Nigeria - Technically in Recession

Could this have been avoided??

Presented by B.J. Rewane
Financial Derivatives Company Limited
PART A

Nigeria - Technically in Recession

12 Months Of Buhari

PART B

May Highlights

Global & Regional Dynamics

LEIs, Business Proxies & Stock Market

Policy Change & Impact on Markets

Outlook for June
Part A

Could This Have Been Avoided?
A recession occurs after two consecutive quarters of negative growth.

- Nigeria’s real GDP growth rate in Q1 was (-0.36%)
- Q2 estimate is (-1.5%)
- Last time Nigeria was in recession was in 2004
What it Means

\[ Y = C + I + G + X - M \]

$491bn (2015: $494bn)

$389bn ($385bn)

$76bn ($77bn)

$41bn ($39bn)

$36bn ($46bn)

$43bn ($52bn)

- Heading into a recession
- Increase in nominal petrol price
- Forex shortages
- Higher electricity tariffs
- Anti corruption drive
- Uncertainty
- Ambiguity on exchange rate
- U.S. interest rate increase
- Political risks
- Militancy
- Delays,
- Revenue shortfall
- From lower oil price and
- Production (Avengers)
- Fall in oil price and production shortfall
- Down marginally
Why a Recession??

- Contraction of economic activities

Others in the Recession Club

- Macro-economic dynamics
- Driven by conflicting
  - Vested interests
  - National interests
  - Market reform interests

2016 Growth Losers
These 10 economies will be the world’s worst performers this year

Venezuela
Brazil
Greece
Russia
Ecuador
Argentina
Japan
Finland
Croatia
Switzerland

Sources: Bloomberg economist surveys conducted between Oct. and Dec. 2015.
Note: Current forecasts are the median from the latest survey conducted for each country.
How & Why a Recession

- Sharply lower oil revenues
  - Oil price decline of 56.39% from 2014’s peak
  - Sharp oil production drop of 26.3%
  - Partly due to underinvestment
  - And compounded by Delta Avengers sabotage
How & Why a Recession

- Budget delays and squabbles
- Impact of spending now almost late
- Drying up of new investments
- Wiping out of trade credit flows, approximately $10bn
- Net FDI down to $1.5bn (6.25%)
Confluence of Negative Events - Perfect Storm or Recovery?

### Five Key Stakeholders
- Political office holder
- Policymakers
- Regulators
- Operators
- Markets

### Developments
- Power supply
- Inflation
- Petrol scarcity
- Niger Delta militancy
- Low external reserves
- Minimum wage agitation
How to Fight a Recession- Keynesian Model

- Countercyclical spending and investment
- Lower taxes and incentives
- Accommodative monetary policy (lower reserve requirements)
- Massive borrowing and infrastructure spending (Marshall Plan)
- Acceptance of a natural rate of inflation
- Bail outs- Obama’s auto bail out
12 Months of Buhari
Economic Snapshot (1)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>May 2015</th>
<th>May 2016</th>
<th>% change</th>
<th>African average</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth Rate</td>
<td>3.96%</td>
<td>-0.36%</td>
<td>4.32%</td>
<td>4.16%</td>
</tr>
<tr>
<td>Oil Price (Brent)</td>
<td>$65.56pb</td>
<td>$49pb</td>
<td>26.92%</td>
<td></td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>N197.93/$</td>
<td>N199/$</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N219/$</td>
<td>N347/$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment + Under-employment</td>
<td>24.1%</td>
<td>31.2%</td>
<td>7.1%</td>
<td>20%</td>
</tr>
<tr>
<td>Inflation (April)</td>
<td>8.7%</td>
<td>13.7%</td>
<td>5.0%</td>
<td>8%</td>
</tr>
<tr>
<td>Misery Index</td>
<td>32.8%</td>
<td>44.9%</td>
<td>12.1%</td>
<td></td>
</tr>
</tbody>
</table>
## Economic Snapshot (2)

<table>
<thead>
<tr>
<th>Metric</th>
<th>May 2015</th>
<th>May 2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Reserves ($Bn)</strong></td>
<td>29.6</td>
<td>26.5</td>
<td>-10.5% (Depletion)</td>
</tr>
<tr>
<td><strong>NSE (All Share Index)</strong></td>
<td>34,310.37</td>
<td>28,260.61</td>
<td>-17.6% (Losses)</td>
</tr>
<tr>
<td><strong>PMI (FBN)</strong></td>
<td>49.4</td>
<td>46.5</td>
<td>Contraction</td>
</tr>
<tr>
<td><strong>Housing (Vacancy factor index)</strong></td>
<td>109.8</td>
<td>170.5</td>
<td>42% vacant houses</td>
</tr>
<tr>
<td><strong>Diesel price</strong></td>
<td>N160</td>
<td>N150</td>
<td>6.3%</td>
</tr>
</tbody>
</table>
## Consumer Prices Spike

