour	3,700-3,900
<b>Natural Gas (\$/MMBtu; end)</b>	3.01	3.26	8.31	Would boost export revenue	2.5-3.0
<b>External Reserves (\$bn) (end)</b>	44.31	42.06	-5.08	Stronger naira taking preference over buoyant reserves	40-41
<b>Exchange rate (N/\$; month-end)</b>	Parallel: 361 IFEM: 306.35 IEFX: 363.92	Parallel: 362 IFEM: 306.60 IEFX: 363.54	-0.28 -0.08 0.10	CBN's priority is to defend the naira with regular interventions in the forex market	Parallel: 360-362 IFEM: 306.50 IEFX: 364-365
<b>Stock Market Cap (N'trn)</b>	11.96	11.85	-0.92	Negative political sentiment is reflecting negatively on investor confidence	11.50-12.00

\*: FDC's Forecast

# Mixed Performance of LEIs in October



# Mixed Performance of LEIs in October

- ❑ Economic challenges persist
- ❑ External imbalances are growing
- ❑ Vulnerabilities are rising
- ❑ Risks are elevated



# *Domestic Economy - Output*



# Avg. Power Output up 6.8% in October



**4928MW**

Peak Energy  
Generated



**3752MWH/H**

Average Energy  
Generated



**599.5 MMSCF/D**

Average Gas  
Delivered to Plants



**0**

Total Grid  
Collapses

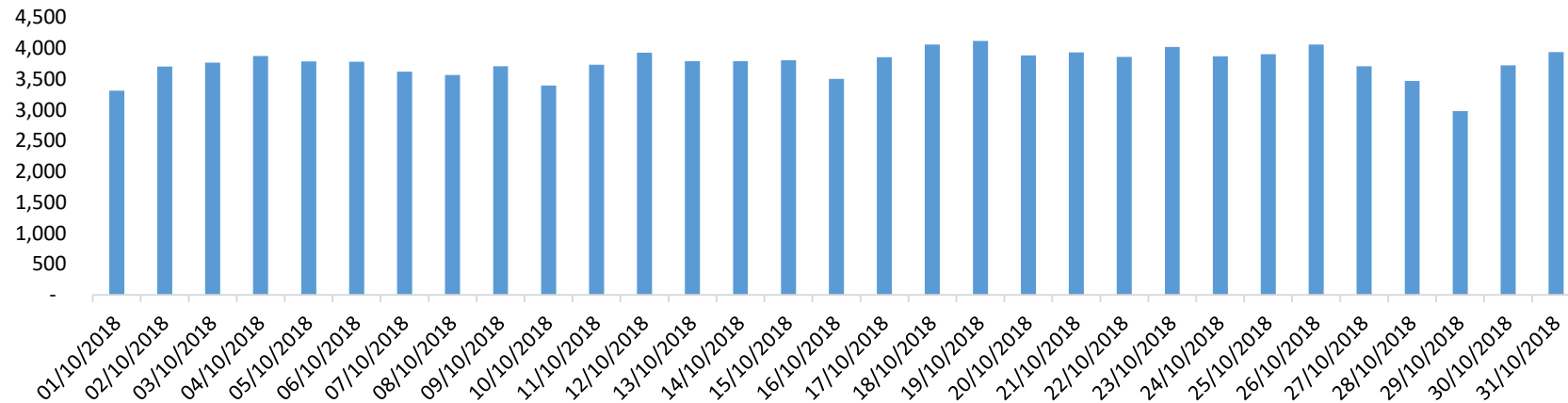


**3514MW**

Average  
constrained  
energy



Power Output MWh/h



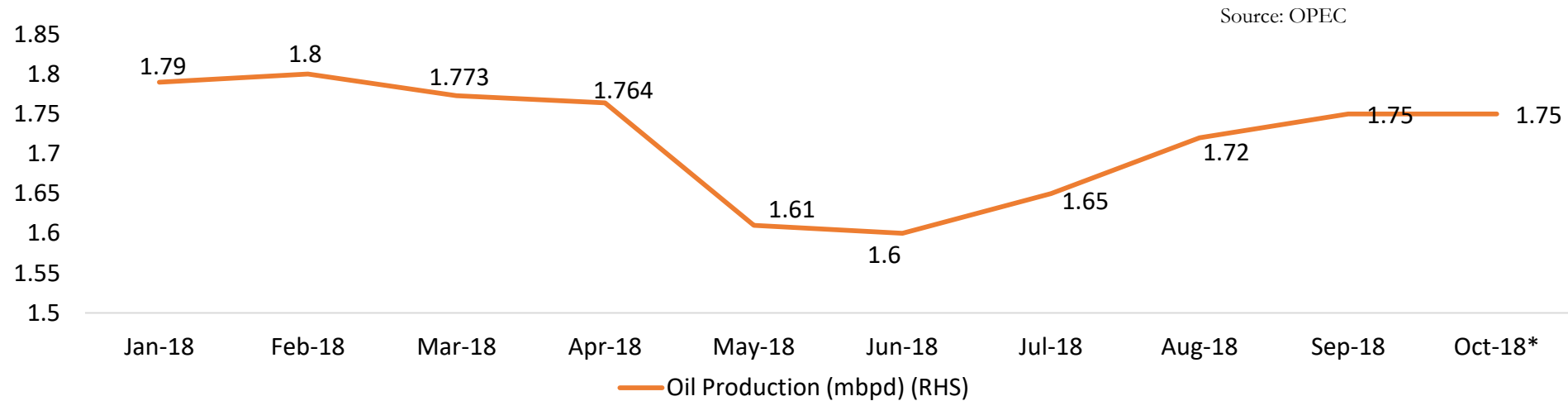
# Power Sector News

- ❑ FGN needs \$1trn to upgrade energy infrastructure
- ❑ NERC proposes cap on estimated billing charges to mitigate exorbitant charges by Discos
- ❑ Nigeria's thermal power stations remain underutilized due to uncompleted plants and gas constraints
- ❑ Minister of Power, Babatunde Fashola, projects generating capacity in excess of 9,000MW by 2020
- ❑ FGN plans to add 4,200MW to the national grid within 12 months

## Impact

- ❑ Increased investments in the power sector needed for improved power generation
- ❑ Positive for businesses and households

# Oil Production Outlook: 1.75-1.8mbpd in October



- Nigeria is more oil production sensitive than price sensitive
- Oil production expected to remain stable in the coming months
- Between 1.75-1.8mbpd in October
- Minimal force majeure and disruptions to pipelines ahead of 2019 elections

# What if- Niger Delta Militant Strikes?

## Impact

- ❑ Oil production would fall below 1.5mbpd
- ❑ Negative for:
  - ❑ Oil proceeds
  - ❑ External reserves
- ❑ Would limit CBN's ability to defend the naira

# What if- Oil Prices Fall?

- ❑ If Brent falls below \$40pb

## Impact

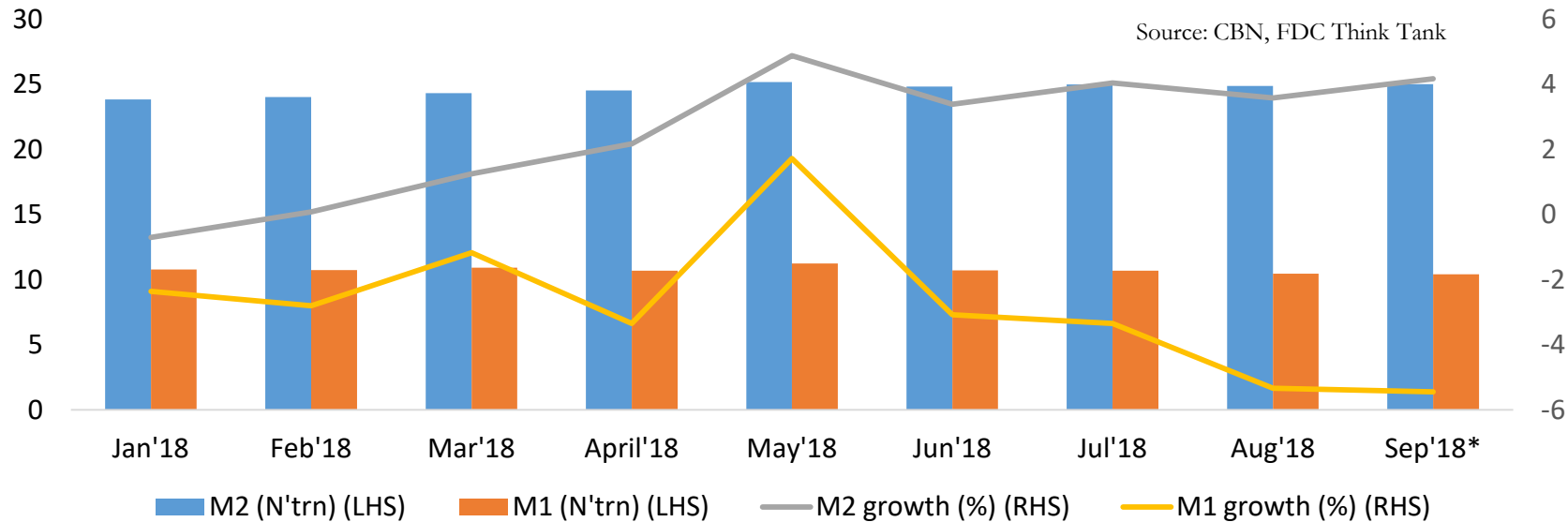
- ❑ Decline in FAAC disbursements leading to salary arrears across states and reduced consumer confidence
- ❑ Reduced government spending on infrastructure
- ❑ Reserves will erode to \$25bn
- ❑ Deficit will rise sharply to over N3.5trn
- ❑ Price of petrol will fall below N145/liter
- ❑ Naira will crash to N410/\$



