



Afolabi E. Olowookere, Ph.D.

Managing Director | Chief Economist

Analysts Data Services & Resources Ltd.

olowookere.ae@adsrng.com;

+234 (0) 8032734460

Economic and Market Overview

The Convergence of Commodities and Capital Markets:
Unlocking Liquidity for a \$1 trillion Market



Tues. Oct 17th 2023

AFEX CEO BREAKFAST SESSION

@ The Radisson BLU, V.I., Lagos

Outline of Presentation

01

Domestic Economic Performance

02

Global Economic Outlook

03

Global Commodities Market

04

Performance of Selected
Commodities

05

Returns on Domestic Commodities
Market Investments

06

Africa's \$1 trillion Commodities
Market

07

Summary and Implications



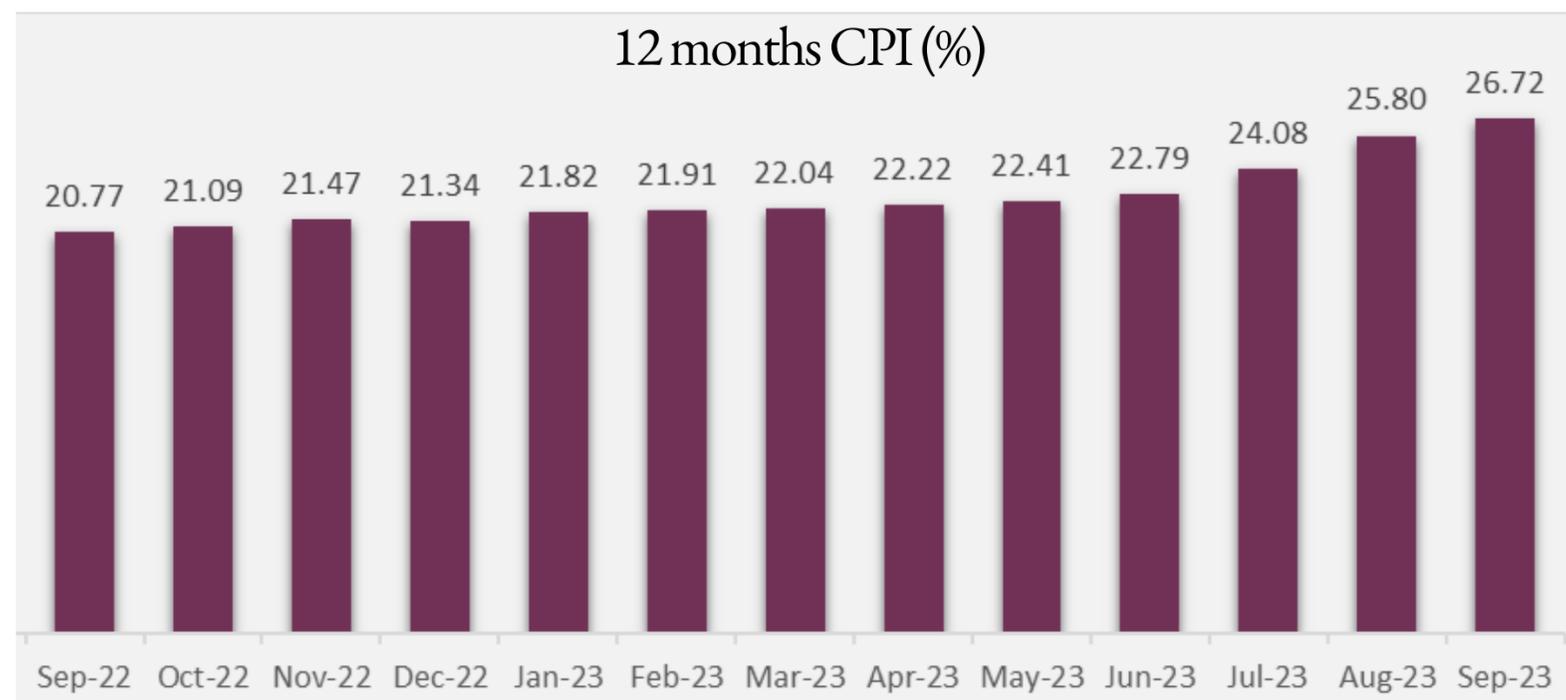


Domestic Economic

PERFORMANCE

Nigeria's Economic Overview

INDICATORS	2022	2023	% CHANGE
GDP Growth (%) – Q2	3.54	2.51	(1.03)
Inflation Rate (%) - Sep	20.77	26.72	5.95
Crude oil Price (\$/bn) - Oct	98.05	93.79	(4.34)
Official Exchange Rate (N/\$) –Oct	435.06	764.93	75.82
Parallel Exchange Rate (N/\$) –Oct	733	1040	41.88
External Reserves (\$'mil) – Oct	37,946.85	33,224.35	(12.45)
Petrol Price (N/ltr) - Aug	189.46	626.7	230.78
Total Public Debt (N'trn) – Q2	42.84	87.38	103.97



- Nigerian economy is still struggling with severe debt payments, rising inflation, and slow growth.
- The effects of recent policy reforms are still lingering, as businesses are faced with high production costs and forex shortage.
- Naira has continued its downward spiral, trading at the parallel market between N1,005/\$ and N1,025/\$.
- The reintroduction of Bureau De Change and the launch of a Foreign Exchange Price Verification System (PVS) are new policies by the CBN.
 - to increase forex supply, and enable importers gain access to forex.
- The 43 items are back! Implications of:
 - dismantling an instrument of demand management in period of liquidity crisis
 - effectiveness of moving demand from parallel to official

Implications of the 43 Items for Commodities

- Some commodities will be impacted directly through more competition from imported goods
- Every sector (tradable) will be impacted through more competition at the official window and less at the parallel window

1	Rice	10	Margarine
2	Palm kernel	11	Wood particle boards and panels
3	Palm oil products	12	Wood fibreboards and panels
4	Vegetable oils	13	Plywood boards and panels
5	Meat and processed meat products	14	Wooden doors
6	Vegetables and processed vegetable products	15	Toothpicks
7	Poultry and processed poultry products	16	Woven fabrics
8	Tinned fish in sauce (Geisha)/sardine	17	Clothes
9	Tomatoes/tomato pastes		
34	Enamelware	18	Cement
35	Glass and glassware	19	Cold-rolled steel sheets
36	Kitchen utensils	20	Galvanized steel sheets
37	Tableware	21	Roofing sheets
38	Tiles-vitrified and ceramic	22	Wheelbarrows
39	Plastic and rubber products	23	Head pans
40	Polypropylene granules	24	Metal boxes and containers
41	Cellophane wrappers and bags	25	Steel drums
42	Soap and cosmetics	26	Steel pipes
43	Eurobond/foreign currency bond/ share purchases	27	Wire rods (deformed and not deformed)
		28	Iron rods
		29	Reinforcing bars
		30	Wire mesh
		31	Steel nails
		32	Security and razor fencing and poles
		33	Gas cylinders