<table>
<thead>
<tr>
<th>Item</th>
<th>May 2015</th>
<th>May 2016</th>
<th>% Increase</th>
<th>Price Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomato (Basket)</td>
<td>N12,000</td>
<td>N45,000</td>
<td>275%</td>
<td>Low</td>
</tr>
<tr>
<td>Pepper (Basket)</td>
<td>N6,000</td>
<td>N20,000</td>
<td>233%</td>
<td>Moderate</td>
</tr>
<tr>
<td>Yellow Garri (50kg)</td>
<td>N11,000</td>
<td>N18,000</td>
<td>63.6%</td>
<td>Moderate</td>
</tr>
<tr>
<td>Rice (50kg)</td>
<td>N9,000</td>
<td>N14,500</td>
<td>61.1%</td>
<td>Low</td>
</tr>
<tr>
<td>Beans (50kg)</td>
<td>N15,000</td>
<td>N16,000</td>
<td>6.7%</td>
<td>Low</td>
</tr>
<tr>
<td>Onion (Basket)</td>
<td>N4,000</td>
<td>N10,000</td>
<td>150%</td>
<td>Moderate</td>
</tr>
</tbody>
</table>
## Peer Group Comparison

<table>
<thead>
<tr>
<th></th>
<th>Nigeria</th>
<th>Angola</th>
<th>Kenya</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (%)</td>
<td>31.2</td>
<td>26</td>
<td>9.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Minimum wage ($)</td>
<td>56.1</td>
<td>91</td>
<td>100</td>
<td>218</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>13.7</td>
<td>23.6</td>
<td>5.27</td>
<td>9.39</td>
</tr>
<tr>
<td>Human Development Index (HDI)</td>
<td>0.514</td>
<td>0.532</td>
<td>0.548</td>
<td>0.755</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>52.8</td>
<td>52.3</td>
<td>61.6</td>
<td>74.5</td>
</tr>
<tr>
<td>Misery Index</td>
<td>44.9</td>
<td>49.6</td>
<td>14.47</td>
<td>20.29</td>
</tr>
</tbody>
</table>

* HDI is a composite index measuring average achievement in three basic dimensions of human development – a long and healthy life, knowledge and a decent standard of living, where 1 is the highest and 0 is the lowest.
Africa... United by One Bank

We know our way around finance in Africa

United Bank for Africa Plc is one of Africa's leading financial institutions offering banking services to more than 7.5 million customer accounts across 750 business offices in 12 African countries. With presence in New York, London and Paris, UBA is connecting people and businesses across Africa through consumer and corporate banking, innovative cross-border payments, trade finance and e-banking.
Part B

May Highlights
The Nigerian economy slid into a recession path in Q1’16

Contraction of (-0.36%) resulted from an evaporation of confidence and no new investments

Inordinate delay in government spending during the period

After acrimonious legislative squabbles in approving a budget
Highlights

- Erosion in the value of the naira in the forex market
- Means the effective increase in nominal expenditure of 30% in the budget is wiped out
- The absorptive capacity to digest the annual expenditure in 5 months remains in question
- A belated announcement of a possible new forex policy greeted with cautious optimism
Highlights

- A euphoric stock market rally turned out to be a dead-cat bounce
- Leaving speculators licking their wounds
- Inflation in April jumped to a 68-month high
- Weeks before the 67.6% fuel price hike kicked in
Major contributors to the inflationary spiral are scarcity, speculation and exchange rate pass through.

Forex sold by the CBN at the spot market declined to approx $135.57mn per week.

A strike by Labour to protest the petrol price increase collapsed.
Highlights

- Labour now demanding a 211% wage increase
- After the economy lost over 500,000 jobs in Q1’16
- Unemployment plus underemployment now up to 31.2%
- Labour productivity growth down by (-0.4%) according to the EIU
Highlights

- PMI in May rose to 48.2 from 46.5 in April
- Consumer confidence declined to 59.9 – NOI polls
- Vacancy factor in real estate climbed to 71%
- Rents are still stubbornly high but could be slipping
- Retail sales and mall traffic are sharply lower in urban Lagos
- Partly in response to the drop in disposable income
Passenger load factors in May are down by over 20%

Exchange rate effect and disposable income squeeze

Significant shift in Middle East and East African airlines

Price of diesel up sharply to N165 per litre on scarcity

Marketers have shifted limited lines from diesel to PMS

Because of wider margins and no forex
Highlights

- Govt removed subsidies but kept price control
- Pushing pump price 68% to N145 per litre
- Demand for PMS across the nation has declined by approx 35%
- Nominal price now N145, effective price around Nigeria was N162 per litre in April
Regional Context
Ghana

- GDP growth projected at 4% for 2016 from 3.9% in 2015
- Q4’15 GDP growth estimated at 4.9%
  - However, the government is engaging in major budget cuts
  - To pacify sentiments about growing debt
  - This in turn protects the currency from the adverse effects of speculation
  - Hence, 4% growth projection may not be actualized
Ghana

- MPR left at 26% in May – citing balanced inflation and growth risks
- MPC likely to ease its tightened monetary stance at its next meeting to ensure new growth trajectory is sustained
- May inflation forecasted to decline to 18.3% from 18.7% in April
- Unemployment rate is forecast at 5.66% for 2016
MHF PROPERTIES LIMITED

FOR LEASE

MARIYA COURT
Location: 2B, Probyn Close, Ikoyi, Lagos
Amenities:
1. All rooms fitted with new air conditioners
2. Intercom system
3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:
1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbecue stand
2. 24hrs power supply
3. 24hrs security/CCTV/Alarm system
4. 24hrs Technician on duty
5. Fully equipped play area for children

RHAMA GARDEN
Location: 28, Gerard Road, Ikoyi, Lagos
Amenities:
1. All rooms fitted with new air conditioners
2. Intercom system
3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:
1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbecue stand
2. 24hrs power supply
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Domestic Economy
## Leading Economic Indicators

