WEEKLY NEWS HIGHLIGHTS: **12TH JULY – 16TH JULY 2021.**

- **Saudi Arabia, UAE In Talks On Opec+ Crisis**
- **Jp Morgan Hoards Cash As Dimon Expects Rates To Rise**
- **Revolut Becomes £24bn Tech Giant As Digital Bank Strikes Softbank And Tiger Deal**
- **Debt Servicing Rises, Gulps 72% Of Fg Revenues**
- **Poor Infrastructure Costing Nigeria $17.1b Yearly, Says Afdb**
- **Renewed Bargain Hunting Lifts Ngx Capitalization By N8 Billion**
- **Nigeria's Crude Oil & Gas Exports Proceeds Fall By 42%**

WEEKLY RATE MONITOR

MPR:	**11.5%**
GDP:	**2.5%**
INFLATION :	**15.97%**
NIBOR:	**8.5%**

GLOBAL ECONOMY:

- **Saudi Arabia, UAE In Talks On OPEC+ Crisis:**

Saudi Arabia, the de facto leader of the Organisation of the Petroleum Exporting Countries, was deep in talks with the United Arab Emirates on Wednesday to resolve a dispute over UAE's output target. Last week, OPEC and its allies, a group called OPEC+, cancelled a meeting due to clashes over plan to increase supply to meet rising global demand. The discussions between Saudi Arabia and UAE centered around a preliminary understanding to grant the UAE a new production baseline of 3.65 million barrels per day from May 2022, according to a source involved in the meeting, S&P Global Platts reported on Wednesday. That would be an increase of about 480,000 bpd from its current baseline of 3.168 million bpd, which will remain in place through April, the source said, asking not to be named due to the sensitivity of the discussions. It is less than the close to 700,000 bpd rise that the UAE had been seeking, but would also be a concession from Saudi Arabia, which had wanted to hold the line on output targets through the end of 2022. Baselines, which were set using October 2018 production volumes, are used by the OPEC+ alliance to set output quotas, so a higher baseline for the UAE would result in a more generous allocation. Emirati officials have sought the revision to reflect the country's increased production capacity.

Delegates from other OPEC+ members said they had yet to be briefed about the deal, which would need to be unanimously approved by the 23 countries in the coalition. The rift between Saudi Arabia and the UAE has threatened to scupper a largely agreed accord for the OPEC+ group to lift output by 400,000 bpd monthly and extend their supply management pact beyond its April expiry through the end of 2022. The UAE has been the lone holdout. A new deal may be too late to take effect for August, with many members' national oil companies already informing their contractual customers of the volumes of crude they would be receiving for the month. "We will see how to manage it," one source said of the August quotas. The OPEC+ alliance is currently withholding about 5.8 million bpd of crude production, which it intends to unwind as demand recovers from the pandemic.

- **Jp Morgan Hoards Cash As Dimon Expects Rates To Rise:**

Jamie Dimon's optimism about the economy is costing JPMorgan Chase & Co (JPM.N) money, the bank's latest financials show.

The CEO said this week the country's largest lender continues to stockpile cash instead of investing it in securities, such as U.S. Treasuries and mortgage-backed bonds, which pay more than cash deposits.
How the country's largest lenders manage an unprecedented glut of cash weighing down their balance sheets will be important in separating winners from losers in coming quarters as uncertainty grows over the inflation and interest rate outlook, according to analysts.
"The balance sheet mix will be a key driver for the stocks as we move into 2022," David Konrad, an analyst at Keefe, Bruyette & Woods, wrote in a recent report to clients.
"In our view, the risk/reward favors holding cash and under- earning in this environment."

JPMorgan is waiting for the chance to buy securities with higher yields once exceptionally strong economic growth kicks in and drives up inflation and interest rates, Dimon and Chief Financial Officer Jeremy Barnum told analysts on Tuesday. "You may have growth in the second half this year that's stronger than it's ever been in the United States of America," Dimon said in a call with analysts on Tuesday.
The yield on 10-year Treasury notes, at around 1.35% versus 1.75% in March, could climb to 3%, Dimon added.