- Nigeria needs evidence-based policymaking
 - The country's total imports 8-yrs before and 8-yrs during the restriction have not changed much
 - But the imports of the 42 items declined by over 50%
-
- Imports of Chad, Benin, Cameroon and Niger of these items have not changed much
 - Nigeria's record shows that it imports of these items through the neighbouring countries have fallen drastically from \$490m to about \$40m
-
- Interestingly, these countries records show that Nigeria's import of the 42 items from them increased from \$870m to \$1.5bn
 - Indication that the items are entering

Impact Assessment of Forex Restriction on 43 Items (\$'bn)

Items	Nigeria's Total Imports from the World		Nigeria's Neighbouring Countries' Imports from the World		Nigeria's Total Imports from its Neighbouring Countries - Reported by Nigeria		Nigeria's Total Imports from its Neighbouring Countries - Reported by the Neighbouring Countries	
	Before	During	Before	During	Before	During	Before	During
All Commodities	363.50	325.04	84.77	74.88	2.40	0.58	2.43	1.85
42 Items (43 less foreign bonds & shares)	36.16	15.51	22.43	21.63	0.49	0.04	0.87	1.50

Source: UN Comtrade

Nigeria's Top Exports and Opportunities for Commodities

The top-ranked export was “mineral products” with ₦ 6.38 trillion (90.90% of total exports),

This was followed by “vegetable products”, “base metals”, and “products of chemicals”, with 3.09%, 1.83%, and 1.26% of total exports respectively.

Thus, exports of vegetable products, prepared foodstuffs, raw hides and animals present some opportunities.

Top 10 Exported Products

Products	Value (₦'million)	Y-o-Y (%)	Share in Total Exports(%)
Mineral products	6,377,076.60	- 5.78	90.90
Vegetable products	217,134.50	116.88	3.09
Base metals	128,323.40	102.45	1.83
Products of the chemical	88,517.22	-72.21	1.26
Prepared foodstuffs	86,914.74	17.58	1.24
ex	31,498.10	139.86	0.45
Articles of stone, plaster, etc	26,578.74	29.78	0.38
Boilers, machinery and appliances	21,227.41	2,896.05	0.30
Raw hides and skins, etc.	11,238.23	9.18	0.16
Live animals; animal products	9,764.13	106.70	0.14

Source: NBS

Top 10 Imported Products

Products	Value (₦million)	Y-o-Y (%)	Share in Total Imports (%)
Mineral products	1,683,262.09	- 31.85	29.40
Vehicles, aircraft and parts	1,013,443.37	134.45	17.70
Boilers, machinery and appliances	981,558.21	- 7.36	17.14
Products of the chemical and allied industries	451,906.38	- 31.44	7.89
Vegetable products	311,464.87	- 4.36	5.44
Prepared foodstuffs; beverages, etc.	280,437.06	6.28	4.90
Plastic, rubber and articles	228,223.00	- 26.60	3.99
Base metals and articles of base metals	178,228.65	- 6.25	3.11
Paper making material; paper and paperboard, articles	113,100.84	8.10	1.98
Live animals; animal products	109,941.20	- 28.55	1.92

Source: NBS

Nigeria's Top Imports and Opportunities for Commodities

In Sep., NBS released 2023'Q2 trade report.

Top item was “mineral products” with ₦1.68 trillion (29.40% of total imports).

Vegetable products ranked 5th with ₦ 311.5 billion (5.44% of total imports)

Import of vegetable products however fell by -4.36% yoy

This shows opportunities for imports substitution in the vegetable product space.

Nigeria's Inflation Status

Inflation came in at
26.72% in September, 2023

An 18-year high

28.68% for Urban

30.64% for food

Headline Inflation (yoy)

26.72%
(August 25.80%)

Inflation rate is highest in
Kogi (39.25%) and Lowest
in Borno (21.05%)



Core Index
21.84% (August 21.15%)



Food Index
30.64% (August 29.34%)



Urban
28.68% (August 27.69%)



Rural
24.94% (August 24.10%)



Food Inflation
Highest in Kogi (39.37%)
(Lowest in Jigawa (23.41%))

Source: NBS, ADSR Research

Implications on Commodity Value Chain

a

The transportation sector, especially road transport (-55.14%), recorded growth contractions in 2023'Q2, and the increase in PMS prices accounts for this.