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>Apr'16</th>
<th>May'16</th>
<th>(May/Apr)% change</th>
<th>Jun*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ Spot price (avg $’pb)</td>
<td>43.34</td>
<td>47</td>
<td>15.21</td>
<td>45-50</td>
</tr>
<tr>
<td>➢ Production (m’bpd)</td>
<td>1.69</td>
<td>1.4</td>
<td>-17.16</td>
<td>1.2-1.4</td>
</tr>
<tr>
<td>Money Markets (End Period)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ OBB (%)p.a</td>
<td>3.08</td>
<td>7.5</td>
<td>442bps</td>
<td>5.00 – 8.00</td>
</tr>
<tr>
<td>➢ Overnight (%)p.a</td>
<td>3.67</td>
<td>7.83</td>
<td>416bps</td>
<td>6.00 – 9.00</td>
</tr>
<tr>
<td>➢ MPR (%)p.a</td>
<td>12</td>
<td>12</td>
<td>-</td>
<td>12.00-13.00</td>
</tr>
<tr>
<td>➢ CPI (%)</td>
<td>12.8</td>
<td>13.7</td>
<td>0.9</td>
<td>13.2 (April)</td>
</tr>
<tr>
<td>➢ External Reserves ($’bn)</td>
<td>27.13</td>
<td>26.42</td>
<td>-2.62</td>
<td>27..00-27.30</td>
</tr>
<tr>
<td>Exchange rate (End Period)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ Inter-bank (N/$)</td>
<td>197.43</td>
<td>198.94</td>
<td>0.76</td>
<td>196-199</td>
</tr>
<tr>
<td>➢ Parallel (N/$)</td>
<td>321</td>
<td>350</td>
<td>8.29</td>
<td>320-325</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ Market cap (N'trn)</td>
<td>8.62</td>
<td>9.93</td>
<td>15.20</td>
<td>8.3-8.5</td>
</tr>
<tr>
<td>➢ FAAC N’bn)</td>
<td>299.7</td>
<td>281.5</td>
<td>-6.07</td>
<td>350-375</td>
</tr>
<tr>
<td>➢ FBN PMI</td>
<td>46.5</td>
<td>48.2</td>
<td>3.66</td>
<td>50</td>
</tr>
<tr>
<td>➢ Vacancy Factor Index (Residential %)</td>
<td>47</td>
<td>47</td>
<td>1</td>
<td>45-50</td>
</tr>
<tr>
<td>➢ Vacancy Factor Index (Commercial %)</td>
<td>33</td>
<td>33</td>
<td></td>
<td>33-37</td>
</tr>
</tbody>
</table>

Source: FMDQ, CBN, * FDC Forecasts
Contraction to Continue in Q2’16

- Q1 GDP growth contracted by (-0.36%) due to
  - High unemployment
  - Stagnant wages and decline in retail sales
  - High inflation
- Q2 growth estimated to contract further to (-1.5%)
  - Budget impasse largely responsible
- Economic recovery likely to be flat in Q3

Source: NBS, *: FDC Think Tank
5 Largest Sectors

- Agriculture
- Trade
- Information & Communication
- Mining and Quarrying
- Manufacturing

% Contribution to GDP
Q1'16 Growth Rate (%)
Q1'16 Growth Rate (%)
Leading & Lagging Growth Sectors

- Fastest growing sectors were in services
- Employers of labour recorded negative growth rates

Source: NBS
Sectoral Performance relative to GDP
Factors Constraining Growth

- Poor power supply from the grid, down to 2,023.3MW from 3593MW
- Oil production at a low of 1.4mbpd: pipeline vandalism
- Lingering fuel scarcity that lasted for 12 months
- Misaligned currency and forex shortages
- High interest rate environment
- Trade and import restrictions
Headline inflation in April increased to a 6 year high of 13.7%.

Driven by higher energy costs, fuel scarcity of PMS & forex shortages.

Inflationary impact of fuel price increase is exaggerated.

Inflation likely to spike to 14.5%.

Source: NBS, *: FDC Think Tank
Consumer Confidence Index Down in Q1’16

- NOIPOlls’ Consumer Confidence Index (CCI) declined to 59.9pts points from 64.8pts
- Implying a likely reduction in aggregate consumption due to negative sentiments
- The CCI measures the confidence level in the economy, in relation to households’ monthly income
- Revenue generation both in the private and the public sectors has reduced
Personal Wellbeing Index Flat in Q1’16

- Personal Wellbeing Index was flat at 64.5pts in Q1’16
- Implying that Nigerians’ perception about their level of satisfaction remained unchanged

<table>
<thead>
<tr>
<th>Item</th>
<th>Q4, 2015</th>
<th>Q1, 2016</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Wellbeing Index</td>
<td>64.5</td>
<td>64.5</td>
<td>↔</td>
</tr>
<tr>
<td>Standard of living</td>
<td>52.6</td>
<td>50.3</td>
<td>↓</td>
</tr>
<tr>
<td>Health</td>
<td>74.6</td>
<td>75.8</td>
<td>↑</td>
</tr>
<tr>
<td>Achievements in life</td>
<td>53.4</td>
<td>53.4</td>
<td>↔</td>
</tr>
<tr>
<td>Personal security</td>
<td>63.3</td>
<td>66.1</td>
<td>↑</td>
</tr>
<tr>
<td>Social Interaction</td>
<td>77.2</td>
<td>78.1</td>
<td>↑</td>
</tr>
<tr>
<td>Religion</td>
<td>87.6</td>
<td>87.3</td>
<td>↓</td>
</tr>
<tr>
<td>Economic Situation</td>
<td>42.9</td>
<td>40.9</td>
<td>↓</td>
</tr>
</tbody>
</table>

Source: NOIPolls
External Reserves Depletion Continues

- External reserves currently at $26.42bn
- Year to date depletion of $2.65bn (9.12%)
- With an import cover of 4.28 months
- Flexible exchange rate policy has a long term impact of attracting capital inflows
- Factors to watch out for:
  - US Fed rate increase
  - Shortfall in oil production
Nigeria recorded a negative trade balance of N184bn ($925m) in Q1’16.