# *Domestic Economy – Monetary Stability*



# Money Supply Outlook: N25trn in September

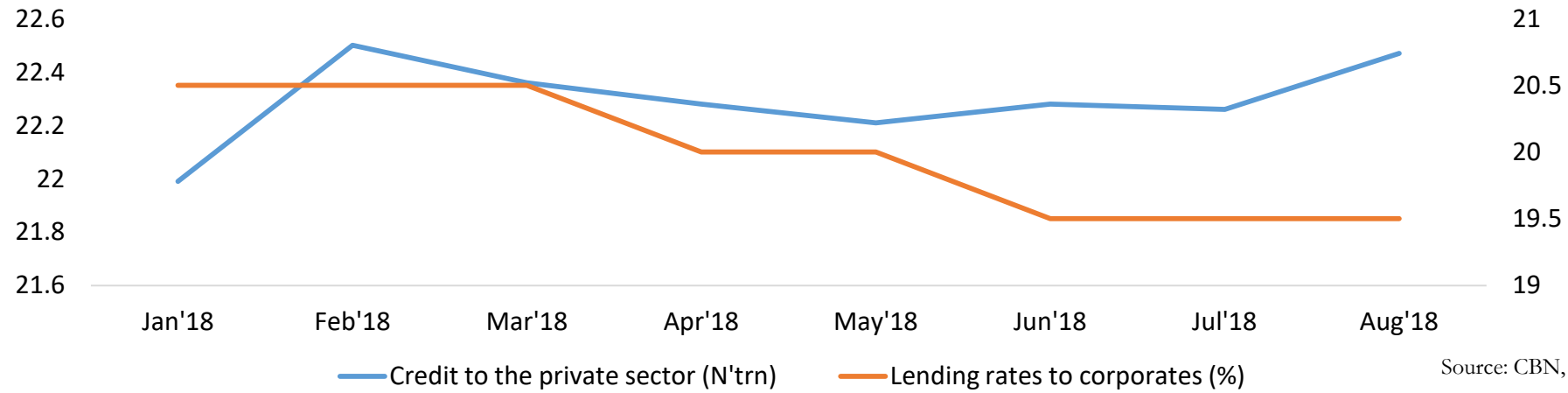


- ❑ M2 up 3.58% (annualized) to N24.86trn in August
- ❑ Below CBN's target of 10.48% in 2018
- ❑ Likely drivers of M2 growth: election spending and 2018 budget disbursements
- ❑ Expected to inch up further in September to N25trn



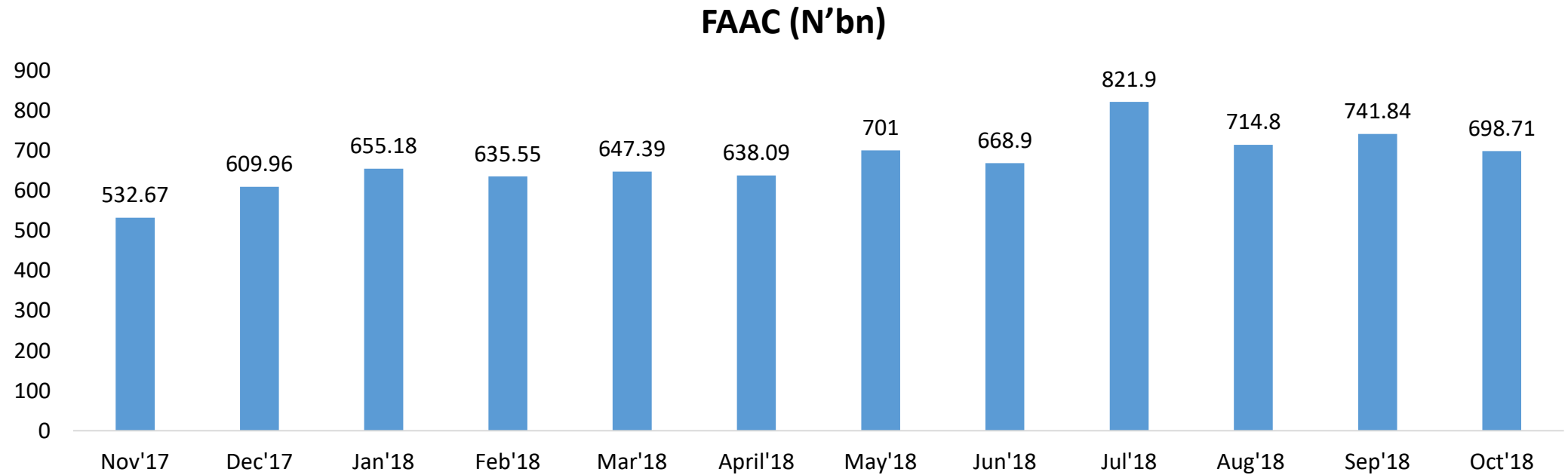
# Credit to Private Sector & Lending Rates

Credit to private sector vs lending rate



- ❑ Credit to the private sector inched up to N22.47trn in August
- ❑ Lending rates to corporates declined to approximately 20% pa
  - ❑ Now back up to 23% in November
- ❑ Likely driven by government intervention and CBN's incentivization scheme

# FAAC Down, Despite Higher Oil Price



- FAAC down 5.8% to N698.71bn in October despite oil prices climbing to a 4-year high
- FAAC disbursements expected to remain within the N650-700bn range

# Inflation Outlook: 11.35% in October–13.5% in December

- ❑ Projected to inch up 0.07% to 11.35% in October

- ❑ Imminent risk to inflation is the likely minimum wage review

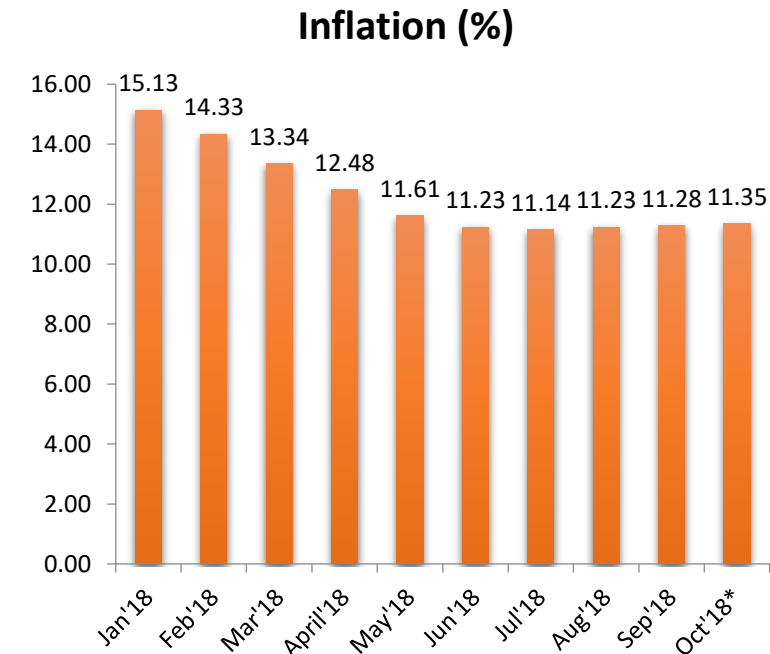
- ❑ Increased minimum wage → increased naira liquidity → higher headline inflation rate

- ❑ Other risks to inflation:

  - ❑ Increased election spending

  - ❑ Higher logistics cost (retail diesel price in Lagos spikes to N250/litre)

Source: NBS, FDC Think Tank



# What if- Inflation Spikes?



## Impact

- ❑ Increased inflation reduces consumer disposable power
- ❑ Leading to a decline in consumer confidence
- ❑ Higher misery index results in increased criminal activities