b

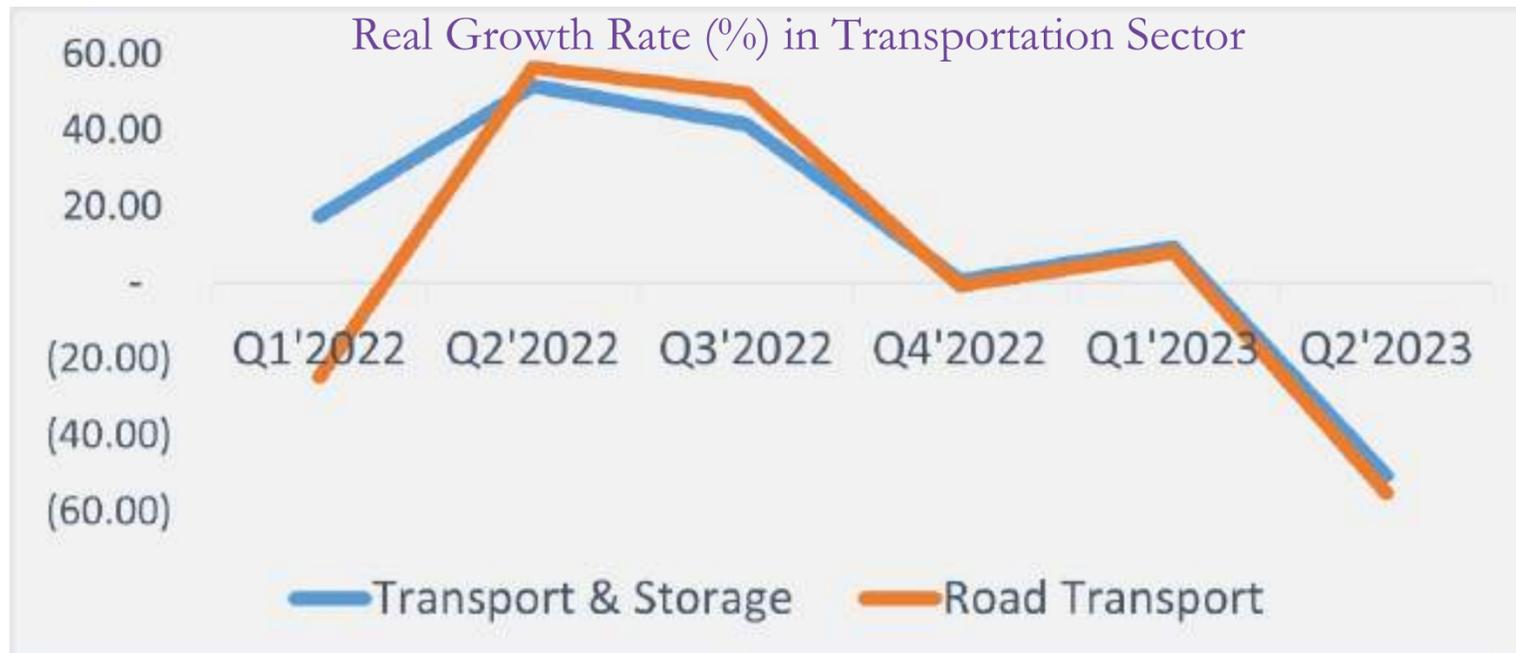
Rising energy costs have increased transportation costs, which, in turn, skyrocketed commodity and food prices.

c

Inflation is unyielding to interest rate hikes, and food inflation has increased to 29.34% in August 2023, from 23.12% in August 2022.



Real Growth Rate (%) in Agriculture



Source: NBS, ADSR Research

d

This volatility in commodity prices can weigh on long-term economic growth, especially for commodity exporters.

e

The agricultural sector in 2023'Q2 grew by 1.50% (year-on-year) in real terms, a 0.3% increase from 2022'Q1

f

Consumer demand is weaker during high inflation due to lower purchasing power.



Global Economic **OUTLOOK**

After the COVID-19 epidemic and Russia's invasion of Ukraine, the world is still slowly and unevenly recovering.

Recent events have contributed to a worsening global geopolitical environment, which presents risks to the economic outlook.

- Including military coups in Africa, non-renewal of the Black Sea Initiative and the Israel-Gaza war

In October WEO, global growth is projected to decline from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024 (0.1% decrease from WEO July 2023).

Global Economic Outlook

Country/region	2022	2023	2024
World	3.5	3.0	2.9
Advanced Eco.	2.6	1.5	1.4
Euro Area	3.3	0.7	1.2
EMs & Developing	4.1	4.0	4.0
Sub-Saharan Africa	4.0	3.3	4.0
United States	2.1	2.1	1.5
United Kingdom	4.1	0.5	0.6
China	3.0	5.0	4.8
South Africa	1.9	0.9	1.8
Nigeria	3.3	2.9	3.1

Source: World Economic Outlook (IMF, WEO OCTOBER 2023)

Global Economic Outlook (Cont'd)

The advanced economies are likely to drop from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024.

- This is due to the stronger-than-expected US momentum but weaker-than-expected Eurozone growth.

Growth in emerging markets and developing countries is expected to slow somewhat,

- from 4.1% in 2022 to 4.0% in 2023 and 2024, with a 0.1% point negative adjustment in 2024.

The growth rate in sub-Saharan Africa is expected to drop to 3.3% in 2023 and then increase to 4.0% in 2024.

Nigeria's growth would drop from 3.3% in 2022 to 2.9% in 2023 and 3.1% in 2024.

- The prediction for 2023 has been revised downward by 0.3% point, reflecting lower-than-expected oil and gas output.

Country/region	2022	2023	2024
World	3.5	3.0	2.9
Advanced Eco.	2.6	1.5	1.4
Euro Area	3.3	0.7	1.2
EMs & Developing	4.1	4.0	4.0
Sub-Saharan Africa	4.0	3.3	4.0
United States	2.1	2.1	1.5
United Kingdom	4.1	0.5	0.6
China	3.0	5.0	4.8
South Africa	1.9	0.9	1.8
Nigeria	3.3	2.9	3.1

Source: World Economic Outlook (IMF, WEO OCTOBER 2023)