- From a trade surplus of N364.6bn ($1.83bn) in Q4’15,
- Sharp decline in exports of 34.6% compared to 7.8% decline in imports.
- This is the first quarterly trade deficit in at least seven years.

Source: NBS
Commodities Market
Fear pushing oil towards $50pb - WSJ

- Supply outages at their highest in over a decade
  - Approx. 3.5mbpd offline due to militant attacks & wildfires
- Supply glut being submerged by disruptions
- Oil consumption growth projected to slow by 1.1% in 2016 – EIU
- Oil prices projected to increase to $55-$60 in H2’16
- Rising demand for shale bridging the premium between WTI and Brent
OPEC Meeting and Its Impact

- Oil prices crossed the psychological resistance level of $50pb
- May not be sustainable without a cap on OPEC’S production
- Production levels (1.5mbpd) is 36.36% below the budget benchmark of 2.2mbpd
- Lower production already biting revenues
<table>
<thead>
<tr>
<th>Higher price</th>
<th>Lower production</th>
</tr>
</thead>
<tbody>
<tr>
<td>At $50pb-$60pb</td>
<td></td>
</tr>
<tr>
<td>Avg. price - $55pb</td>
<td></td>
</tr>
<tr>
<td>Avg. production - 1.4mbpd</td>
<td></td>
</tr>
<tr>
<td><strong>Govt Rev</strong>: $77m</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lower price</th>
<th>Lower production</th>
</tr>
</thead>
<tbody>
<tr>
<td>At $35pb-$45pb</td>
<td></td>
</tr>
<tr>
<td>Avg. price - $40pb</td>
<td></td>
</tr>
<tr>
<td>Avg. production - 1.4mbpd</td>
<td></td>
</tr>
<tr>
<td><strong>Govt Rev</strong>: $56m</td>
<td></td>
</tr>
</tbody>
</table>

* Government revenue per day
Liquefied Natural Gas

- Global LNG imports to expand by 7% in 2016 from 2.5% in 2015
  - Amid steady growth in natural gas usage
- Asian demand accounts for 70% of the market
  - China’s LNG consumption to grow by over 13% in 2016
- Middle East to account for 6.2% of global demand from 1% in 2013
- Ghana may become an importer of LNG in 2017
- LNG accounts for 10% of Nigeria’s export earnings
Commodity Prices in May

m-o-m change (%)

WTI
Sugar
Corn
Brent
Rough Rice
Wheat
Gold
Silver
Cocoa
Implications

- Average oil price between Jan – May is now $39.20pb
- Oil prices are currently 24% above the budget benchmark of $38pb
- OPEC says oil production is at 1.64mbpd
- Production expected to slow further until militants are muted
- Government revenue expected to remain low pending a recovery in production levels
Commodity Prices in June

- Bullish outlook for grain prices in June due to:
  - Unseasonal rains in the US and patchy outlook for Argentina crops

- Cocoa prices to decrease on expectation of a production recovery in top growing regions
  - Supply side problems fading with improved weather in West Africa

- Sugar prices likely to increase as producers allocate more cane to ethanol due to the recovery in oil prices
"On the value of the naira, I am still agonising over it... I need to be educated on this... I am under pressure and we'll see how we can accommodate the economists."

MUHAMMADU BUHARI
PRESIDENT OF NIGERIA
Matters Arising

- Nigerian government to meet with bond investors in London on June 7
- The meeting will focus on exchange rate policy and currency control
- Nigeria needs approximately $5bn to fund deficit this year
What Others are Doing

<table>
<thead>
<tr>
<th>AFRICA</th>
<th>ASIA</th>
<th>WEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>Indonesia</td>
<td>Euro Area</td>
</tr>
<tr>
<td>Kenya</td>
<td>Thailand</td>
<td>Norway</td>
</tr>
<tr>
<td>Tanzania</td>
<td>India</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Malawi</td>
<td>Japan</td>
<td>Canada</td>
</tr>
<tr>
<td>South Africa</td>
<td>South Korea</td>
<td>United States</td>
</tr>
</tbody>
</table>
The Exchange Rate Rath

- **May 24** – Announcement and fanfare
  - Stock market euphoria
  - Naira falls and then strengthens

- **May 31** – Reality sets in and questions are asked
  - Naira falls and stays flat
  - Market is getting impatient
  - Stock market sell-off
The Exchange Rate Rath

- June 1 – CBN preparing guidelines but caught between a rock and a hard place
  - External reserves minus arrears are lower than desirable
  - Fear of a run as soon as cap is removed
  - Funding sources for second window in doubt

- Cowards die many times before their deaths; the valiant never taste of death but once. - William Shakespeare
Possible Outcomes

A

- Critical window 20% of total imports
  - Rate: N199/$
- Interbank with CBN playing with 80%
  - Export proceeds and Diaspora flows
- Approximate shadow rate of N300/$
- Rationale: Non-deliverable forwards N255/$ and parallel N345/$ reflect market expectations
Possible Outcomes

B

- Critical window rate – N220/$
- Interbank – N280/$
- Parallel – N320/$
- Initial divergence will be followed by convergence and slight naira appreciation
- Rationale- likely to lead to exchange rate unification
- Guidelines and modalities likely to be effective June 13
At Last, A Better Way To Bank Instantly On Your Mobile

Fidelity Instant Banking *770*0#

Now you can bank on your mobile straight from your Fidelity Bank account even if you don’t have a data enabled phone. It’s simple convenience at your fingertips.