# Treasury Bills –Amount on Offer & Rate Movement

Amount offered in the primary market declined by 53.64% between Sept-Oct

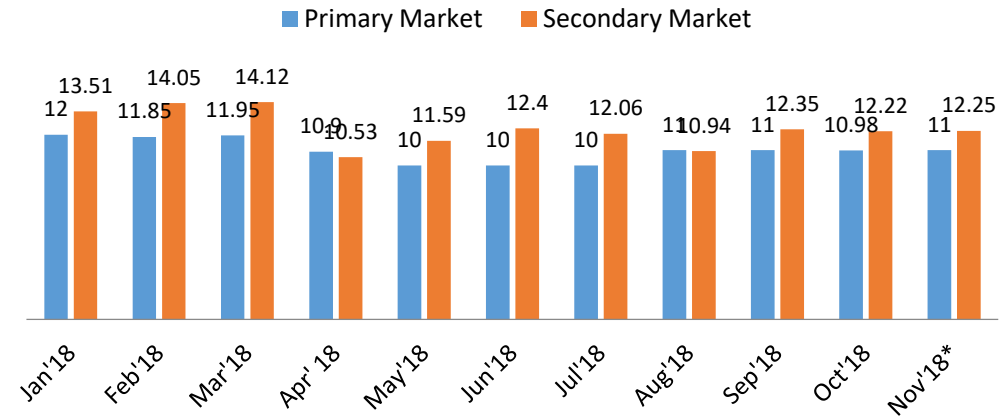
Sept-N318.45mn, Oct-N147.63mn

Explaining the increase in 182-day and 364-day rates



Tenor	Primary market rates (September 28 <sup>th</sup> ) (%)	Primary market rates (October 31 <sup>st</sup> ) (%)
91-day	11.00	10.98 ↓
182-day	12.20	13.49 ↑
364-day	13.48	14.40 ↑

91-Day T/Bills (%)



Source: FMDQ, FDC Think Tank

Tenor	NITTY rates (September 28 <sup>th</sup> ) (%)	NITTY rates (October 31 <sup>st</sup> ) (%)
30-day	12.4	11.67 ↓
90-day	12.51	12.65 ↑
180-day	13.21	13.19 ↓



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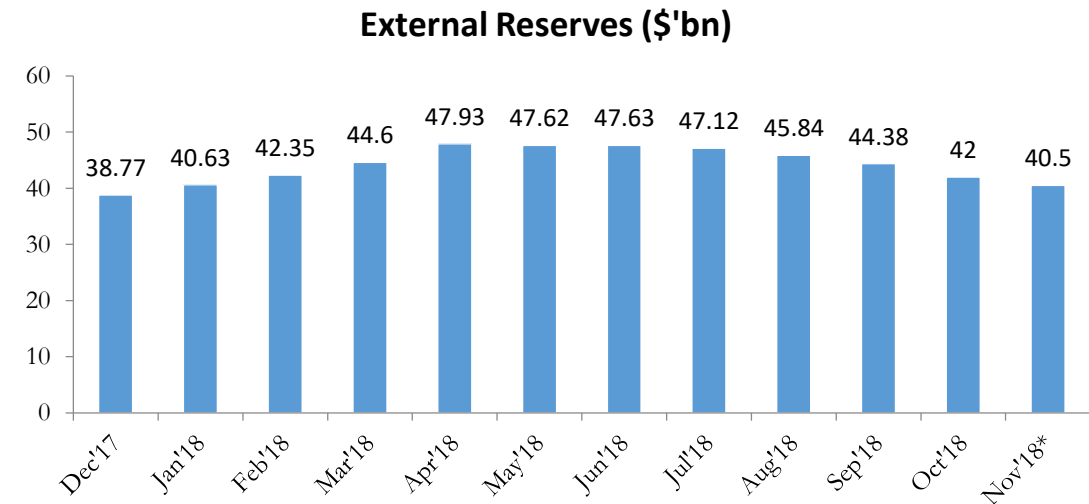
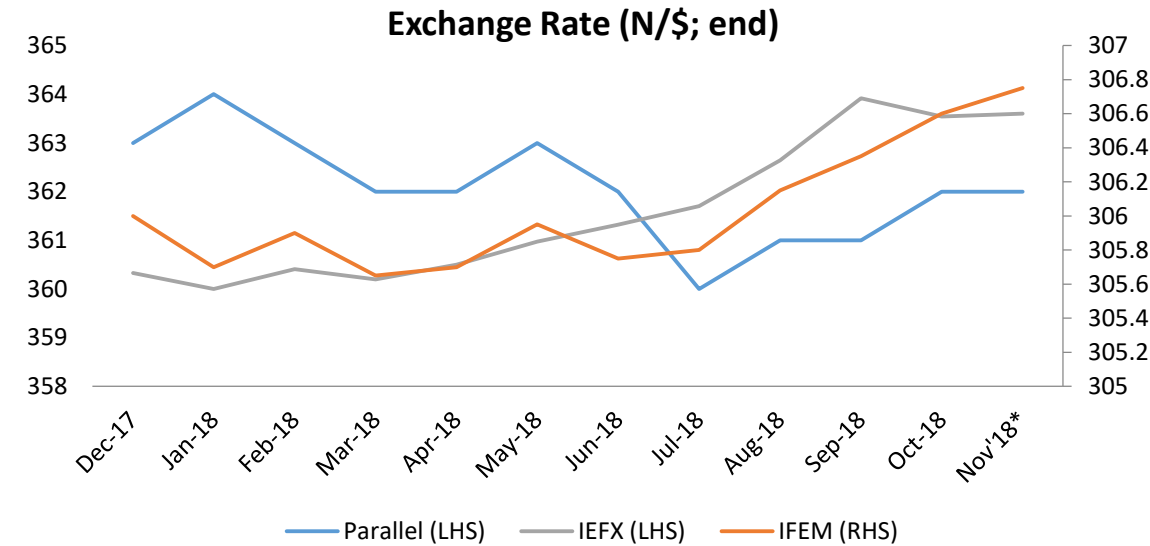


# Forex Market Outlook-N362/\$ at Parallel Market

- ❑ Rigidities and defective structure
- ❑ Exchange rate to remain stable ahead of 2019 election
- ❑ As CBN prioritizes naira stability over buoyant reserves
- ❑ External reserves could decline to \$38bn by December despite Eurobond proceeds
- ❑ PPP rate now N336/\$ less political risk premium
- ❑ IE put options at N365/\$
- ❑ External reserves to external debt ratio is deteriorating



Source: FMDQ, CBN, FDC Think Tank







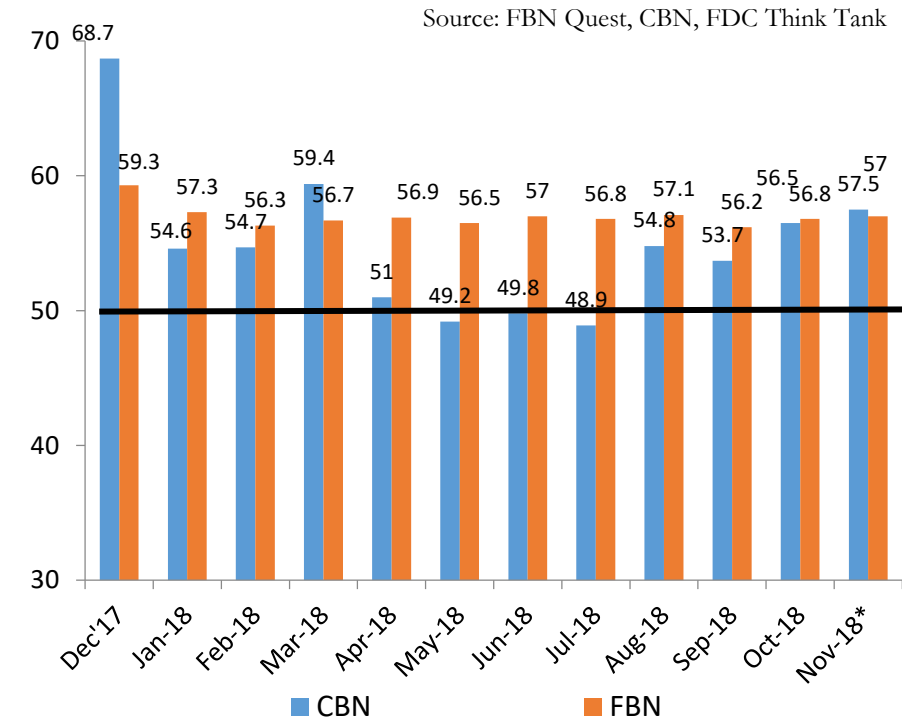


*Market Proxies*

# October PMI up 5% to 56.5 (7-Month High)



Purchasing Mangers Index	September	October
FBN	53.7	56.5 
CBN	56.2	56.8 



- ❑ Reflective of improved activities in the manufacturing sector
- ❑ Could increase the growth rate within the sector (0.68% in Q2'18)

# Ships Awaiting Berth

- ❑ Up 18.52% in October
  - ❑ From 27 to 32 (Lagos Port)
- ❑ Letters of credit availability and trade finance facilities
- ❑ Closure of UBS and HSBC means lines of credit drying up
- ❑ Christmas orders and election hedging imports
- ❑ Reflective of higher smuggling levels