Global Commodities

MARKET

Global Commodities Markets

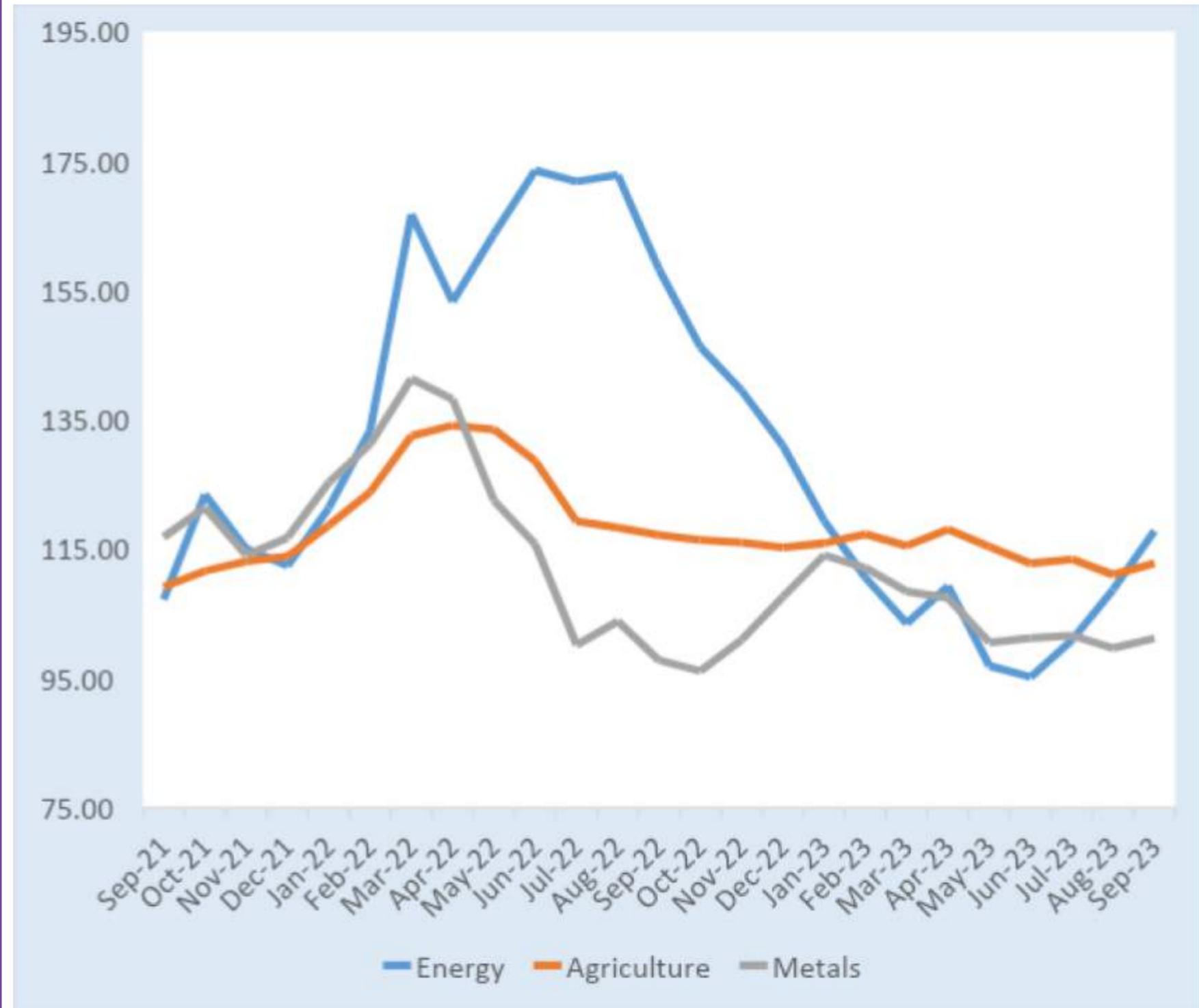
In September, benchmark Brent crude breached \$90 a barrel for the first time this year

- after OPEC+ leaders Saudi Arabia and Russia extended their combined 1.3 million barrel per day (bpd) cuts through the end of 2023.

Within the precious metals, gold and silver both fell as real rates continued to rise.

The termination of the Black Sea Grain Initiative and Russian strikes on Ukrainian export infrastructure have heightened market instability.

India's bans on non-basmati white rice exports in July and further restrictions on basmati rice exports in August 2023, have caused disruption and price spikes in rice markets.



Source: World Bank Commodity Pink sheet

Global Commodities Markets (Cont'd)

In September 2023, Energy prices rose 8.3%,

- driven by oil (+9.1%) and coal (+6.5%), while non-energy prices increased by 1.5%.

Agricultural prices increased by 1.6%, as food prices grew by 2.0%,

- with grains (+2.0%) and other food items (+4.1%) leading the way.

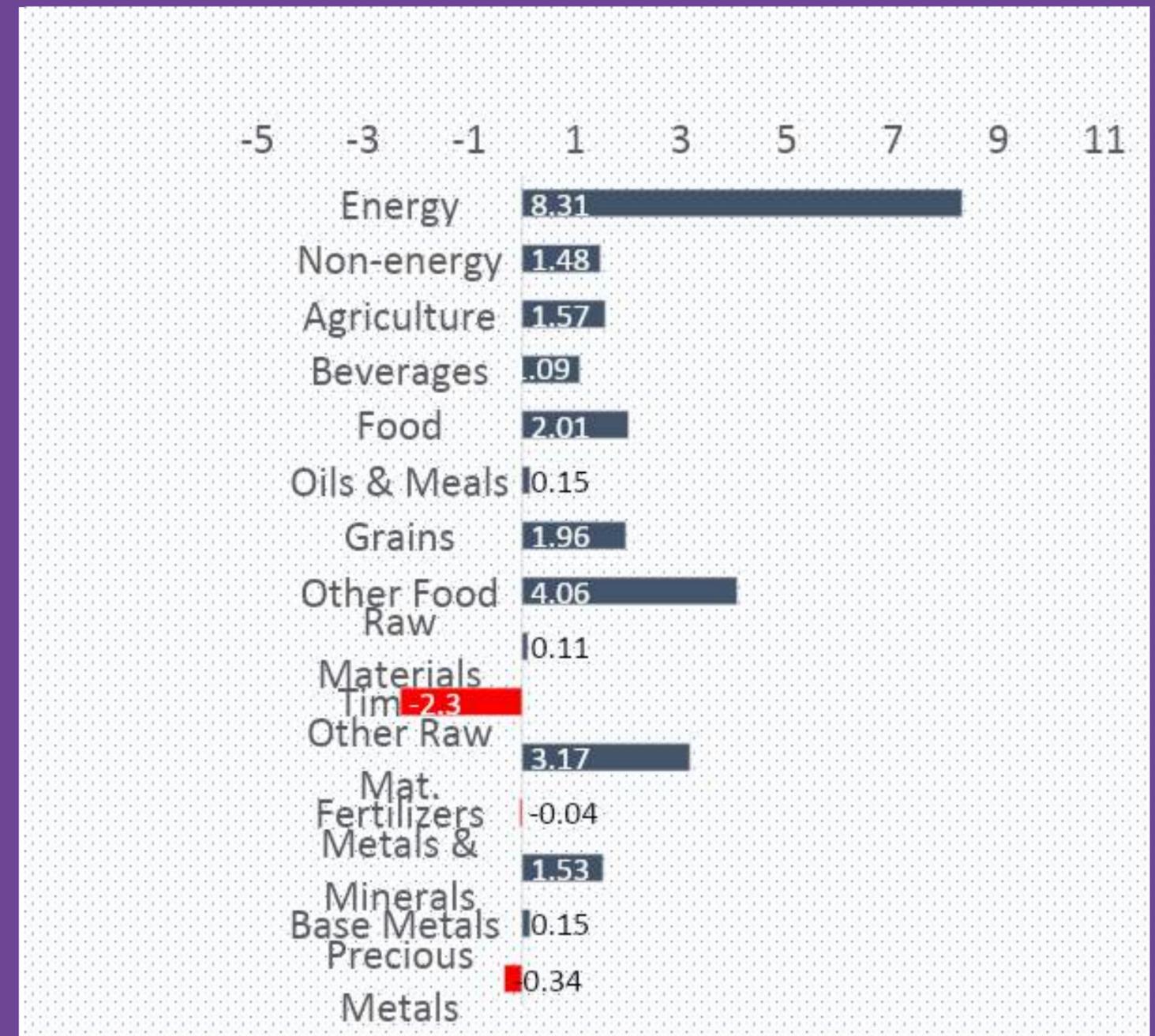
Beverages increased by 1.1%,

But raw materials and fertilizers saw minimal change.