We Are Fidelity, We Keep Our Word.

How To Bank With *770*0#

- **Check Balance**
  - *770*0#

- **Transfer Funds**
  - *770*AccountNumber*Amount#

- **Dial 4 Cash**
  - *770*8*Amount#

- **Self Recharge**
  - *770*Amount#

- **Recharge Others**
  - *770*PhoneNumber*Amount#

- **Dstv**
  - *770*1099*Smartcard No*Amount#

- **GoTv**
  - *770*1088*Smartcard No*Amount#

Available to ALL FIDELITY INDIVIDUAL account holders via registered phone number(s) linked to their account(s)
Business Proxies
FAAC Allocation - Crashing

- FAAC allocation to be shared in June likely to remain flat
- Higher oil prices submerged by the sharp drop in production levels
  - Average oil prices in April were 9% higher compared to March
  - While production declined by (-3.36%) in April - OPEC

Source: FMF, FDC Think Tank
Transactions to Decrease

- Transactions volume and value expected to decrease as the economy approaches a recession

### Volume ('000)

- **Pos**: 4500
- **Cheque**: 3500
- **Neft**: 3000

### Value (N’bn)

- **Pos**: 1000
- **Cheque**: 900
- **Neft**: 800

**Source**: NIBSS
Ironically, ships awaiting berth expected to increase to 50

Implementation of 2016 budget will increase spending and international trade activity
Nigeria rig count set to decrease as government relents on cash call agreements

Insurgency in the Niger Delta region negative for prospective investment in oil & gas

Source: Baker Hughes, FDC Think Tank
Power Generation to Plunge Further

- Power output from the national grid decreased to 2.023.5MW in May
- From 3,590.3MW in April
- Pipeline vandalism still a threat to generation and distribution capacity
- We expect output to decline further in Q2 & Q3 exacerbated by vandalism & illiquidity in the sector
- Discos & Gencos to boost capex as renewed funding help catalyze capital investments
- Impact of renewed investments to reflect in Q4’16 or early 2017

Source: Nigeria Power Reform
Retail Industry - Buy Now and Think Later
Domestic Retail Industry

- Traffic to retail stores has increased as PMS scarcity faded
- Relative to May 2015, traffic is down sharply
- Spending has slowed as economic downturn leaves consumers with stretched pockets
- Slowing demand applies mostly to imported and luxury goods
- Largely driven by contracting growth rates and higher inflation
- Mall staffs being laid off to reduce operating costs in light of dwindling revenues
Domestic Retail Industry Outlook

- Retail industry expected to contract further in Q2’16 as consumers react to the imminent recession
- Inflation will take its toll on imported shelve products
- Exchange rate pass through on prices will reduce demand
Domestic Retail Industry Outlook

- Customers to patronise neighbourhood shops more than malls
- Informal market already accounts for 90% of the entire retail market
- Staff retrenchment to increase in an effort to maintain profitability and ensure business continuity
- Customers to patronize neighbourhood shops more than malls
Real Estate Industry
VFIX up to 171 in May 2016

- The LVFIX increased by 3% from 166 to 171 in May 2016
- Reflects a continued deterioration in the real estate market
- This is the third monthly urban VFIX
- Base month is January 2015
- The number of vacant properties increased by 71% in 17 months
Over-supply in the premium market streets
- Oniru, Alfred Rewane and Admiralty Way

Real estate market fueled with the proceeds from corruption

Tenants push for lower rents as living costs rise
- Costs from wage cuts and redundancy of workers

Occupancy rates are adversely affected
Correlation Between Vacancy factor and Exchange Rate

Vacancy factor index (VFI) VS Average Parallel market rate

Source: FDC Think Tank
Housing Blues - Cause & Effect

- Fixed official rate
- Rising parallel market rate
- Increasing costs for most businesses
- Wage cuts and redundancies
- Housing becomes less affordable
- Vacancy factor rises

Increasing costs for most businesses lead to wage cuts and redundancies, which in turn make housing less affordable. As housing becomes less affordable, the vacancy factor rises.
VFIX up to 171

- Residential VFIX increased by 4.2% to 188.5 in May 2016
- Commercial VFIX remains flat at 143 in May 2016
### Building Materials Prices Sky Rocket

<table>
<thead>
<tr>
<th>Building Material</th>
<th>Prices (Lagos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dangote Cement (50kg) (N1,300)</td>
<td>N1,700</td>
</tr>
<tr>
<td>Iron rod (25mm steel rod)</td>
<td>N7,600</td>
</tr>
<tr>
<td>Sand (Sharp Sand per 20tons)</td>
<td>N50,000</td>
</tr>
<tr>
<td>Roofing Sheets per meter (Grade 0.75)</td>
<td>N1,850</td>
</tr>
<tr>
<td>Vibrated 9-inch block (1 unit)</td>
<td>N120</td>
</tr>
</tbody>
</table>
Outlook- Hope Rising

- Aggregate housing demand to increase in Q4’16
- Recent outcome of the MPC meeting on adoption of flexible exchange rate will
  - Increase cost of building property
  - Stabilize rents as a result of price wars between developers
- Vacancy factor will decline marginally to 165 by the end of 2016
Who We Are

Avant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services. The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisers, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

A reputable education advisory service firm, the lead consultant Ms. Peggy Mefors has over 10 years experience in admissions, including a position as the Assistant Director of International and Transfer Admissions at the University of Pennsylvania. She was first reader and evaluator of about 30,000 applications for students from across the globe.

