WEEKLY NEWS HIGHLIGHTS: **29th – 3rd December, 2021.**

GLOBAL ECONOMY

- **Some Chinese Stocks Briefly Surge 30% As Investors Bet On A New Beijing Exchange Opening.**
- **Stocks Making the Biggest Moves Premarket: Deere, Gap, Nordstrom, Vmware, HP & More.**
- **Oil Giant Shell Strikes Deal To Buy Power From 'World's Largest Offshore Wind Farm.**

WEEKLY RATE MONITOR

MPR: **11.5%**

GDP: **2.6%**

INFLATION: **16.9%**

NIBOR: **8.542 %**

DOMESTIC ECONOMY

- **Federal Government Lists N418m New Savings Bonds**
- **Dollar Shortage, Subsidy, Deficit Financing Threatening Nigeria's Growth – Wema Bank**
- **Experts Back CBN's Decision To Retain 11.5% Interest Rate**
- **CBN defends Naira with $2.1bn, Suffers Marginal Depreciation**
- **Federal Government Deficit Spending rises 51% to N5trillion**
- **IMF, Fitch Project Further Increase**

GLOBAL ECONOMY:

- **Some Chinese Stocks Briefly Surge 30% As Investors Bet On A New Beijing Exchange Opening:**

Shares of more than 60 little-traded mainland Chinese stocks briefly surged by at least 10% Monday as investors bet on the companies' potential inclusion in a new Beijing stock exchange. Chinese President Xi Jinping announced late Thursday the capital city would launch the country's third stock exchange to help small and medium-sized businesses raise capital.

These and other privately run businesses contribute to more than 80% of jobs nationwide, but have had a harder time than state-owned enterprises in getting financing from banks, the largest of which are state-owned. The new Beijing exchange will initially draw from stocks already traded over-the-counter in the "select" section of the "New Third Board," or National Equities Exchange and Quotations (NEEQ), the securities regulator said Friday. This pool of 66 select stocks all rose in Monday afternoon trading, with nearly a third briefly climbing about 30%. Only five of the companies have market capitalizations of more than $1 billion. Daily trading volume per stock was in the millions of yuan on Monday, compared with hundreds of millions of yuan for the largest stocks traded on the mainland.

Metal sheet manufacturer Speedbird, specialized rubber products manufacturer Tongyi Aerospace and packaged food company Zhulaoliu were among the top 10 advancers. The Beijing exchange's launch date has not been announced yet. Authorities are gathering public comment on rules for the new trading venue through Sept. 22.

- **Stocks Making The Biggest Moves Premarket: Deere, Gap, Nordstrom, Vmware, & More:**

Deere & Co. (DE) – The farm equipment maker reported quarterly earnings of $4.12 per share, beating the consensus estimate of $3.90, although revenue came in slightly below analyst forecasts. Deere said solid demand for its products helped cushion the impact of a month-long workers strike. Deere rallied 3.7% in the premarket.

Nordstrom (JWN) – Nordstrom plummeted 25% in premarket trading after it reported earnings of 39 cents per share for its latest quarter, shy of the 56 cent consensus estimate. The retailer was hurt by rising labor costs and inventory issues and said inventories were especially short in women’s apparel and shoes, where demand rebounded more strongly than it had expected.

Gap (GPS) – Gap reported adjusted quarterly profit of 27 cents per share, well short of the 50 cents analysts had been anticipating, and also cut its full-year forecast. The apparel retailer has been hit by higher costs for shipping, as well as extended factory closures in Vietnam where it sources about 30% of its products. Gap plunged 20% in premarket trading.

Booking Holdings (BKNG) – The parent of Priceline and other online travel services is buying Swedish travel agency Etraveli from private equity firm CVC Capital for $1.83 billion.

VMware (VMW) – VMware beat forecasts by 18 cents with adjusted quarterly earnings of $1.72 per share. The software company also gave an upbeat current-quarter forecast amid growing global demand for cloud computing services. Nonetheless, the stock slid 2.6% in premarket action.

HP Inc. (HPQ) – HP Inc. came in 6 cents above consensus with adjusted quarterly profit of 94 cents per share, with the computer maker also issuing a strong outlook as consumer and business demand for personal computers and printers remains robust. HP jumped 5.6% in premarket trading.

Dell Technologies (DELL) – Dell reported adjusted quarterly earnings of $2.37 per share, beating the $2.18 consensus estimate, with Dell seeing strong demand for its personal computers and servers. Dell also issued a stronger than expected current-quarter forecast. Dell added about 2% in the premarket.