Dimon's comments came after JPMorgan posted quarterly financials on Tuesday that showed its average cash balance held on deposit at central and other banks increased by $89.6 billion while it added only $2.6 billion of investment securities.
JPMorgan made 0.06% on its cash while its securities paid 1.31%, its reports showed.
In contrast, Bank of America Corp's (BAC.N) results released on Wednesday showed it has let its cash decline by $31 billion while it added $107.3 billion to its securities holdings. JPMorgan's deposits grew by nearly $100 billion during the quarter.

- **<u>Revolut Becomes £24bn Tech Giant As Digital Bank Strikes Softbank And Tiger Deal:</u>**

Revolut, the British-based banking and payments app, Thursday 15/7/2021 becomes the most valuable fintech company in British history when it unveils a fundraising that makes it worth $33bn. Revolut will announce that it has raised $800m (£577m) in a funding round led by SoftBank's Vision Fund and Tiger Global Management, two of the world's most prolific investors in fast-growing tech businesses. The deal will transform Revolut into one of the most valuable fintech companies ever launched in Europe. SoftBank's inaugural Vision Fund, which backed companies including Uber Technologies, owner of the ride-hailing platform, the buy-now-pay-later platform Klarna, had held discussions with Revolut in the past but failed to reach a deal. Revolut's potential valuation is staggering given that shareholders had been primed to expect its next capital-raising to value it at somewhere between $10bn and $15bn as recently as three months ago. Only last year, Revolut raised money from the US-based investors TCV and TSG Consumer Partners at a valuation of $5.5bn (£3.98bn). The new talks would mean the digital bank is now worth six times more than it was a year ago - after seeing its losses double.

Klarna's recent fundraising, which saw it valued at $45.6bn, is said to have been a factor in Revolut's ability to target a far higher valuation. The latest developments will fuel questions about the ability of loss-making technology companies to attract price tags in excess of all but the largest publicly listed companies. Even at the lower end of its mooted $30bn-$40bn range, Revolut would be worth more than almost three-quarters of the companies in London's FTSE-100 index. A global wave of investor interest in public and private tech companies has propelled valuations to record highs - fuelled in part by the recent deluge of US-listed special purpose acquisition companies (SPACs). Nik Storonsky, the company's founder and chief executive, said recently that the company was in the early stage of talks about raising further funds while pointing out that it was not in need of additional capital.

In May, Revolut disclosed losses in 2020 of just over £200m as its rapid growth saw staff costs increase substantially. It said it was profitable in the final two months of the year. Mr Storonsky would become a paper billionaire several times over if the latest fundraising talks are successful. Revolut, which now has a presence in 35 countries and more than 15 million customers, is in the process of applying for a

UK banking licence that will allow it to take deposits in its home market. It is chaired by the City veteran Martin Gilbert, while the former Goldman Sachs International co-chief executive Michael Sherwood also sits on its board.

The company recently introduced an equity participation plan for its 2200 employees, which would see their stakes worth substantial sums at the latest valuation. It has struggled with significant compliance issues and wave of executive departures but is said to be confident that it has largely addressed historic flaws in its systems. Mr Storonsky recently said he was working on expansion plans that included India, Latin America and South Korea. The current fundraising talks are likely to spur speculation about when - and where - Revolut might eventually choose to become a public company. Rishi Sunak, the chancellor, has backed a series of proposals to improve the UK's listings regime for fast-growing tech companies. A review by Ron Kalifa, the former Worldpay chief, recently recommended changes to UK listing rules and a new growth fund to help ensure Britain's leadership in the global fintech industry.

The UK's other highly valued fintechs include Wise, the payments service, which is about to list in London with a valuation of well over £5bn. FT Partners, the US-based fintech-focused investment bank which recently advised the French insurer Mollie on an $800m fundraising valuing it at $6.5bn, is overseeing Revolut's latest capital-raising.