# E-Payments Transactions Plunges

**Volume of transactions** in Sept' 18  
relative to Aug' 18

❑ Cheques ↓ 2.88%

❑ PoS ↓ 1.05%

❑ NEFT ↓ 34.99%

❑ NIP ↓ 1.15%

**Value of transactions** in Sept' 18  
relative to Aug' 18

❑ Cheques ↓ 6.49%

❑ PoS ↓ 2.26%

❑ NEFT ↓ 21.63%

❑ NIP ↓ 2.91%

❑ Likely reasons for decline:

❑ Network infrastructure issues (9Mobile acquisition challenge, MTN listing saga)







❑ Decline in consumer confidence and purchasing power

❑ Would lead to a lower velocity of circulation



# *Commodities*

# Commodities Outlook and Nigeria

Export Commodities	October %Change (Sept-Oct)			Import Commodities	October %Change (Sept-Oct)		
Oil (\$/b) 	80.43	2.06%	↑	Wheat (\$/bushel) 	5.11	-0.97%	↓
Liquefied Natural Gas (\$/mmbtu) 	3.21	10.69%	↑	Sugar (\$/pounds) 	13.26	16.21%	↑
Cocoa (\$/mt) 	2,149	-3.76%	↓	Rice (\$/cwt) 	10.86	5.23%	↑

□ Diaspora flows are estimated at \$21bn

□ Weaker sterling at \$1.29/GBP affecting Nigeria's Diaspora flows





# *Export Commodities*



# Oil & Gas Market Outlook

- Average Brent price rose 2.06%, in anticipation of the US sanctions on Iran
- Average LNG price spiked 10.69% in October, on strong US winter demand
- Venezuela vulnerable to domestic problems will stall supplies to markets
- OPEC meeting December 3<sup>rd</sup> likely to keep quota and keep prices below \$72pb
- Nigerian revenues averaging approx \$4.2bn per month
- Help replenish reserves or stop the haemorrhage

# Oil & Gas Market Outlook

## Impact

- ❑ Oil & gas accounts for approximately 92% of Nigeria's total exports (\$48.2bn)
- ❑ Higher earnings positive for government revenues, reserves and naira stability



## Outlook

- ❑ Brent is currently trading at \$72.77, to remain within a range of \$70-75pb
- ❑ LNG price to remain elevated in November on US winter demand

# Export Commodities

## Cocoa

- ❑ Prices fell by 3.76% in October from September
- ❑ Partly due to reports of favorable weather conditions in Ivory Coast
- ❑ Ivory Coast harvest projected at 1.2m tonnes



## Impact

- ❑ Cocoa accounts for approximately 1% of Nigeria's total exports
- ❑ Impacts of lower cocoa revenues to be offset by robust oil & gas earnings

## Outlook

- ❑ Cocoa price has increased in November to trade at \$2,335/mt
- ❑ Price to remain high in the near term on weak Ivory Coast's cocoa exports



# *Import Commodities*

# Import Commodities

## Wheat

- ❑ Price slid 0.97% in October
- ❑ Pressured by robust output from the Black Sea region and China
- ❑ Bumper production in Russia also weighed on prices



## Impacts

- ❑ Higher cost of raw materials for users such as FMN and DANGFLOUR
- ❑ A 50kg bag of flour was flat at N11,100 in October

## Outlook

- ❑ A global supply glut of wheat is probable in November given strong output from top producers
- ❑ Could depress prices further

# Import Commodities

## Sugar

- ❑ Sugar prices increased sharply by 16.21% in October
- ❑ Driven by a strong global demand
- ❑ Also partly due to a stronger US dollar



## Impact

- ❑ A 50 kg bag of sugar rose 1.3% to N15,100 in October
- ❑ DANGSUGAR's profit fell by 37% in 9M'18, share price ↓ 2.8% in October

## Outlook

- ❑ Sugar prices will likely decline in November due to profit taking
- ❑ Sugar markets will also remain cautious of the health risks associated with sugar consumption

# Import Commodities

## Rice

- ❑ Global price of rice increased by 5.23% on the average in October
- ❑ Global demand for rice futures gained momentum in October in anticipation of strong festive demand in December
- ❑ Domestic price of a 50kg bag of rice (Caprice) was flat at N15,500

## Outlook

- ❑ Global demand expected to remain price supportive
- ❑ Domestic price to increase in November on strong festive demand

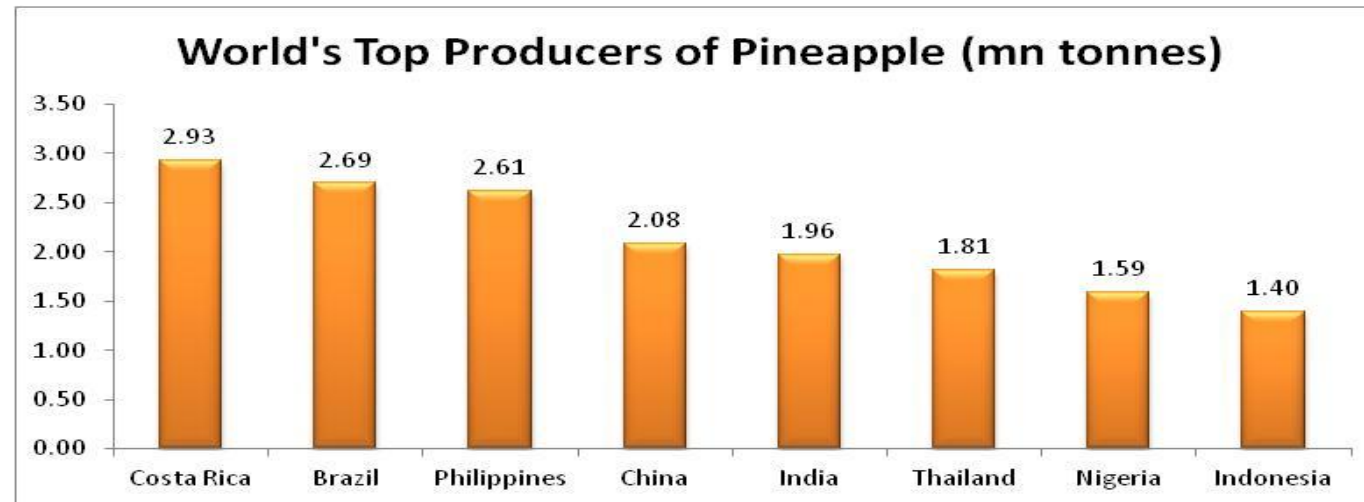




*Commodity In Focus*  
*Pineapple*

# Facts about Pineapples

- ❑ **Total global production:** 25.8mn tonnes (\$31.22bn), down 0.4% from 2015
- ❑ Global production fell by 0.4% from 2015
- ❑ **World's top producers:** 🇸🇷 Costa Rica, 🇧🇷 Brazil, 🇵🇭 Philippines
- ❑ **World's top consumers:** 🇧🇷 Brazil, 🇵🇭 Philippines, 🇨🇳 China
- ❑ **Uses:** fruit, fruit salad, juice, smoothies, cocktails, ice cream, skin care
- ❑ **Risks:** High sugar and acidic content, high storage costs

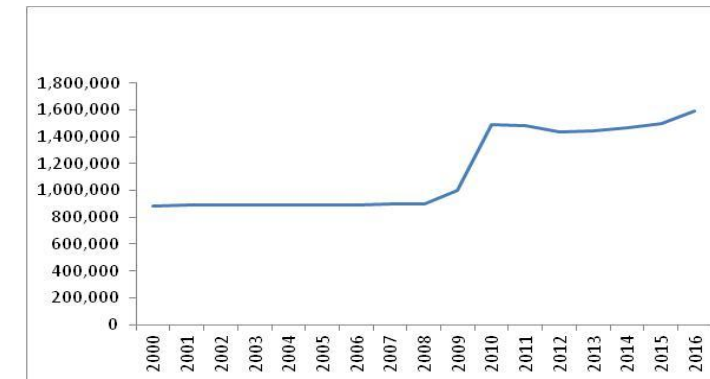


Source: FAOSTAT, FDC Think Tank

# Pineapple Production in Nigeria

- **Output (2016):** 1.59mn tonnes (\$1.92bn) : 6.2% of global
- Output rose 6.7% over 2015
- **Production rank:** Global – 7<sup>th</sup>, SSA- 1<sup>st</sup>

Nigeria's Annual Pineapple Output Trend (tonnes)



- **Major producing states:** Cross River, Edo, Akwa Ibom, Benue, Enugu

- Mainly consumed by households, restaurants and non-listed companies
- **Users:** Chi, Coca-Cola (5 Alive), Fumman, Dansa

# Business Opportunities

- ❑ Pineapples are mostly grown in states with less incidence of insecurity making pineapple cultivation relatively viable
- ❑ Users currently import concentrates creating exposure to exchange rate volatilities
- ❑ Users are attempting to mitigate this exposure through raising local contents and backward integration
- ❑ Highlights an investment opportunity in pineapple processing