Pure Storage (PSTG) – Pure Storage surged 11.1% in premarket trading after beat estimates by 10 cents with adjusted quarterly profit of 22 cents per share. The maker of flash-based storage systems also issued a better-than-expected current-quarter revenue outlook.

Chevron (CVX) – The energy producer was upgraded to “outperform” from “sector perform” at RBC Capital Markets, which said Chevron has a relatively stable portfolio compared to its industry peers.

Jack In The Box (JACK) – The restaurant chain’s stock was downgraded to “hold” from “buy” at Stifel Financial, which points to a number of factors including weak comparable restaurant sales. Jack in the Box slid 3% in the premarket.

Tesla Chief Executive Elon Musk sold another $973 million in stock to pay taxes after exercising options on Tuesday, filings showed after the electric vehicle maker's shares rebounded during regular trade

- **<u>Oil Giant Shell Strikes Deal To Buy Power From 'World's Largest Offshore Wind Farm:</u>**

Shell said on Wednesday it had signed a deal to purchase power from a development dubbed "the world's largest offshore wind farm."

The 15-year power purchase agreement relates to 240 megawatts from Dogger Bank C, the third and final phase of the 3.6 gigawatt Dogger Bank Wind Farm, which will be located in waters off the coast of northeast England. The agreement builds upon a previous deal to purchase 480 MW from Dogger Bank A and B, meaning that its combined offtake will amount to 720 MW. On Wednesday, Dogger Bank Wind Farm announced it had also agreed 15-year power purchase agreements for Dogger Bank C with Centrica Energy Marketing & Trading, SSE Energy Supply Limited and Danske Commodities.

"The commercial power agreements provide a route to sell the green energy generated by the third phase of the wind farm into the GB electricity market when it enters commercial operation," it said.

Dogger Bank A and B represents a joint venture between Equinor, SSE Renewables and Eni, with the companies holding stakes of 40%, 40% and 20% respectively. This month, it was announced Eni would also acquire a 20% stake in Dogger Bank C, with Equinor and SSE Renewables each holding on to a share of 40%. This deal is slated for completion in the first quarter of 2022. "Once the three phases are complete, which is expected by March 2026, Dogger Bank will be the largest offshore wind farm in the world," Dogger Bank Wind Farm says. Despite making deals related to renewable energy, Shell remains a major player in oil and gas. It has pledged to become a net-zero emissions energy firm by 2050.

In February, the business confirmed its total oil production had peaked in 2019 and said it expected its total carbon emissions to have peaked in 2018, at 1.7 metric gigatons per year. In a landmark ruling earlier this year, a Dutch court ordered Shell to take much more aggressive action to drive down its carbon emissions and reduce them by 45% by 2030 from 2019 levels. The verdict was thought to be the first time in history a company has been legally obliged to align its policies with the 2015 Paris Agreement. Shell is appealing the ruling, a move that has been sharply criticized by climate activists. In October, billionaire activist investor Dan Loeb called on the business to break up into multiple companies to strengthen its performance and market value.

Shell acknowledged Loeb's letter to clients calling for the company to split, saying it "regularly reviews and evaluates the Company's strategy with a focus on generating shareholder value. As part of this ongoing process, Shell welcomes open dialogue with all shareholders, including Third Point." More recently, in mid-November, Shell said it would move its head offices to the U.K. from the Netherlands, and ditch its dual share structure. Under these plans, the firm's name would change from Royal Dutch Shell plc. to Shell plc.

"The simplification will normalize our share structure under the tax and legal jurisdictions of a single country and make us more competitive," Andrew Mackenzie, the company's chair, said at the time.

DOMESTIC ECONOMY:

- **Federal Government, lists N418m new Savings Bonds.**

The Federal Government has listed its latest issuances under its Federal Government of Nigeria Savings Bond (FGNSB) on the Nigerian Exchange (NGX) Limited. The listing of the two tranches of the FGNSB issued earlier this month paved the way for bondholders to trade on their holdings.

The government had offered a 2-Year FGN Savings Bond due November 10, 2023 at a coupon of 7.376 per cent per annum. It also simultaneously offered a 3-Year FGN Savings Bond due November 10, 2024 at coupon of 8.376 per cent per annum. The July 2021 offer was the 53rd tranche of the savings bond, introduced in 2017.