DOMESTIC ECONOMY:

- **Debt Servicing Rises, Gulps 72% Of FG Revenues:**

The Federal Government made a total of N3.25tn in 2020, according to a review of the budget performance of the 2020 Appropriation Act. The review also showed that the Federal Government spent a total of N2.34tn on debt servicing within the year. This means that 72 per cent of the government’s revenue was spent on debt servicing. It also puts the government’s debt servicing to revenue ratio at 72 per cent. In 2019, The Federal Government made a total revenue of N3.86tn. Within the year, debt servicing gulped N2.11tn. This puts the Federal Government’s debt servicing to revenue ratio in 2019 at 54.66 per cent. This means that between 2019 and 2020, the Federal Government’s debt servicing to revenue ratio jumped from 54.66 per cent to 72 per cent. As of March 31, the Debt Management Office put Nigeria’s total debt at N33.11tn. Out of this figure, N20.64tn (62.33 per cent) was owed to domestic creditors, while N12.47tn (37.67 per cent) was owed to foreign creditors. Of the domestic debt profile, N16.51tn belong to the Federal Government while N4.12tn belong to the 36 states of the federation and the Federal Capital Territory Administration. The N12.47tn foreign debt was not broken into federal and subnational segments. However, historically, about 86 per cent of Nigeria’s foreign debt usually belong to the Federal Government.

Although the Federal Government consistently argues that its debt to Gross Domestic Product is low, economists and experts say that it is better to use the debt servicing to revenue ratio to measure a country’s indebtedness. This is because the debt servicing to revenue ratio measures a country’s capacity to repay its loans. Although the Federal Government had projected a revenue of N5.84tn for 2020, actual revenue was N3.25tn. It also projected to spend N2.68tn on debt servicing. As in the years before, a greater percentage of the country’s revenues came from oil in 2020. Oil revenue contributed N1.41tn, non-oil sources contributed N1.26tn, while independent funding sources contributed N578.45bn.

In 2020, the Federal Government spent N3.17tn on personnel and overhead costs, two segments of the nation’s recurrent expenditure. The government spent N1.57tn on capital expenditure. Total expenditure for the year was N9.75tn, with the nation borrowing a total of N2.06tn as domestic borrowing in the year. In 2019, Nigeria made N3.86tn as revenue. Oil revenue contributed N1.620tn; non-oil revenue contributed N1.69tn, while independent funding contributed N547.270bn.

The Federal Government spent N2.37tn on overhead and personnel cost within the year and N1.17tn on capital expenditure. Total debt servicing gulped N2.11tn of government revenue. Total expenditure for the year was N8.29tn, and total borrowing was N912.82bn. In 2018, the Federal Government generated N3.48tn as revenue. Revenue from oil contributed N1.96tn; non-oil contributed N1.12tn, and independent funding was N395.2bn. Overhead and personnel cost gulped N2.05tn, while N736.51bn was spent capital projects. Total debt servicing gulped N2.09tn of government revenue. This put debt servicing to revenue ratio at 60.06 per cent. Expenditure for the year totalled N6.27tn, and total borrowing for the year was N1.74tn. According to the budget office, in 2020, the Federal Government continued to meet its non-discretionary expenditures even as budget implementation continued to be affected by poor revenue outcomes.

The office said that the performance of the economy during the fourth quarter of 2020 was encouraging, considering developments in the global economy and the performance of other economies. However, it said, it was important to accelerate efforts towards improving the growth record and revenue performance. The office added that enhancing revenue collection in 2021 was key to the successful implementation of the 2021 budget.

In its fourth quarter 2020 budget implementation document, the office said, "Efforts to moderate the growth in recurrent expenditure and particularly personnel and recurrent debt in 2021 is critical even as effective implementation of the COVID-19 containment measure continues to be paramount. Political economist and former presidential candidate, Prof. Pat Utomi, attributed the high debt servicing ratio to lack of discipline in public administration in Nigeria. The Chief Executive, Economic Associates, Dr Ayo Teriba, said that high debt servicing to revenue ratio was not good. He said for a country of 200 million people, money was needed to be invested in the populace. Teriba said if the main share of government's revenue goes to servicing debt, then the nation was falling into a debt trap. further added that the nation should focus on equity, and if equity investments were focused on, it would reduce debt servicing burden on the nation, as there was no pay back or service clause on equity.