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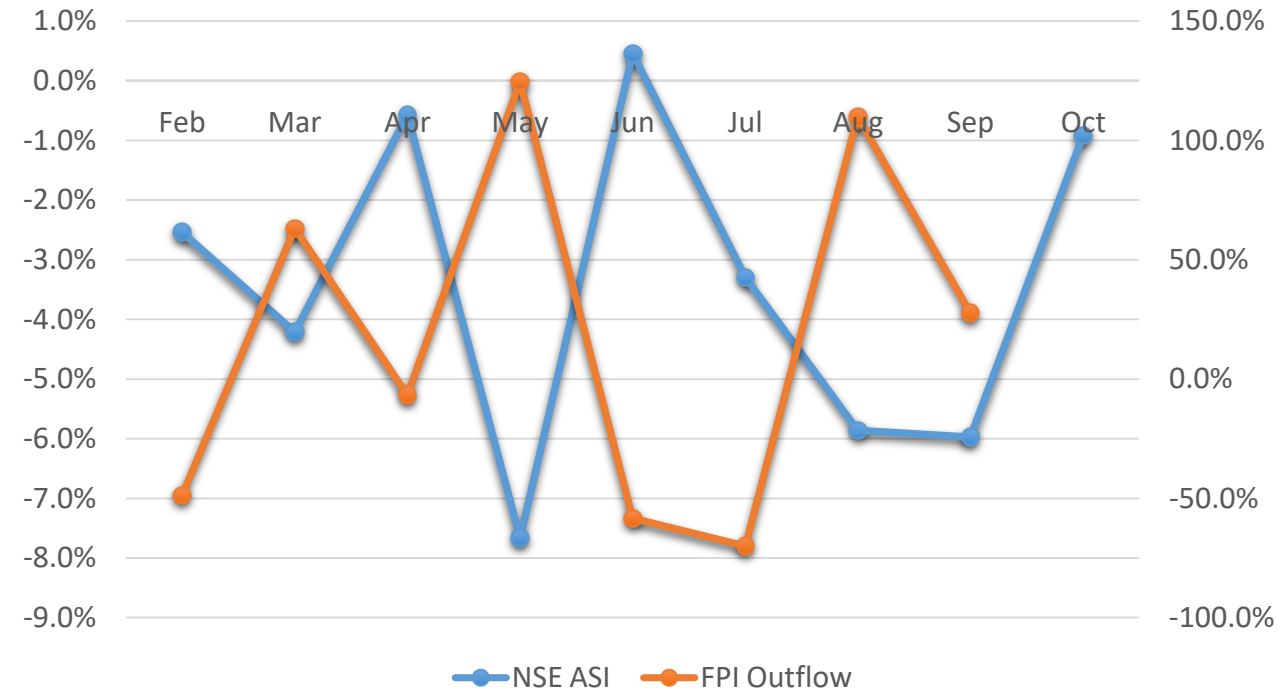
# Stock Market Review

# Stock Market Performance vs FPI Outflow

- Strong negative correlation between the ASI and FPI outflow
- FPI outflow steepest between July and August
- Exacerbated by MTN sanction





ASI vs FPI Outflow





# Nigerian Stock Market in October

- Political uncertainty continues to weigh on investor confidence
- Market cap  0.92% (N110bn) to N11.85trn
- NSE ASI  0.92% to 32,2466.27 points
- 11 days positive, 11 days negative
- P/E ratio down 1.82% to 9.7x




## Peer Comparison

Exchange	October Return	YTD Return	Driver
NSE ASI	-0.92%	-15.11%	Rising political uncertainty
JSE ASI	-2.58%	-8.80%	Weak macroeconomic fundamentals
GSE ASI	-5.07%	6.08%	Investor profit taking