Regulatory documents showed that the government raised about N418 million under the savings bonds in November 2021. A total of 133,407 units of the two-year bond valued at N133.41 million were listed at par value of N1,000 while a total of 285.44 million units of the three-year bond valued at N285.44 million were listed at par value of N1,000. The coupon payment dates for the bonds, which pay interest rate quarterly are February 10, May 10, August 10 and November 10 respectively. The FGNSB was introduced in 2017 as a mass instrument for nationwide mobilization of savings and investments. Minimum subscription to the FGNSB is usually N5, 000 while the bond pays coupon or

interest rate on a quarterly basis.

Usually, the minimum subscription to the bonds, offered at N1,000 per unit, is N5,000 or five units and in multiples of N1,000 thereafter, subject to a maximum subscription of N50 million. GTI Securities Limited, one of the authorised distribution agents for the FGNSB, noted that the savings bonds help to deepen national savings culture while providing opportunity to all Nigerians irrespective of income level to contribute to and benefit from national development.

According to the stockbroking firm, FGNSB enables all Nigerians opportunity to participate in and benefit from the favourable returns available in the capital market. GTI Securities noted that the savings bonds are acceptable as collateral for loans by banks and can be sold for cash in the secondary market before maturity. The bonds are usually listed on the stock exchange for trading, thus providing liquidity for investors who want to exit before maturity.

Savings bonds are good for savings towards retirement, marriage, school fees and house projects among other targets while assuring on its safety as the bonds are backed by the full faith and credit of the Federal Government of Nigeria.

- **Dollar Shortage, Subsidy, Deficit Financing Threatening Nigeria's Growth – Wema Bank:**

The World Bank has said that economic growth in Nigeria is being threatened by certain macroeconomic challenges, including dollar shortage, petrol subsidy and the fiscal deficit financing by the Central Bank of Nigeria. The bank disclosed this in its Nigeria Development report, which was released on Tuesday. The report identified measures taken by the government to tackle the pandemic-induced economic challenges.

In 2020, the Nigerian government began to address longstanding macroeconomic challenges by harmonizing the two main exchange rates, adjusting electricity tariffs to more cost-reflective levels, cutting nonessential spending, redirecting budgetary resources towards the COVID-19 response at both the federal and state levels, strengthening debt management, and increasing the transparency of oil and gas operations," it said.

It noted that certain macroeconomic challenges had emerged that were undermining efforts made towards economic rebound. The World Bank said, "However, the reform momentum weakened in 2021, and in the absence of continued progress, key macroeconomic challenges have re-emerged as major threats to growth. The report said despite a strong initial recovery and resurgent global oil prices, the stalled reform agenda had undermined Nigeria's long-term growth prospects.

- **Experts Back CBN's Decision To Retain 11.5% Interest Rate:**

Economic and financial experts have supported the decision of the Monetary Policy Committee of the Central Bank of Nigeria to again retain all monetary parameters, including the benchmark interest rate. The MPC said at the end of its two-day meeting that the Monetary Policy Rate would remain unchanged at 11.5 per cent, while the Cash Reserve Ratio and Liquidity Ratio would be held constant at 27.5 per cent and 30 per cent respectively.

Announcing the committee's decision in Abuja, the CBN Governor, Mr Godwin Emefiele, said, "The MPC believes that the existing parameters have supported the growth recovery and should be allowed to continue for a little longer for consolidation to achieve the committee's mandate of price stability conducive for growth. He said the committee expressed several concerns about shifting the rates, adding that while tightening the parameters would significantly reduce inflation, it would also increase the cost of funds and constrain output growth. "On the other hand, whereas loosening will lower policy rate, ease liquidity pressure and stimulate additional credit creation, which will boost output growth, MPC also thinks that loosening will further widen the negative real interest rate gap and compound the price distortions in the money market which could fuel inflation pressures," Emefiele added.

The MPC has retained the monetary parameters for 14 consecutive months. The last time the monetary policy rate was reviewed was in September 2020, when the apex bank lowered it from 12.5 per cent to 11.5 per cent while maintaining all other parameters. Emefiele said the continued security challenge across the country remained a major source of concern for members, noting its impact on business confidence, foreign investment inflows and overall economic activities. Speaking on the latest development, a professor of Economics and Public Policy at the University of Uyo, Akpan Ekpo, said he wasn't surprised by the decisions of the apex bank, stating that there was no need to revise the rates as inflation rates had been trending downwards. Expressing a similar view, the immediate past Director-General of the Lagos Chamber of Commerce and Industry, Muda Yusuf, said he agreed with the CBN's position and the emphasis on the need for impactful interventions by the fiscal authorities.