- **Poor Infrastructure Costing Nigeria $17.1b Yearly, Says Afdb:**

  The African Development Bank (AfDB) says Nigeria loses about four percent of her Gross Domestic Product growth annually because of poor infrastructure. This amounts to $17.1 billion yearly using the 2020 GDP figures. The AfDB President, Dr. Akinwumi Adesina, said this as a panellist at an investors Webinar to showcase the investment opportunities from the Federal Government's reform and privatization. Nigeria's infrastructure deficit he lamented "is one of the main constraints to industrial development and national competitiveness. Estimates indicate that Nigeria's infrastructure constraints cost the country around four percent of its yearly Gross Domestic Product growth".

  Given the huge amounts needed to bridge the country's infrastructure gap, which is about $100billion annually for the next 30 years, he said time has come to create an enabling environment for Public-Private Partnerships to close Nigeria's infrastructure gap. To make this a reality, the AfDB has offered to work with the Nigerian government, and other key stakeholders, to implement bold and innovative approaches that will drive private sector participation and investments in the economy.

  The AfDB President said it will work with "like-minded" development partners and financial institutions to deploy a suite of instruments, including direct lending, equity participation, de-risking facilities, and the platform of the Africa Investment Forum platform to get more private sector investments into the economy. He noted that "the construction of the Lagos-Abidjan highway which is expected to commence from next year would unlock 85 percent of trade within the ECOWAS sub-region".

  Adesina stated that the AfDB is "working closely with the ECOWAS Commission and the concerned countries to finalize the feasibility studies for the landmark Abidjan-Lagos Highway. Represented by the Director-General, AfDB Group, Nigeria Country Department, Mr. Lamin Barrow, Adesina said "this is why the AfDB is supporting the government's efforts in addressing the infrastructure deficit in Nigeria through the development of both national and regional infrastructure".

  In the energy sector, he said the AfBD's support will help improve access and reliability of electricity supply by attracting private sector participation. In the energy sector, he said the AfBD's support will help improve access and reliability of electricity supply by attracting private sector participation.

According to him, the $256million and $200million financing respectively for the Nigeria Transmission Expansion Project (NTEP-1) and the Nigerian Electrification Project (NEP) respectively, will contribute to strengthening of the transmission network and promote off-grid solutions.

In the transport sector, he explained that the bank's $430million support for the Enugu-Bamenda Road linking Nigeria and Cameroun, expected to be completed this year, will provide a gateway for enhanced trade between West Africa and Central Africa.

Attracting private sector participation is critical for mobilizing investment resources and ensuring sustainable operation and maintenance of public infrastructure assets. To this end, the AfDB DG said governments should put in place adequate regulatory frameworks to treat infrastructure as an asset class and view privatization as an opportunity to optimize underperforming assets.

- **Renewed Bargain Hunting Lifts NGX Capitalization By N8 Billion:**

  The Nigerian Exchange Limited (NGX) halted three consecutive days of trading losses as renewed bargain hunting in most blue-chip stocks lifted market capitalization by N8 billion. At the close of transactions yesterday, the All-Share Index (ASI) increased by 15.31 absolute points, representing a growth of 0.04 per cent to close at 37,872.55 points, while the overall market capitalization gained N8 billion to close at N19.732 trillion. The improved performance was driven by price appreciation in large and medium capitalized stocks amongst which are; Total Nigeria, MTN Nigeria Communications (MTNN), NCR Nigeria, Capital Hotel and PZ Cussons Nigeria. Afrinvest Limited said: "We anticipate a bullish performance on the domestic bourse driven by bargain hunting activities." Vetiva Dealings and Brokerage said: "We anticipate mixed market activity in tomorrow's trading session as investors continue to bargain hunt ahead of earnings release."