What We Offer

- Information and advice about the American University System and its application process,
- Evaluation of students record prior to application,
- Assistance in selecting curriculum and summer activities that will match the student’s desired course of study and also highlight his/her personality and interests,
- Development of personal application timeline, that includes standardized testing, college visits, application deadlines, etc.
- Help in selecting teachers for recommendations
- Guidance in presenting extracurricular record
- Guidance in putting together an overall great college application that highlights the unique attributes of the applicant
- Essay topic brainstorming
- Editing
- Proof-reading
- Guidance in choosing the most suitable college among acceptances.
- Interview preparation

Our Packages

Package 1: 8th to 10th Grade (Final 3-5 Years)
This package is a program designed for candidates from as early as the 8th grade (Incorporating Secondary School – SS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

Package 2: 11th and 12th Grade (Final 1-2 Years)
This package is similar to Package 1 but is designed for students in the final two years of high school.

Package 3: (Per Application)
Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

We host a Parents Admission Support Forum in Lagos bi-annually with the aim of giving parents the information they need to ensure their children/wards gain admission into reputable universities in United States of America.

To attend one of our events, kindly contact or visit us at 9a Idejo Street, Victoria Island Lagos.

For more information about Avant-Garde Academia Limited please go to our website: www.avant-gardeacademia.com
For inquiries or consultation E-mail us: info@avant-gardeacademia.com Or call Chiinyere Ubani 08039529138 | Topic Vincent 08034017683.
Aviation Update – African Economies Set to Recover
Damage from Commodity Price fall not just in Nigeria

Brian Pearce, Chief Economists of IATA

Revenue impact of a $50 fall in oil prices

Source: Blackrock, EIA, IMF

www.iata.org/economics
Some Oil Price (Brent, US$/b) Recovery is now Expected

Source: Citi presentation to IATA Fuel Forum, 18 May 2016

www.iata.org/economics
Longer Term Economic Growth Potential Remains Excellent

Source: IATA/Tourism Economics '20 year passenger forecast'
www.iata.org/economics
Adding 156 Million Annual Passenger Trips in Africa by 2035

Source: IATA/Tourism Economics ’20 year passenger forecast’

www.iata.org/economics
Cutting Journey Times between Major Cities is Critical

Source: InterVISTAS for IATA ‘Transforming Intra-African Air Connectivity’
Factors Affecting the Global Aviation Market

- Foreign exchange crisis
- Commodity prices starting to rise
- Longer-term growth potential still strong
- Air travel could more than double
- Key for economic development is good air connectivity
Factors Affecting the Global Aviation Market

- Current connectivity within Africa is poor
- New city pair connections could dramatically cut cost
- Attracting investment, tourism, trade – and growth
- Supportive regulations, infrastructure, taxes needed
Global Aviation Update

- Lufthansa plans to suspend flights to Venezuela from 18th of June
  - Venezuela is one of the blocked fund countries
  - Currency controls prevent carriers to convert earning into dollars

- Leaders of aviation industry around the world to meet in Dublin fro 72nd IATA AGM (1st-3rd June)
  - To discuss economic, political and social factors affecting the global aviation market
Global Aviation Update

- Rapid (potential) growth in air travel in much of Africa
- Great potential if current challenges can be overcome
- Strong prospective average annual growth for many
- Only Ethiopia and Kenya have direct connections to more than half of the other countries in Africa
United is following the footsteps of Iberia by pulling out
- Plans to end flights to Nigeria from July
- Carrier faces issues collecting money from tickets sold
- Weaknesses in the energy sector (Jet fuel scarcity)

British Airways reviewing its options on pricing, capacity, frequency and aircraft life
- Challenges are becoming unbearable for the carrier
## Airlines Exit Nigeria

### List of member airlines operating in Nigeria

<table>
<thead>
<tr>
<th>Sky team</th>
<th>Star alliance</th>
<th>One World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delta Airlines</td>
<td>United Airlines</td>
<td>British Airways</td>
</tr>
<tr>
<td>Alitalia</td>
<td>Lufthansa</td>
<td>Iberia</td>
</tr>
<tr>
<td>KLM</td>
<td>Ethiopian Airlines</td>
<td>US Airways</td>
</tr>
<tr>
<td>Air France</td>
<td>Egypt Air</td>
<td>Qatar</td>
</tr>
<tr>
<td>Kenya Airways</td>
<td>Turkish Airlines</td>
<td></td>
</tr>
<tr>
<td>China Southern Airlines</td>
<td>South African</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asky</td>
<td></td>
</tr>
</tbody>
</table>
Domestic Aviation Challenges