I agree with the outcome given the prevailing economic conditions. I also like the fact that there was a lot of emphasis on what the fiscal side should do around issues of promoting public-private partnership, issues of security and things like that and the role of government in exports," he said.

An economist and past presidential candidate, Prof. Pat Utomi, said, "It doesn't really matter whether the monetary authorities are going to decide to increase or reduce the rates because nobody is borrowing money anyway because they is no money to lend to the creditor. The inflation is going to keep galloping because it is not the economic choices that are being made that are affecting the economic conditions but the political choices." A former President, Association of National Accountants of Nigeria, Dr. Sam Nzekwe, said he did not expect the rates to be changed.

- **<u>CBN defends naira with $2.1bn, suffers marginal depreciation.</u>**

The Central Bank of Nigeria, CBN, in a bid to defend the naira, injected $2.1 billion into the Investors and Exporters (I&E) window, in the seven months to July this year (7mths-2021). This represents a 238 per cent increase when compared with the $621.1 million injected into the I&E window in the corresponding period of 2020 (7mths-2020). Furthermore, the amount injected in 7mths-2021, represents a 47 per cent increase when compared with the $1.43 billion injected in the corresponding period in the pre-COVID year of 2019, (7mths-2019).

Financial Vanguard findings from the CBN's data on monthly intervention in the I&E window shows that the highest amount of $474.65 million was recorded in April while the lowest amount of $195.91 million was recorded in June. As a result of the increased CBN intervention, the naira was relatively stable during the 7mths-2021 period. However, the nation's currency recorded a marginal depreciation of 0.3 per cent as the indicative exchange rate at the I&E window fell to N411.44 per dollar at the end of July from N410.25 at the end of December 2020.

Similarly, the naira last week depreciated by 0.37 per cent in the I&E window as the exchange rate rose to N415.94 per dollar on Friday from N414.4 per dollar the previous week. The naira also depreciated last week by 5.7 per cent in the parallel market as the exchange rate rose to N565.50 per dollar from N535 per dollar the previous week. Analysts at Cowry Assets Management Limited, projected that the naira will depreciate further following the continued decline in the nation's external reserves.

"In the new week, we expect the Naira to weaken slightly against the USD as external reserves threaten to breach its current level of $41.33 billion", they said.

- **<u>Federal Governments deficit spending rises 51% to N5trm.</u>**

The deficit spending of the Federal Government, FG, rose by 51 per cent, year-on-year, YoY, to N5.1 trillion in seven months to July 2021, driven by rising non-discretionary spending on security and COVID-19 mitigation measures. The rise in non-discretionary spending triggered 16 per cent increase in the FG's expenditure, which dampened the moderating impact of the 13 per cent increase in revenue recorded during the period, occasioned by the crude oil price rebound.

Public Finance analysis of data on the FG's fiscal activities in the seven months to July (7mths-2021), showed that revenue rose to N2.45 trillion from N2.17 trillion in the corresponding period of 2020 (7mths-2020), indicating 13 per cent increase. But expenditure rose faster, climbing 16 per cent to N6.43 trillion in 7mths-2021 from N5.53 trillion in the corresponding period of 2020. The above resulted in a deficit of N5.1 trillion in 7mth-2021, representing, 51 per cent, YoY increase when compared to the N3.36 trillion recorded in 7mths-2020.

The deficit recorded during the 7mths-2021 represents 90.7 per cent of the budgeted full year deficit of N5.62 as contained in the 2021 Appropriation Act. Consequently, the FG is projected to exceed the budget deficit of N5.62 trillion for 2021, as the average monthly deficit recorded in 7mths-2021, at N729 billion, translates to N8.74 trillion full year deficit. Explaining the factors driving the FG's deficit spending, which rose in June and July, the CBN, in its Monthly Economic Report for July 2021, said: “The impact of improved revenue out-turn in July 2021 was weakened by 8.9 per cent growth in expenditure, triggering an expansion of the fiscal deficit.