  The market breadth closed positive as 18 stocks depreciated in price, while 11 recorded price appreciation. Capital Hotel recorded the highest price gain of 10 per cent to close at N2.64 kobo. NCR Nigeria followed with a gain 9.89 per cent to close at N3.00, while Unity Bank appreciated by 6.78 per cent to close at 63 kobo. Total Nigeria rose by 6.06 per cent to close at N168.00 kobo. FTN Cocoa Processors gained 5.13 per cent to close at 41 kobo. On the other hand, Linkage Assurance led the losers' chart by 5.41 per cent to close at 70 kobo. Cornerstone Assurance followed with a decline of 5.36 per cent to close at 53 kobo. Oando lost 4.14 per cent to close at N3.01 kobo. Consolidated Hallmark Insurance lost 2.86 per cent to close at 68 kobo, while Access Bank shed 2.17 per cent to close at N9.00 kobo. The total volume of trades fell marginally by 0.02 per cent to 197.232 million units, valued at N2.140 billion, and exchanged in 3,610 deals.

  Transactions in the shares of United Bank for Africa (UBA) topped the activity chart with 35.922 million shares valued at N269.553 million. Access Bank followed with 28.646 million shares worth N259.577 million, while Zenith Bank traded 17.648 million shares valued at N424.695 million. UACN Property Development Company (UPDC) traded 13.768 million shares valued at N20.035 million, while Guaranty Trust Holding Company (GTCO) transacted 10.374 million shares worth N304.516 million.

- **Nigeria's Crude Oil & Gas Exports Proceeds Fall By 42%:**

  Nigeria's crude oil exports fell by a whopping 41.9% year-on-year in the first quarter of 2021. This is according to data contained in the Central Bank of Nigeria's balance of payment report. Nigeria received in its current account, crude oil and gas export proceeds of $6.48 billion in the first quarter of 2021 compared to $11.1 billion in the corresponding period in 2020. It also represents a 16.4% drop when compared to the $7.7 billion recorded in the 4th quarter of 2020. Crude oil and gas export proceeds of $54.5 billion in 2019 made up about 84% of the government's export earnings. However, crude oil and gas exports declined to $31.4 billion in 2020 as Covid-19 pandemic triggered a global economic lockdown crashing oil prices to below zero in the second quarter of 2020. OPEC member countries have had to endure year-long collective crude oil cuts to help limit supplies, shoring up prices. While this has contributed to the stabilization of oil prices, member counties have seen their revenues plummet as they cannot push out as much volumes as they would have preferred.

Nigeria is currently pegged to an export volume of about 1.4 million barrels per day, remarkably less than the 1.8 million barrels per day production volume that it has averaged over the years and a far cry from its 2.5 million barrels per day production capacity. According to a presentation on the 2021 budget performance by Nigeria's minister of finance, Dr Zainab Ahmed, Nigeria has abided by the OPEC+ cut despite this production capacity. However, crude oil production is projected to increase to 1.86 million barrels per day in 2021, as economies recover from the recession, and moderated by OPEC+ quota agreements, as stated by the minister of finance. It is worth noting that, apart from the decline in Nigeria's crude oil production, earnings were also affected by the inability of India to buy as much crude from Nigeria.

Recall that India, the largest importer of Nigeria's crude oil grappled with the second wave of the coronavirus pandemic earlier, which pushed the country's economy to a standstill, causing import shortage. Meanwhile, the fear of a third wave in the country cannot be avoided as experts fear that only about 6% of the eligible population have been fully vaccinated. With oil prices now above $75, there are calls within OPEC member countries to increase the production cuts. These calls recently caused a spat between Saudi Arabia and UAE triggering an abrupt shutdown of the meeting.

Nigeria relies majorly on crude oil exports as its major foreign exchange earner. Thus with export proceeds falling by 42%, hope for a more robust foreign exchange reserve is dimmed. The exchange reserves fell to a 3 year low earlier in July printing at $33.3 billion. The fall in reserves corresponds with a depreciation in the exchange rate which has now crossed the N500/$1 ceiling at the parallel market. Analysts believe that to strengthen the exchange rate, Nigeria needs more robust reserves at least above $35 billion. This will mean a significant increase in crude oil and gas proceeds.