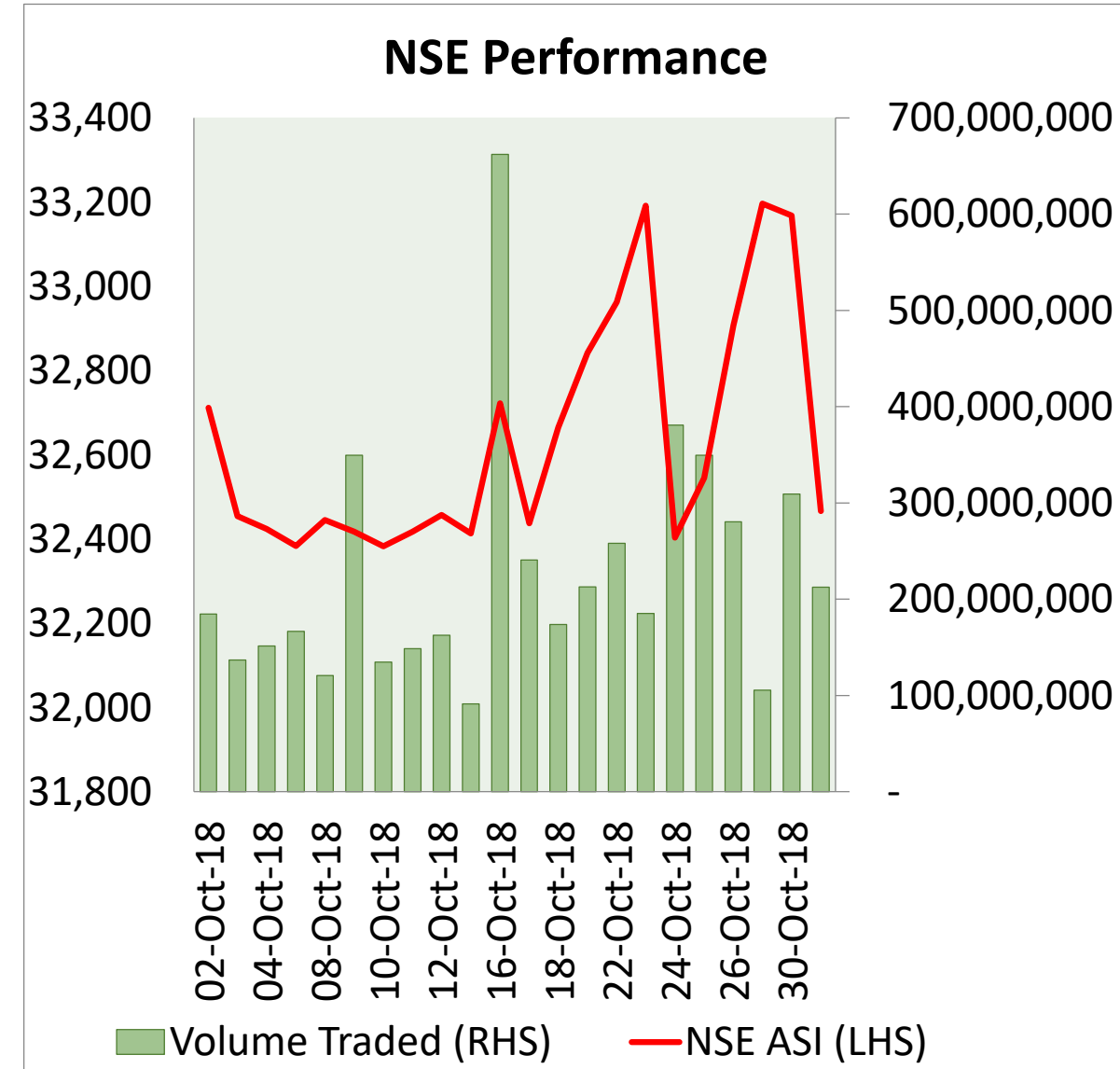
# Stock Market in October

□ Average volume traded  10.14%  
to 228mn units

□ Average value of transaction   
15.34% to N2.76bn

□ Negative market breadth of 0.50x

□ 66 stocks lost, 70 remained neutral  
and 33 gained

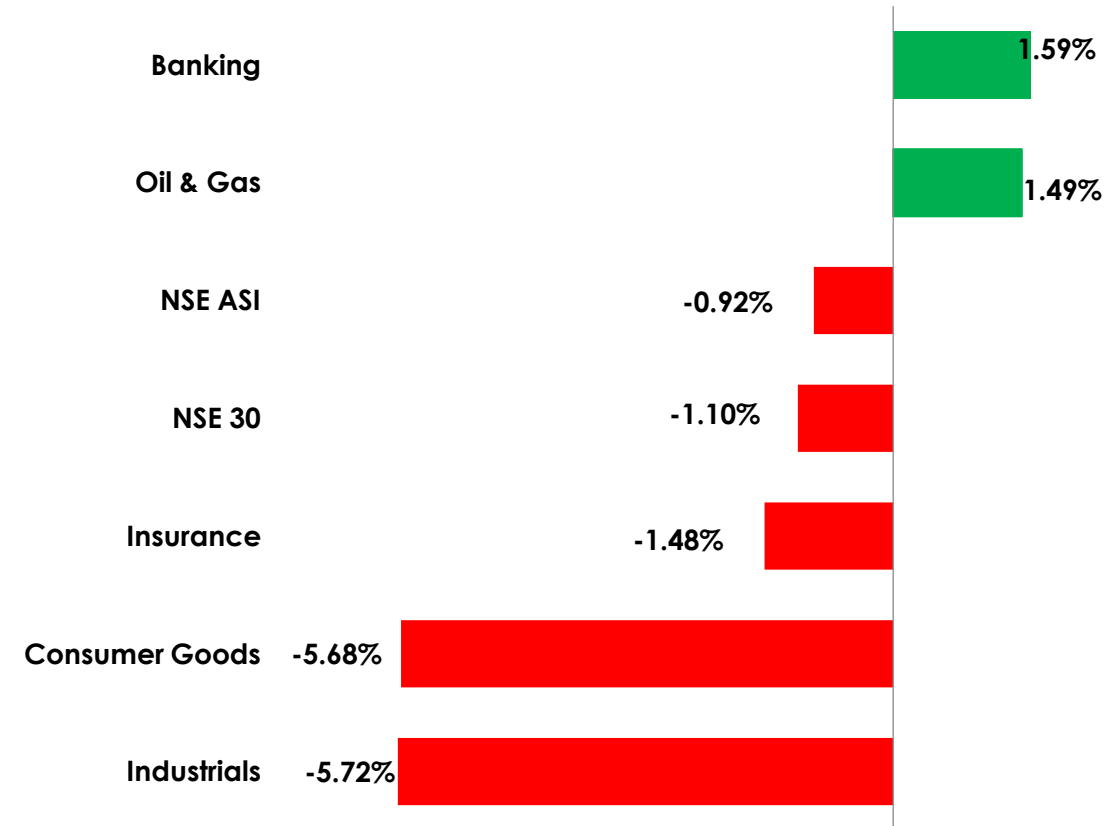


# Most Sectoral Indices in Red

- Most sub-indices were in the red
- The banking sub-index performed the best - gained (1.34%)
- Driven by gains recorded by Fidelity (20%), Diamond (19.49%), Zenith (9.3%)
- Industrial sector recorded the worst performance – lost 5.72% by First Aluminium (-19.51%), Lafarge (-21.17%)



Sector performance



# *Corporate Earnings – Expectations of Q3 '18*



# Banking Industry- 9M'18 – Higher Volume, Low Margins

	FBN	GTB	Zenith	Access
Gross Earnings	↑ 0.5%- 441.5bn	↑ 8% - N337bn	↓ 11% - N474bn	↑ 11%- N272bn
Interest Income	↓ 5.2%- N337.6bn	↓ 10% - N171bn	↑ 13% - N229bn	↓ 2%- N120bn
Profit Before Tax	↓ 7.4 %-N51.3bn	↑ 9% - N164bn	↑ 10% - N167bn	↓ 4%- N70 bn
Impairment	↓ 21.9%- N76.2bn	↓ 380% - N2bn	↓ 70% - N14bn	↓ 35%- N8bn
Dividend Yield	3.13%	7.2%	11.7%	8.23%
Oct Return - ASI	-9.18%	3.52%	10.22%	-2.18%
Oct Return – Banking Index	-11.69%	1.01%	7.71%	-4.69%
P/E Ratio	7.2x	5.9x	3.83x	3.34x

- ❑ 9M'18 profitability driven by lower impairment cost and increase in non-interest income
- ❑ GTB and Zenith shares outperformed both ASI and banking index
- ❑ Banking stocks attractively priced relative other emerging market based on ROE and dividend yield



# FMCG Performance 9M'18

	Flour Mills (H1'18)	Honeywell (H1'18)	Guinness (Q1'18)	Nigerian Breweries (9M'18)
Revenue	↓ 10%-N270bn	↓ 7% - N36bn	↓ 6% - N28bn	↓ 6%- N255bn
Profit Before Tax	↓ 38%- N8bn	↓ 91% - N223mn	↑ 2,868%- N1.23bn	↓ 35%- N22.47bn
Free Cash Flow	↓ 51%- N30.81bn	↓ 75% - N1.14bn	↑ 53% - (N2.95bn)	↓ 164%- (N6.68bn)
EPS	↓ 61%- N1.25	↓ 90% - N2.81	↑ 1,167% - N0.38	↓ 99%- N1.85
Oct Return - ASI	-7.83%	-25.28%	-7.83%	-4.27
Oct Return – Industry Index	-3.07%	-20.52%	-3.07%	-4.27%
P/E Ratio	5.84x	1.97x	19.87x	27.12x

- ❑ Lower volume, lower margins and higher cost
- ❑ Price war due to intense rivalry
- ❑ Exacerbated by logistics constraints
  - ❑ Apapa gridlock
- ❑ All four companies underperformed the ASI and Industry index

# Market Integrity

- ❑ Regulators committed to improve and protect the market
- ❑ For a highly liquid and transparent market
- ❑ Characterized with inefficiency
- ❑ Presents opportunity for speculative investors
- ❑ Able to identify over and under valued stocks



# Outlook For November

- ❑ Market to be dominated by political activity
- ❑ FPI outflow to intensify
  - ❑ As Fed suggests positive interest rate surprise
- ❑ Awaiting outcome of the MTN saga
- ❑ Bourse likely to plunge further if MPR is increased in the next committee meeting
  - ❑ Exerting pressure on small capitalized companies to delist

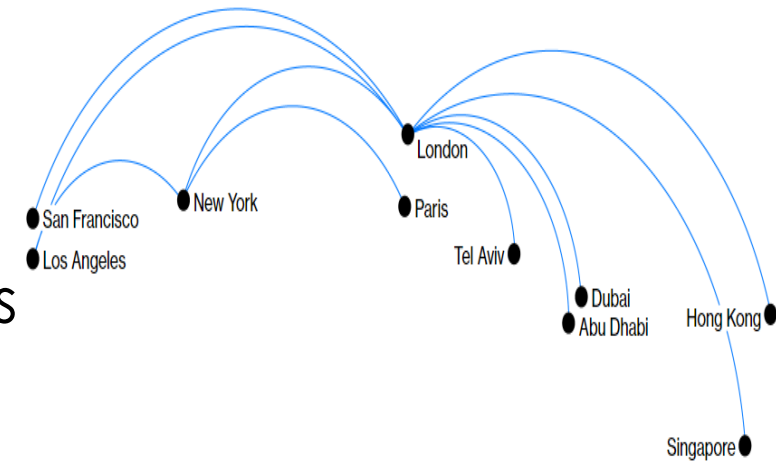


*Aviation Update*

# Demand for First Class Premium Traffic Sharply Higher

- ❑ Bookings on first class cabins fell sharply during the 2008 financial crisis
- ❑ Demand is slowing picking up and carriers are gradually revamping their first class cabins
- ❑ Difference between first and business class cabins has become inconsequential
- ❑ Singapore Airlines is offering 6 first class suites (instead of 12 on older planes)
- ❑ Lufthansa has reduced first class seats on its 777 aircraft to 4 (from 8)

World's Busiest Routes for First-Class Travel



Data: ICF

# First Class Cabin Demand–Domestic

- ❑ Only two airlines have first class cabins in Nigeria: Emirates and British Airways, two of Nigeria's high-capacity airlines
- ❑ Growth of first class demand moves in tandem with economic growth
- ❑ Less demand by politicians owing to anti-corruption war of present administration
- ❑ Less money in circulation as the impact of 2015/2016 recession lingers
- ❑ Nigeria's passenger traffic (7.5mn) lagging behind passenger traffic in other countries: USA (104mn), China (96mn) and Dubai (88mn)

# Aviation Update-IATA

- ❑ Global airline share prices fell by 1% in September following two consecutive months of gains
- ❑ Oil and jet fuel prices increased significantly
  - ❑ Jet fuel price averaged more than \$90pb
- ❑ Premium-class passengers accounted for 5.2% of total O-D traffic (Jan-Jul)
- ❑ Passenger demand remains solid into the peak season

# Aviation Update-Regional

## Load Factor across airlines

Airline	Load Factor (%)	Comment
South African Airways	78-82	Owing to peak summer season
Delta Airways	80	Full capacity in its <b>e</b> conomy cabin
Lufthansa	90	-