Metal prices rose 1.5%,

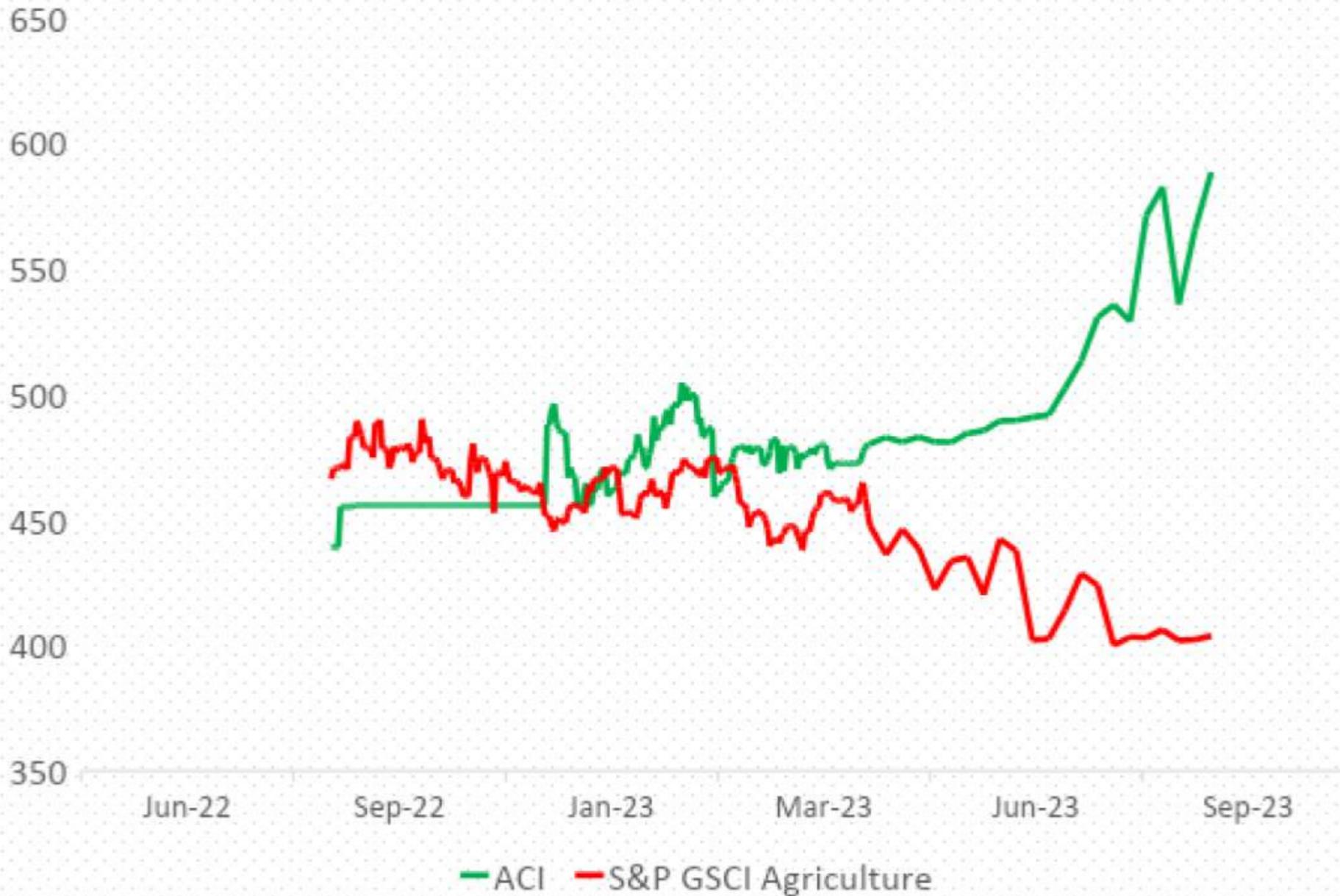
- driven by iron ore (+9.8%), lead (+4.6%), and zinc (+3.7%). Precious metals fell by 0.3%

Nominal price indexes, percent changes, September over August



Source: World Bank Commodity Pink sheet

S&P GSCI Agriculture



Source: S & P Dow Jones Indices, AFEX

The S&P GSCI Agriculture fell 4.35% in the third quarter and 17.23% year-on-year.

The sector was impacted by the rise of the U.S. dollar

However, the AFEX Commodity index increased by 29.10% Y-o-Y and 19.90% Q-o-Q.



Performance of Selected **COMMODITIES**

Selected Commodities - Maize

On a year-to-year basis, global prices of maize were 16.14% lower by the third quarter, with a 28.42% decrease year-on-year.

However, the price of maize increased from August to September due to the high demand for Brazil supplies. Thus, the demand for maize was higher than the production volumes available, driving the price upward.

In June, maize reached a record high of N274,110/MT in Nigeria, increased by 22.03% on a year-to-year basis.

Record-high maize production is forecasted, attributable to increases in production in countries such as Argentina, China, the European Union, and the United States.

This will likely push global maize prices down

Months	Prices (\$/MT)	Q-o-Q (%)	Y-o-Y (%)
March	282.49	-6.54	-15.81
June	266.87	-5.53	-20.51
September	223.81	-16.14	-28.42

Source: World Bank Commodity Pink sheet

Selected Commodities - Wheat

On a year-to-year basis, global wheat prices are 24.92% lower, with a decrease of 8.92% in the third quarter.

Wheat prices continued to decline as harvests in the Northern Hemisphere came to an end, which was due to the ample Black Sea exports before the termination of the agreement.

Meanwhile, according to a recent United States Department of Agriculture (USDA) grain report, Nigeria's wheat production will increase by 42% between July 2023 and 2024

This will likely further decrease the prices of Wheat in the last quarter of 2023

Conditions in Turkey are favorable for planting to begin.