“Payoffs from expenditure rationalisation and revenue mobilisation efforts appeared subdued by new and rising non-discretionary spending, particularly on security and COVID-19 mitigation measures. “Consequently, the provisional fiscal deficits of the FGN, at N699.48 billion, exceeded the position in June 2021 and the budget benchmark by 1.6 per cent and 49.8 per cent, respectively. “Growth in FGN retained revenue was owing to the 60.4 per cent rise in receipt from the Federation Account. Retained revenue of the Federal Government increased by 24.9 per cent to N394.11 billion, relative to June 2021. “Nonetheless, FGN receipts in July 2021 fell below the benchmark of N665.53 billion by 40.8 per cent, suggesting the prevalence of revenue challenge in the review period. “Provisional aggregate expenditure of the FGN, at N1.093 trillion, rose by 8.9 per cent, relative to June 2021, but remained below the 2021 proportionate benchmark of N1,132.34 billion by 3.4 per cent. “The increase was due to a 5.9 per cent rise in recurrent expenditure. Disaggregation of the expenditure reveals the dominance of recurrent spending, constituting 88.6 per cent of total government expenditure in July 2021, while capital expenditure and transfers accounted for the balance of 7.6 per cent and 3.8 per cent, respectively. “Compared with the projected expenditure composition of 61.9 per cent (recurrent expenditure), 28.3 per cent (capital expenditure), and 6.7 per cent (transfers), the largely disproportionate share of recurrent expenditure in July 2021 is indicative of lags in capital releases.”

- **IMF, Fitch project further increase.**

The sharp increase in the FG’s deficit spending in 7mths-2021and the implication for the rest of the year, indicates the FG is poised to breach the deficit-to-GDP ratio of 3.9 per cent estimated for the 2021 Budget, a development in line with projections by the International Monetary Fund, IMF, the World Bank and Fitch Ratings.

In a report titled, “Nigeria Country Risk Report”, released last week, Fitch Ratings said: “We have revised our forecast for Nigeria’s budget deficit to 4.8% of GDP in 2021 from our earlier forecast of 4.2%. The revision reflects fiscal data – published by the Nigerian Treasury in October and covering the period January-August 2021 – indicating weaker revenue collection than we had previously anticipated. “The shortfall was largely due to significant underperformance by the oil sector (45.6% of revenue in 2020), which saw oil revenue come in 43.7% below official revenue projections contained in the government’s 2021 budget (see chart below), largely as a result of weak oil production. “While we expect both oil and non-oil revenue to rise in the final months of 2021 as oil production increases and economic growth gathers momentum, this will be insufficient to offset prior underperformance, and we expect federal government revenue to come in at a weak 1.6% of GDP (NGN4.0tn) over 2021, compared with NGN3.9tn in 2020.

While projecting an increase in the nation’s fiscal deficit-to-GDP ratio to 6.3 per cent in 2022, the IMF in its 2021 Article IV Staff mission to Nigeria, called for reforms, including removal of the fuel and electricity subsidies, as a way of combating the rising fiscal deficit of the FG.

The IMF stated: “Despite much higher oil prices, the general government fiscal deficit is projected to widen in 2021 to 6.3 percent of GDP, reflecting implicit fuel subsidies and higher security spending, and remain at that level in 2022. “There are significant downside risks to the near-term fiscal outlook from the ongoing pandemic, weak security situation and spending pressures associated with the electoral cycle. Over the medium term, without bold revenue mobilization efforts, fiscal deficits are projected to stay elevated above the pre-pandemic levels with public debt increasing to 43 percent in 2026. "General government interest payments are expected to remain high as a share of revenues making the fiscal position highly vulnerable to real interest rate shocks and dependent on central bank financing.

Supporting the projection of the IMF and its call for reforms, the World Bank in its latest, Nigeria Development Report, released last week, said: "Due to deteriorating revenues, our forecast for the consolidated government fiscal deficit has been revised upward. Nigeria's fiscal deficit is now projected to reach 5.7 percent of GDP by end-2021, its highest level in over a decade. "Despite rebounding oil prices, Nigeria's oil output has fallen, and total fiscal revenues are expected to recover only modestly from 6.5 percent of GDP in 2020 to 7.1 percent in 2021, well below their 2014 level of 11 percent. "Faced with a widening budget deficit, policymakers have increasingly turned to costly Central Bank of Nigeria, CBN, overdrafts (also known as Ways and Means financing), which are not properly integrated into the fiscal accounts.

The high cost of servicing CBN overdrafts is compounded by large off budget expenditures—especially the Petrol Motor Spirit, PMS, subsidy—which crowd out much-needed investments in human and physical capital. While Nigeria's debt burden remains manageable for the time being, maintaining sustainable debt dynamics will require curbing the use of CBN financing for the deficit and addressing fiscal pressures to break the cycle of low growth and rising public debt.

Research and Training Department