- FOREX shortages
- Airlines unable to repatriate funds
- $575 million dollars backlog
- Air travel market has shrunk
- As Nigerians face pay cut in dollar terms
Nigeria's foreign exchange reserves and exchange rates versus the US$

Central bank foreign exchange reserves

BDC unofficial exchange rate

IFEM official exchange rate

Source: Haver

www.iata.org/economics
Domestic Aviation Challenges

- Forcing airlines to reduce capacity or frequency
- Financial challenges due to high risks and costs
- Excessive or prohibiting regulations and taxes
- Inadequate infrastructure and poor maintenance
Domestic Aviation Challenges

- Wrong pricing is creating market distortions
- Equilibrium price will bring confidence and certainty
- Implies sustainability of yield
- Encourages investments
Implications - Industry Consolidating

- Delta airlines will be the only major U.S carrier flying to Nigeria

- Ghana reaps from Nigeria’s aviation fuel shortage
  - Increasing number of flights that land in Kotoka Airport
  - Revenue stream growing as a result
Implications - Better Connectivity

Source: InterVISTAS for IATA ‘Transforming Intra-African Air Connectivity’
Outlook

- Rapid growth potential in air travel in Africa
  - Annual Growth rate of 4.5%
  - 156 million passenger flights annually by 2035
- Nigeria to become 3\textsuperscript{rd} largest market in Africa
  - Annual Growth potential of 5.9%
- Air travel growth is key to general economic development in Africa
- Will be boosted by development of tourism and trade industry
Stock Market
NSE-ASI June 2016 – *Irrational Exuberance Once Again*

- Stock market recorded almost all of its losses in a week: 10.37%
- Based on a sense of false expectations
- Believing that international investors would rush into the market
- Delay in releasing the guidelines exposed the market underbelly
Market Cap spiked to N9.5trn

The turnover decline of 27.4% to N395.5m was a giveaway

That means this was a speculators gimmick

Average market P/E at 9x means market is still rich
Scott-Free Index

Scott-Free BC 30

- SFNG Total Share Index up 12.27%
  - Monthly volatility 23.1%
- BC30 index gained 13.05% in May
  - 30 day volatility of 24.89%
  - Sharpe ratio of 49.1x
  - 1 year return of -21.68%
- Trailing P/E 5.44
## Sector Performance – Soaring High Amidst Weak Macroeconomic Data

- Sentiment swing based on market information sees all birds lift up
  - Change in exchange rate stance
  - PMS price increase
- Insurance sector performed least with 1.18%
  - Lots of industry players remain unchanged with exception to Continental Reinsurance 13.8% and Law and Union Rock 2%.
- Oil rose by 5.92% in the period
  - Oando 56.36%, Conoil 38.92%, Eterna 33.91%, Mobil 12.48%, and Total 10.25% swung the sector to positive
- Banking sector outperformed other sectors by 24.2%
  - All industry players move were in the positive with exception to Wema Bank (2.5%)
## Sector Vulnerability

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Minimum Wage</th>
<th>Flexible Exchange Rate</th>
<th>Transport Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Trade</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Information and Communication</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Construction</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Professional Services</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Public Administration</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Impact on Sectors

- Sectors that are labour intensive like construction will be hit by minimum wage review.
- Price inelastic goods producers will pass through the exchange rate impact.
- Massive consolidation in the downstream sector.
- Subsidiaries and affiliates of IOC’s will thrive.
- Banking sector NPLs will increase and impairments will eat into profitability.
- More layoffs in the banking sector.
Outlook

- Bond prices will increase as interest rates fall
- Devaluation is usually followed by lower interest rate
- Inflow of international investment will be mild
- Investors will still tread cautiously
- Recent stock momentum will be short lived
  - Expect higher volatility
  - Fundamental earnings outlook for quoted companies is bearish
  - Possible Fed rate hike could have a marginal negative effect for NSEASI
LAGOS BUSINESS SCHOOL
EXECUTIVE PROGRAMMES 2016
ALL OUR PROGRAMMES ARE NOW MODULAR TO FOSTER WORK-LIFE BALANCE!

Chief Executive Programme
For chief executive officers and managing directors
This programme equips chief executives with knowledge, attitudes and resources to lead in the 21st century.
May 3, 2016  |  Duration: 2 Months
For more information:
Henry Osunbele,
hosunbele@ibs.edu.ng
0708 007 0548 / 0701 950 8279
Application Deadline: April 20, 2016

International Management Programme
For executives with existing and expanding business in Africa
This programme aims to deepen participants’ knowledge of doing business in Africa and take advantage of the exciting opportunities the continent offers.
September 19, 2016  |  Duration: 4 Months
For more information:
Badege Chukwurah,
bchukwurah@ibs.edu.ng
0701 900 0751 / 0708 007 0552
Application Deadline: September 5, 2016

Advanced Management Programme
For general managers and directors reporting to CEOs
This programme is designed to help experienced senior managers refine their management and leadership skills needed for continued career advancement.
March 14, 2016  |  Duration: 5 Months
For more information:
Badege Chukwurah,
bchukwurah@ibs.edu.ng
0701 900 0751 / 0708 007 2446
Application Deadline: February 29, 2016

Senior Management Programme
For regional managers, unit heads and assistant general managers
This programme is designed for aspiring managers to enhance their skills, gain knowledge and build their personal and leadership skills.
1st run: February 15, 2016  |  Duration: 6 Months
2nd run: April 16, 2016
For more information:
Henry Osunbele,
hosunbele@ibs.edu.ng
0708 007 0551 / 0708 007 0552
Application Deadline: February 1, 2016