Wheat production is raised on higher yields in Ukraine and the Russian Federation due to continued favorable weather.

This is likely to reduce global wheat prices.

Months	Prices (\$/MT)	Q-o-Q (%)	Y-o-Y (%)
March	369.86	-4.26	-23.94
June	345.50	-6.59	-24.82
September	314.68	-8.92	-24.92

Source: World Bank Commodity Pink sheet

Selected Commodities - Rice

Global rice prices are 41.23% higher year-to-year, with a 12.80% increase in Q2.

Also, in Nigeria, paddy rice prices on the AFEX increased by 68.94% Y-o-Y and 37.48% Q-o-Q.

India, which had been a significant contributor to global rice exports, imposed a ban on non-basmati white rice exports in July and further restrictions on basmati rice exports in August.

This has caused disruption and price spikes in the rice markets.

However, Pakistan is expected to recover from a poor harvest season for rice caused by extreme flooding.

As such, global grain supplies are anticipated to grow by approximately 60 million tonnes in 2023/24, slightly exceeding long-term average annual growth.

This is a welcome development that will alleviate some of the price pressure resulting from the breakdown of the Black Sea Grain Initiative.



Months	Prices (\$/MT)	Q-o-Q (%)	Y-o-Y (%)
March	476.00	1.93	12.80
June	514.00	7.98	15.77
September	620.00	20.62	41.23

Source: World Bank Commodity Pink sheet

Selected Commodities - Soybean

Prices of soybeans globally are 6.83% lower year-to-year but increased by 4.59% in Q3.

Prices fell initially because U.S. weather improved, but they later rebounded as Midwest heatwaves raised yield concerns.

Tightening soybean supplies and increased overseas demand, including from China, contributed to the rebound.

Likewise, in Nigeria, the price of soybeans decreased by 17.96% Q-o-Q and 3.57% lower Y-o-Y.

In Brazil, sowing begins under favorable circumstances in irrigated areas and certain regions with adequate soil moisture.

However, soybean production is lowered further on reduced crop prospects in the US following persistent unfavorable growing conditions, more than offsetting higher forecasts for Argentina and Ukraine.

This will likely push global soybean prices up.

Months	Prices (\$/MT)	Q-o-Q (%)	Y-o-Y (%)
March	628.38	-2.68	-12.80
June	591.89	-5.81	-19.70
September	619.04	4.59	-6.83

Source: World Bank Commodity Pink sheet

Returns on Domestic Commodities Market

INVESTMENTS



Commodities Financial Returns

Commodities	Exchange Prices (Naira per Contract)			
	Prices (Sep. end)	Q-o-Q (Q2)	Y-o-Y	% YTD
Maize	333.68	22.03	60.05	113.16
Soybeans	377.88	-17.96	-3.57	24.70
Paddy Rice	456.13	37.46	68.94	48.42
Sorghum	300.00	-1.98	0.45	0.45
Cocoa	2032.26	51.46	66.58	10.75
Ginger	989.83	-1.96	-3.00	3.00
Sesame	1247.57	62.69	50.31	50.31
Cashew	584.80	-6.70	-15.23	9.68

Commodities largely exhibited positive returns during 2023'Q3

Maize increased by 22.03% Q-o-Q and 60.05% Y-o-Y.

Also, Paddy rice and sorghum increased by 48.42%, and 0.45% YTD, respectively.

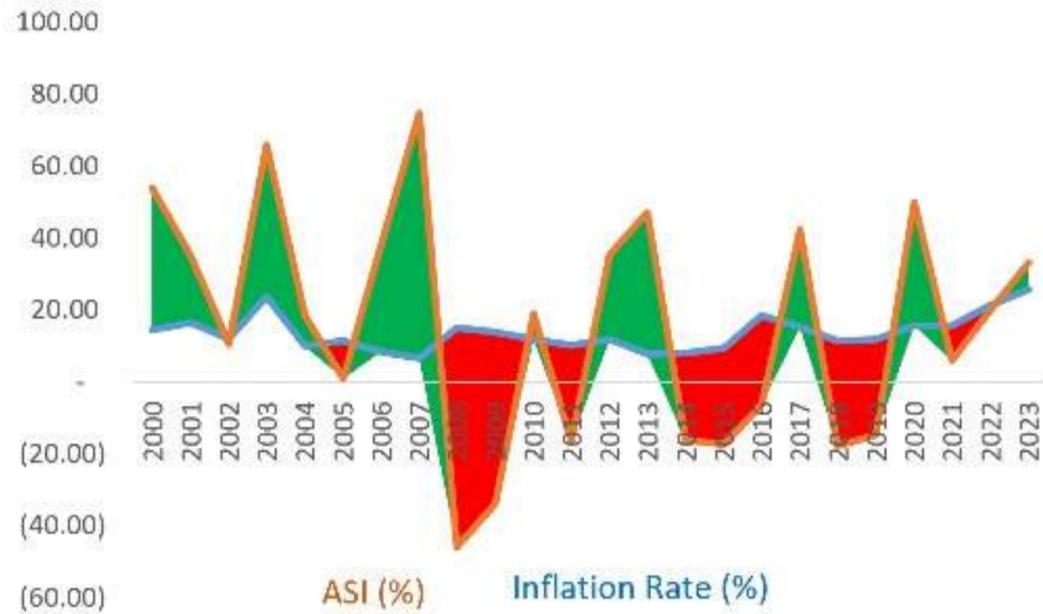
Cocoa gained 51.46% Q-o-Q and 66.58% Y-o-Y, while sesame gained 62.69% Q-o-Q and 50.31% Y-o-Y.

However, ginger and cashew decreased by 1.96% and 6.70% Q-o-Q, with 3% and 15.23% Y-o-Y, respectively.