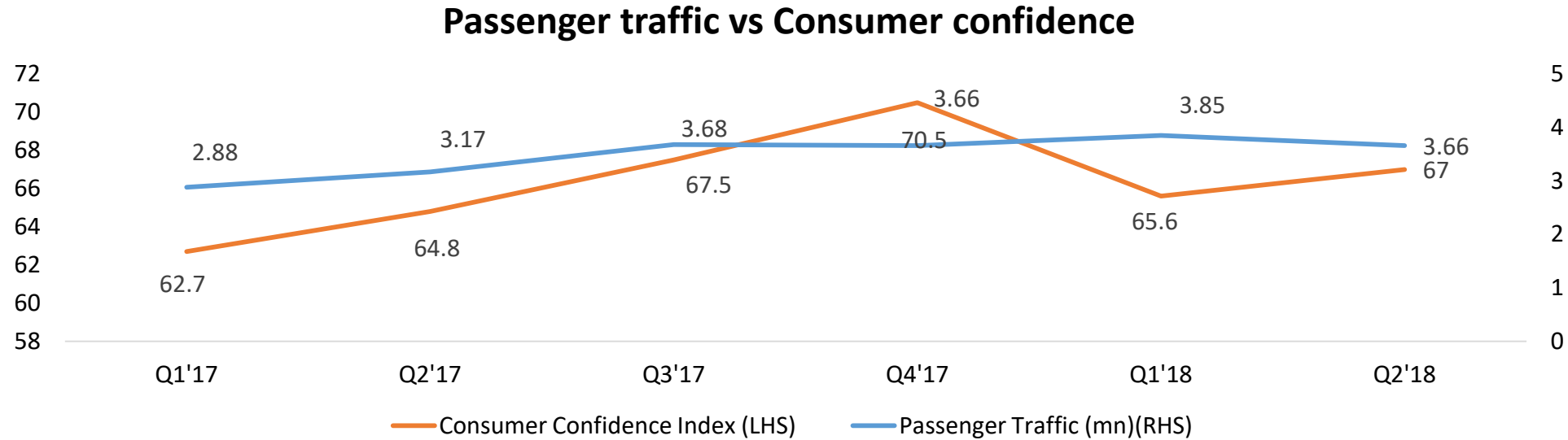
- ❑ Asky dominating regional aviation space
- ❑ Running daily Abidjan-Lagos flights
- ❑ RwandAir's load factor is dwindling due to maintenance operations on two of its aircrafts
- ❑ Kenya Airways offering discount prices on Lagos-New York (\$300)
- ❑ Launches Nairobi-New York route

# Aviation Update-Domestic

- ❑ Air Peace is currently overstretched in operations; affecting its on-time performance
- ❑ Compared to Arik, which is rationalizing its infrastructure and operations
- ❑ Bristow down to two (out of three) aircrafts leading to scheduling issues
  - ❑ Reduced its flights to two per day, three days a week (Mon, Wed, Fri)
- ❑ Update on national carrier project (Nigeria Air) on November 8th
- ❑ Forex remains available for airlines
- ❑ No IATA backlog



# Relationship between Passenger Traffic & Consumer Confidence



- ❑ Typically passenger traffic and consumer confidence should move in the same direction
- ❑ Passenger growth rate in Nigeria (5.19%)

# *Real Estate Update* *Hope Rising for Developers*



# Vacancy Factor in Q4'18 down to 18%

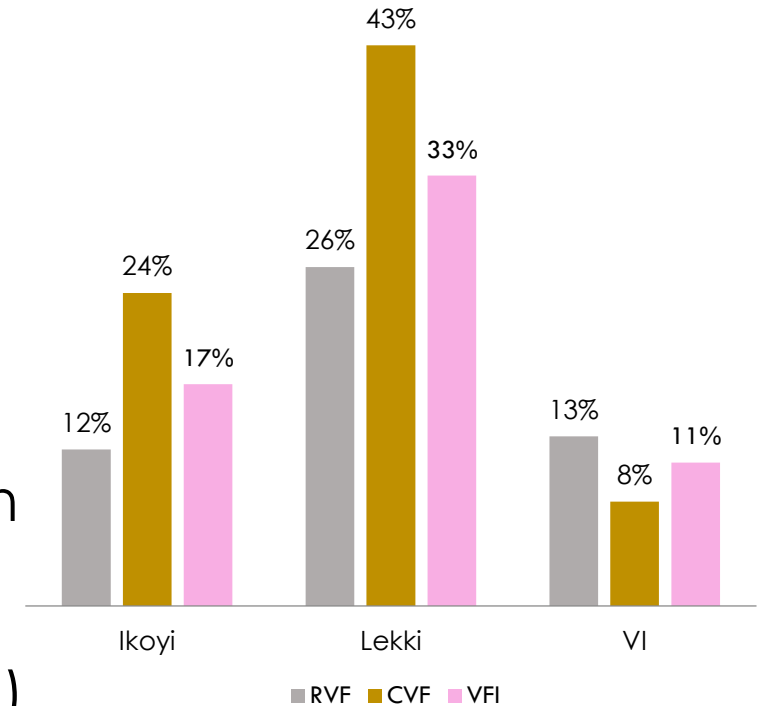
	Q1'18			Q4'18		
	RVF (%)	CVF (%)	VFI (%)	RVF (%)	CVF (%)	VFI (%)
Ikoyi	21	27	24	12	24	17
VI	17	6	13	13	8	11
Lekki	29	21	26	26	43	33
<b>Total</b>	<b>23</b>	<b>21</b>	<b>22</b>	<b>16</b>	<b>22</b>	<b>18</b>

- ❑ Vacancy Factor Index down 4% from 22% in Q1'18 to 18% in Q4'18
- ❑ Developers are refurbishing selected properties in the Island area
- ❑ Victoria Island and Ikoyi have a high amount of abandoned properties

# Property Trends in Lagos

- ❑ **Ikoyi**- characterized by high-end residential properties
  - ❑ Block of flats account for over 70% of vacant properties
  - ❑ More houses are being renovated
- ❑ **Lekki**- Ultra modern buildings
  - ❑ Occupancy affected by toll fee, traffic congestion and poor drainage system
  - ❑ Rents remain relatively high (average N1mn-N2mn)
- ❑ **VI** – commercial hub
  - ❑ High asking rents continue to affect occupancy

Vacancy Map



\*RVF: Residential Vacancy Factor; CVF: Commercial Vacancy Factor; VFI: Vacancy Factor Index

# Outlook

- ❑ Growth rate of the sector may improve marginally in Q3'18 (from -3.88% in Q2'18)
  - ❑ Will likely remain in the negative territory
- ❑ Security and price to remain key considerations for buyers
- ❑ Changing consumer patterns to reflect in retail developments
- ❑ Dwindling consumer purchasing power will reduce the demand for luxurious properties

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*Policy Update*



# Fiscal: Minimum Wage & Debt Crunch

- ❑ Nationwide strike in limbo, following an agreement by the tripartite committee
- ❑ Labor union is seeking a new minimum wage of N30,000
  - ❑ 67% above the current wage of N18,000
- ❑ Rate of increase to narrow as you move up the pyramid
- ❑ Higher minimum wage will boost naira liquidity and consumer disposable income
- ❑ Increased money supply will mount inflationary pressures
- ❑ Headline inflation expected to jump to 13.2% after wage review and money supply growth
- ❑ Impact of increased naira liquidity on inflation will be a front burner issue at the MPC meeting this month

# Monetary: MPC Outlook

- ❑ MPC to meet on November 19/20
- ❑ Key considerations are:
  - ❑ US Fed rate hike in December and the likely impact on capital flows
  - ❑ Increasing inflationary pressures
  - ❑ Sanitization of contractor debt
  - ❑ Pre-election spending and FAAC disbursements
  - ❑ Sustained external reserves depletion
  - ❑ Increased forex demand as manufacturers have commenced inventory build-ups ahead of festive sales
- ❑ Q3'18 GDP growth and Unemployment numbers to be released after the meeting

# Debt

- ❑ DMO issued promissory notes in favor of contractors and oil marketers
- ❑ A 10-year tenure debt instrument
- ❑ Approximately N288bn was issued to oil marketers
- ❑ Meanwhile, a sum of N483bn was issued to contractors
- ❑ Creditors are left with the option of waiting to cash out at maturity or presenting at the bank at a discounted rate
- ❑ Both come with pros and cons

# Debt

## Option A: Cash out at maturity

### Pros:

- ❑ Could help curtail inflationary pressures

### Cons:

- ❑ Increase interest service burden on loans borrowed from banks

## Option B: Present at the bank at a discounted rate

### Pros:

- ❑ Would increase contractor's ability to pay-off loans obtained from banks
- ❑ Reduce non-performing loans (NPLs) of banks

### Cons:

- ❑ Increase money in circulation
- ❑ Heightening inflationary pressures

# Trade: African Continental Free Trade Agreement (AFCTA)

- ❑ African Continental Free Trade Agreement allows free movement of goods, services and businesses across Africa
- ❑ Long term objective of establishing a custom union
- ❑ Uganda's cabinet has approved the ratification of AFCTA
- ❑ Kick-starting a process to join Rwanda, Kenya, etc
- ❑ So far, six countries have ratified their document : Rwanda, Kenya, Niger, Ghana, Chad and Swaziland
- ❑ Nigeria is yet to sign the agreement

# African Continental Free Trade Agreement (AFCTA)

- ❑ Countries with strong infrastructure (Kenya, SA) will benefit the most
- ❑ Provides an accessible market for made-in-Nigeria products and boosts foreign exchange earnings
- ❑ Private businesses will benefit from opportunity for expansion into other African markets
- ❑ Will increase competition for infant industries and encourage cost optimization and lower prices
- ❑ Agreement will encourage the development of an efficient inter-country transport system