Management Acceleration Programme
For high-potential young professionals
This programme is focused on providing the skills required to excel in the future and to build on their professional experience.
May 11, 2016  |  Duration: 4 Months
For more information:
Oluwakemi Adenuga,
oluwakemi@ibs.edu.ng
0803 478 2448 / 0701 950 0759
Application Deadline: April 4, 2016

Owner Manager Programme
For founders and business owners
This programme is designed to position your company for sustained performance and growth by understanding the role of processes and systems it takes to build a successful and sustainable business.
March 7, 2016  |  Duration: 6 Months
For more information:
Elson Emele,
emele@ibs.edu.ng
0708 007 0551 / 0708 007 0551
Application Deadline: February 22, 2016

Agribusiness Management Programme
For agri sector managers and value chain players
This is an innovative and stimulating learning experience that integrates business management with agricultural development.
April 11, 2016  |  Duration: 6 Months
For more information:
Ope Olere,
ope@ibs.edu.ng
0708 007 0551 / 0708 007 0551
Application Deadline: March 28, 2016

LAGOS BUSINESS SCHOOL
PAN ATLANTIC UNIVERSITY
www.ibs.edu.ng
Lagos Business School is ranked with the world’s top business schools in open enrolment executive education (2007-2015) and custom executive education (2015).
Financial Times, London.
Political Risk Analysis
Political Update - Approval Rating Slipping

- Buhari approval rating of 64% NOI
- Scored poorly on the economy
- Trust surplus and fiscal deficit
- Crushing the labour strike proves Nigeria trusts him
- Business & Corporates are worried
- Perception of rigid views in a changing world
Political Update

- Some close aides are holding onto outmoded Marxist Ideology
- Views on exchange rate, refineries & subsidies are stuck in a cold war setting
- Cold war ended 20 years ago
- The Nigerian political battle map is slowly changing
- The PDP is in shambles
Political Update

- APC is still not consolidated
- A third party of the disgruntled APC members & PDP defectors is now a certainty
- The Niger-Delta insurgency is a proxy for the anti-corruption war
- Constructive engagement, militancy clampdown & intelligence will tilt the battle in favour of the FGN
Political Update

- APC will change strategy by wooing the South/South
- Edo state election is a litmus test for the APC machine
- An acrimonious primary race may shred old loyalties
- It's now wide open
- Buhari will shift from being statesman to politician in Q3
Political Update

- Visit to Rivers, Lagos and other South/South states
- May campaign for APC candidates
- Cannot afford to be aloof as approval ratings are becoming shaky
- The political odds are strongly in favour of the APC incumbent
- As long as he can fix the economy in good time
Risk Footprints
<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Level</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Another sharp fall in oil prices to below $40</td>
<td>High</td>
<td>10%</td>
</tr>
<tr>
<td>Reduced oil production (Niger-Delta militancy)</td>
<td>High</td>
<td>60%</td>
</tr>
<tr>
<td>Policy reversal and backsliding</td>
<td>Medium</td>
<td>20%</td>
</tr>
<tr>
<td>Weakening consumer demand</td>
<td>Medium</td>
<td>40%</td>
</tr>
<tr>
<td>Declining purchasing power</td>
<td>Medium</td>
<td>60%</td>
</tr>
<tr>
<td>Irrational wage settlement</td>
<td>Low</td>
<td>10%</td>
</tr>
<tr>
<td>Bank Contagion</td>
<td>Low</td>
<td>20%</td>
</tr>
</tbody>
</table>
Outlook For June
June Outlook- Another Tough Month

- Headline inflation will increase to 14.5%
- CBN will release new forex guidelines
- Leading to further market segmentation into 4 rates
- Rates will converge with slight naira appreciation
- Abuse of critical transactions window will continue
- It will be reduced because of public outcry and social media
June Outlook- Another Tough Month

- FDI will trickle, waiting for clarity and conviction
- Reluctant acceptance of exchange rate policy indicative of policy reversal risk
- Reversal once adjustment kicks-in, is almost impossible
- Stock market will remain anaemic while awaiting poor earnings
June Outlook- Another Tough Month

- Naming and shaming of loot refunds may affect banks
- Anti-corruption drive will intensify as social media will expose some current office holders
- Probability of a slight reduction in pump price as demand for PMS has fallen by 35%
Muscles come and go but flab stays - Bill Vanghan

Only a doctor can ask a woman to undress and then send a bill to her husband – Jackie Mason
Corporate Humour

The difference between lawyers and doctors is that lawyers rob you, while doctors rob you and kill you. - Anton Chekhov

You are only young once, but you can be immature forever. - Germaine Great
Corporate Humour

Middleage is when a narrow waist and a broad mind being to change places. - Glenn Dorenbush

The Hot music now is a combination of country and rap. It is called crap. – Bud Luv
Corporate Humour

When a man meets catastrophe on the road, he looks in his wallet, while a woman looks in the Mirror – Margaret Turnbull

I prefer the folly of enthusiasm to the indifference of wisdom – Anatole France
Corporate Humour

There is a time for Buddhist meditation and there is a time for Irish whiskey – Joseph Campbell

The airlines have come up with a new fee. From now on a scrotum will be classed as a carry-on bag. – Stephen Cohbert
The difference between travelling and wandering is that we wander for distraction and we travel for fulfilment – Hillarie Belloc
Thank you