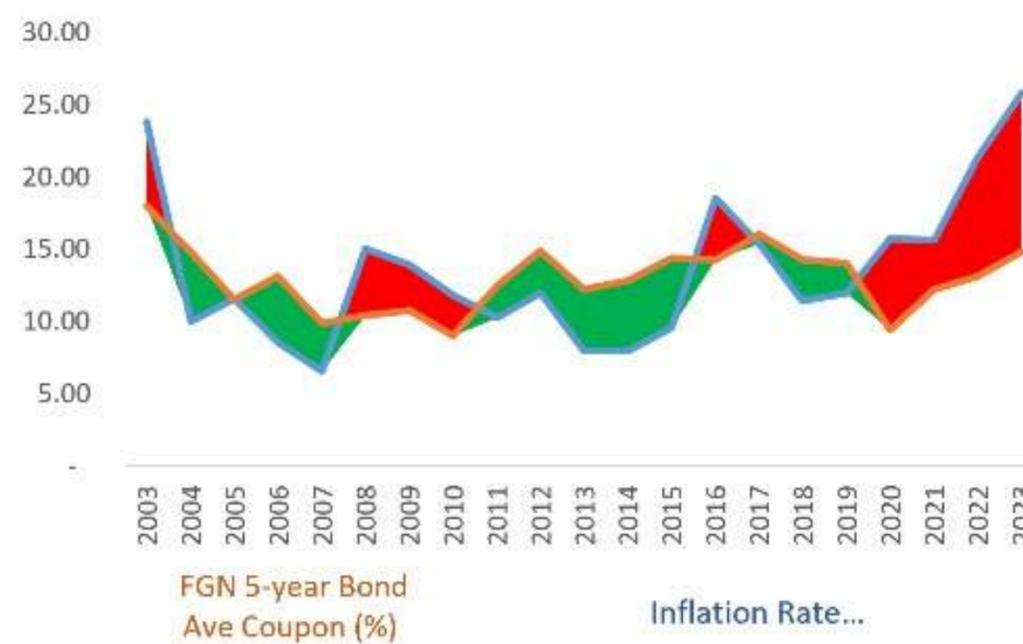
Source: AFEX

High Inflation and Return on Assets

Inflation Rate and ASI



Inflation rate and Bond



There are more periods when the returns on the NGX All Share Index (ASI) surpassed the inflation rate (green) than otherwise (red).

From 2020, the inflation rate has remained higher than the average coupon on the FGN Bond

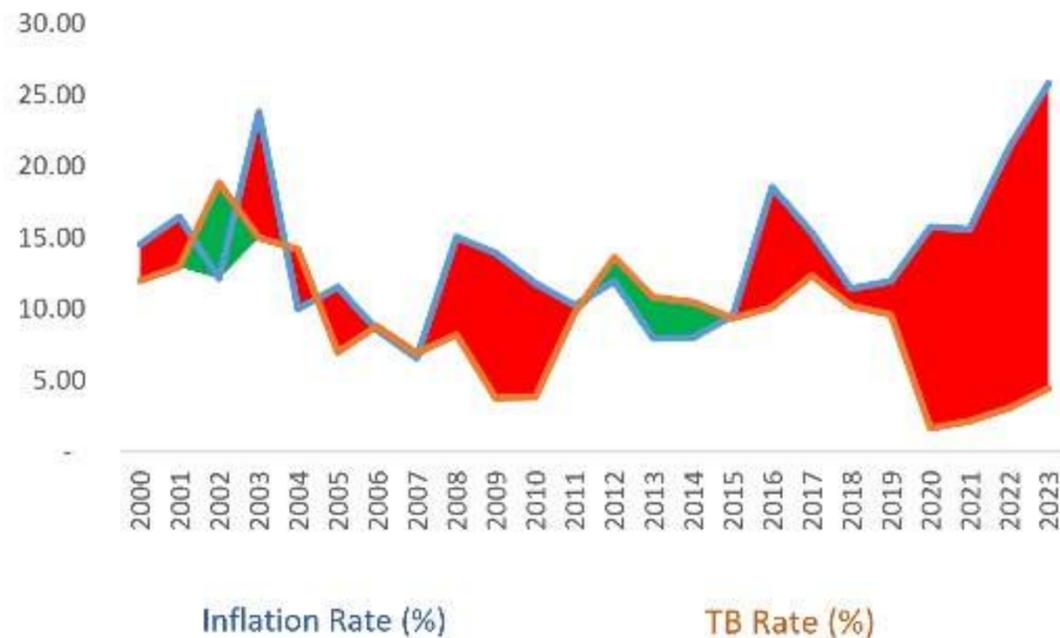
Inflation rate has also been higher than the Treasury Bill rate

Indicating that investments in these types of instruments may be negatively affected during periods of high inflation.

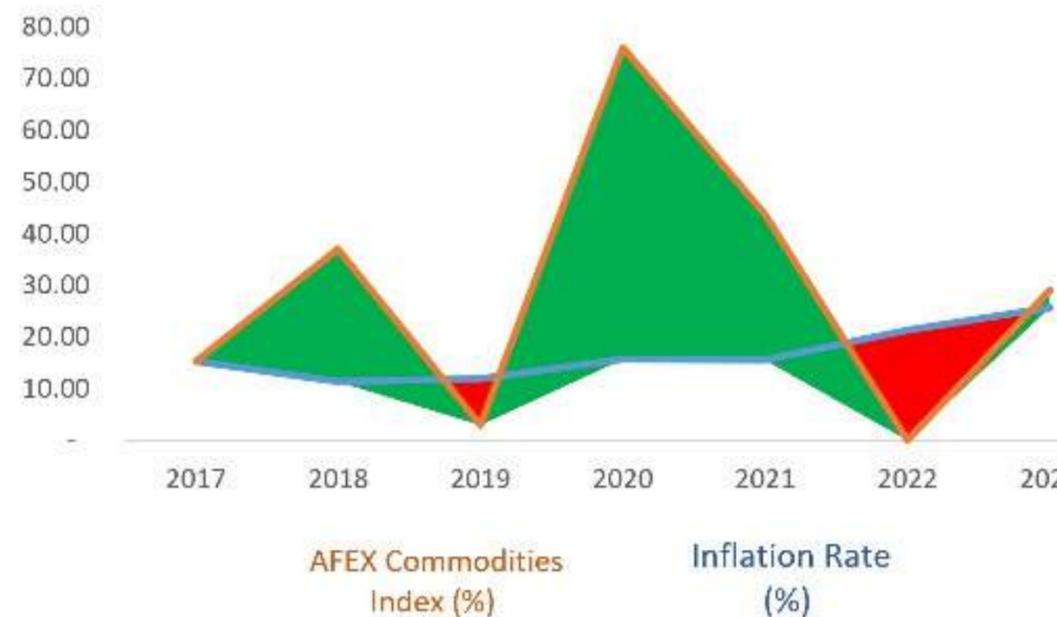
Investment in agriculture commodities, as measured by the AFEX Commodity Index, has also outperformed inflation in many periods, amidst some volatility.