# *Politics Update*



# Political Update & Dynamics

- ❑ From slam-dunk to cliff hangers
- ❑ Very early days tailwinds favor the opposition
- ❑ Buhari is seeking to halt Atiku's momentum
- ❑ Aggressively crisscrossing South West and South/South
- ❑ Opens up Seme border post, commissions Port Harcourt Airport
- ❑ Meeting with world leaders to get endorsements

# Political Update & Dynamics

□ This is going to be a two horse race



# Political Update & Dynamics

□ And many spoilers and other – runs



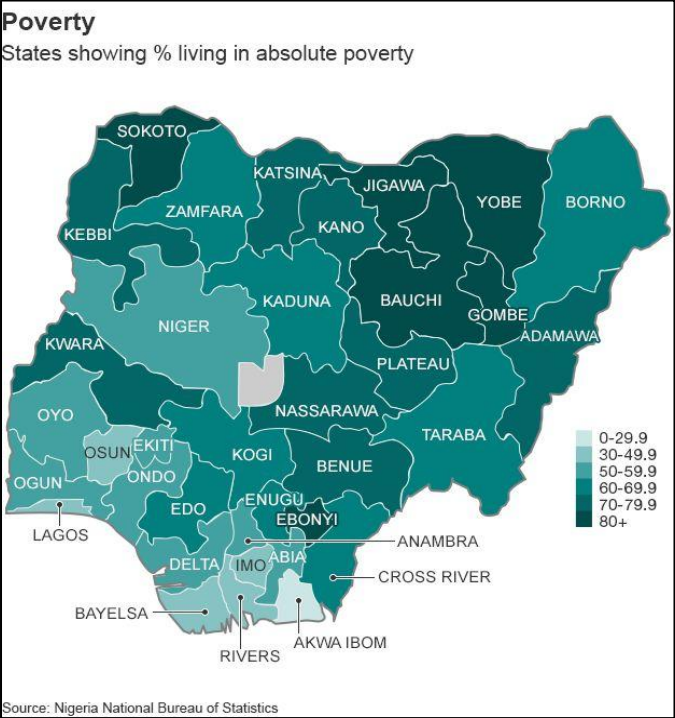
□ Demography not in favor of young candidates yet

# Political Update & Dynamics

- ❑ The two leading parties and candidates have numerous strengths
- ❑ But mostly baggage: age, integrity, conflict of interest & disconnection
- ❑ The negative residual in excess of upside potential
- ❑ The APC has an incumbency advantage which may be slipping
- ❑ It controls the instrumentalities of office
  - ❑ Police, INEC, SSS, EFCC, Army & Intelligence
- ❑ The PDP have some state governors, invisible sympathizers & disgruntled APCs

# Political Update & Dynamics

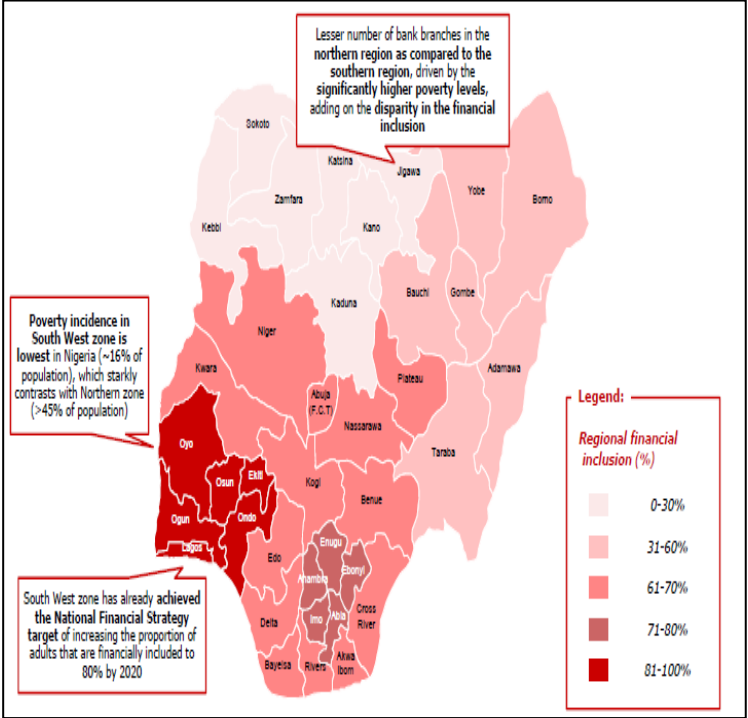
□ The political fault lines show some distinct features



Poverty Map



African Confidential



Bank Branches



# Political Update & Dynamics

- ❑ Buhari and Atiku are both Muslims
- ❑ Buhari is lineage Fulani with a huge Talakawa emotional following
- ❑ Atiku is seen as pragmatic and transaction driven
- ❑ Atiku is a master organizer with a solid ground game
- ❑ Both candidates are past three score and ten (in their societies)
- ❑ Buhari is reserved, older and less energetic
- ❑ Atiku is more vigorous, aggressive with a high antenna for deals
- ❑ Both candidates have credible and authentic VPs

# Political Update & Dynamics

- ❑ Osinbajo, a highly cerebral law professor, Pentecostal pastor, married to an Awolowo descendent and has an enviable pedigree
- ❑ Peter Obi is a proud Catholic, highly understated and former governor
- ❑ Former bank Chairman, shrewd businessman and is highly regarded
- ❑ Both VPs have limited grassroots appeal
- ❑ Seen as elites with silver spoons
- ❑ Both have strong integrity credentials and managerial attributes

# The Knowns, Unknowns & Imponderables

- ❑ Urbanization and the growing number and influence of non indigenes
- ❑ Over 40% of population in Lagos, Port Harcourt, Kano and Kaduna could make them swing states
- ❑ The impact of WhatsApp and social media and fake news
- ❑ The travails of the Kano dollar-gate could flip the state and make it competitive
- ❑ The Shiite Muslims, who are reputed to be unregistered and indifferent
- ❑ 20% of the citizens in the North West and may be energized by the Zazachy factor

# The Knowns, Unknowns & Imponderables

- ❑ A judicial overturning of the Osun election and a changing momentum in the south west
- ❑ An inflationary surge due to the minimum wage settlement
- ❑ The deepening wounds of the incumbent governors in APC states
- ❑ The electoral map has changed dramatically
- ❑ Buhari is entrenched in the North West

# The Knowns, Unknowns & Imponderables

- ❑ Buhari's hold in the North East is stronger but Atiku is chipping away
- ❑ North Central is a swing territory 50/50 but leaning Atiku
- ❑ South East & South South is leaning Atiku
- ❑ Everything will depend on the South West
- ❑ Two factors – young demography is against Buhari, religion is split even
- ❑ Non-indigenes are anti-Buhari
- ❑ In the South West where Atiku/Obi will need to work very hard

# The Known, Unknowns & Imponderables

- ❑ The impact of Atiku's visit to the USA will help him on the integrity deficit
- ❑ Unemployment data adding to the inflation rise pushes up the Misery Index
- ❑ Three quarters of an increasing Misery Index will hurt the incumbent
- ❑ The current levers of control favor an incumbent scrape
- ❑ If the narrative centers around the outlook for the next four years, the incumbent will be on the ropes



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The image is a conceptual graphic. At the bottom, a perspective view of a multi-lane asphalt road with white dashed and solid lines leads towards the horizon. The road appears to be ascending or leading into a large, billowing white cloud. Above the cloud, a rectangular screen or monitor is positioned, displaying a world map with a blue background and white landmasses. The entire scene is set against a clear, bright blue sky. The title 'Outlook for November' is written in a dark red, elegant cursive script, centered over the cloud and the screen.

# *Outlook for November*

# November/December Calendar

- ❑ MPC meeting –Nov 19/20
- ❑ Inflation (2x)- Nov 21, Dec 13
- ❑ OPEC meeting- Dec 6
- ❑ Labor Force Statistics (Q4'17 & Q1'18)-  
Dec 7
- ❑ FOMC meeting- Dec 12/13
- ❑ Q3 GDP report- Dec 17

# November & Year-end Outlook

- ❑ Nigeria will raise \$2.8bn at 9%pa in the Eurobond market
- ❑ Headline inflation will inch up to 11.35%
- ❑ MPC will increase interest rates by 50bps to 14.5% pa
- ❑ External reserves will fall below \$40bn in November
- ❑ Corporate earnings will remain flat
- ❑ Stock market will decline further (4%-5%)
- ❑ GDP growth for Q3 will rise to 2.0% on stronger oil production
- ❑ Oil price will average \$70pb-\$74pb in November
- ❑ Oil production will stay at 1.8mbpd

# November & Year-end Outlook

- ❑ Minimum wage will be passed into law
- ❑ NASS could throw a curve ball to Buhari by increasing it to N35,000
- ❑ OPEC will keep production quotas
- ❑ Atiku will make a song and dance in a US visit
- ❑ APC will split in Ogun, Imo, Zamfara & River
- ❑ Naira will trade horizontally at N362/\$ through November
- ❑ Buhari will kick-off campaign in South West & Lagos
- ❑ Atiku & Kwankwaso will lead the campaign in the North West



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*Thank  
you*