Investment in commodities have been found to offer a good hedge in the short-term against inflation, especially when unexpected, but their volatility needs to be recognized.

Inflation rate and TB rate



Inflation rate and AFEX





Africa's \$ 1Trillion

COMMODITIES MARKET

Towards a \$1 trillion Commodities Market in Africa



A

- Africa's growth in real gross domestic product (GDP) was estimated at 3.8% in 2022, down from 4.8% in 2021.
- However, according to the African Development Bank (AFDB), growth is projected to rebound to 4% in 2023 and consolidate at 4.3% in 2024, underpinning Africa's continued resilience to shocks.



B

- Also, according to World Bank projections, the African food market will grow to a US\$1 trillion industry by 2030.
- This projection was in 2013 when Africa's commodities market was \$313 billion
- Agriculture is estimated to be Africa's largest economic sector, representing 35% of the continent's GDP. Nigeria, Africa's largest economy and top oil producer, accounts for about 15% of Africa's GDP.



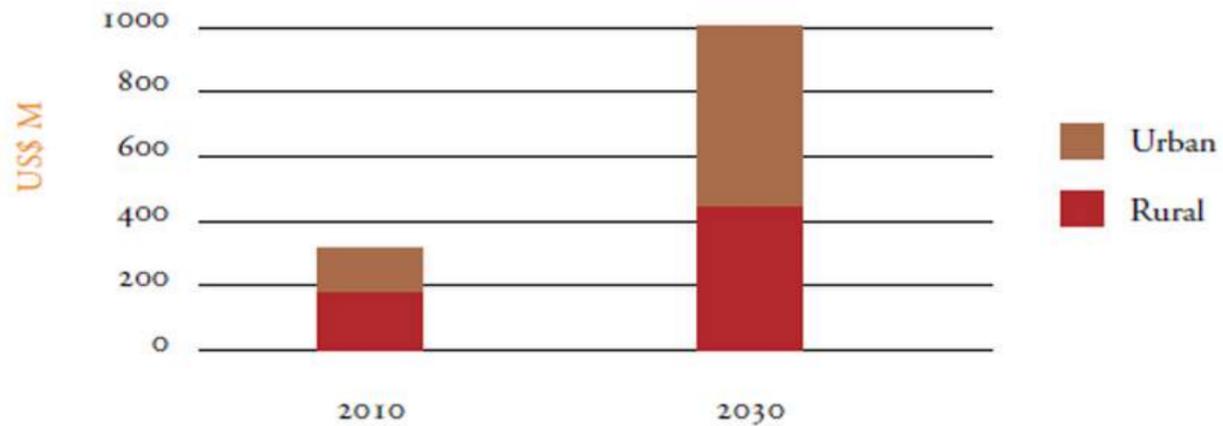
C

- Therefore, with agriculture at the center of its economic development, Africa has the potential to become a global agricultural powerhouse and a net exporter of food.
- However, despite its vast agricultural potential, Africa remains a net importer of agricultural products, with an annual food import bill of \$35 billion.

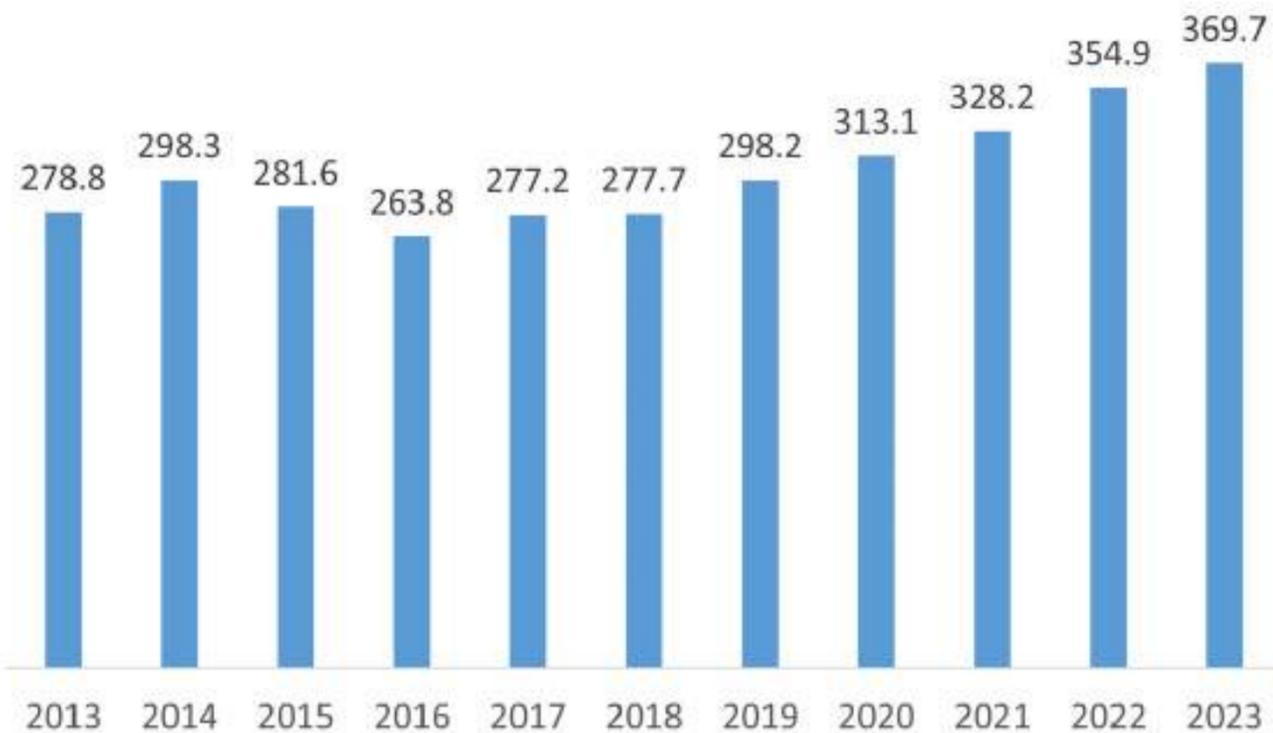
D

Towards a \$1 trillion Commodities Market in Africa Contd

The Trillion-dollar Opportunity: Projected Value of Food Markets, Sub-Saharan Africa



Source: World Bank 2013.



Source: WDI

Population and incomes grow rapidly in Africa, resulting in a consequent increase in food demand, as stated in the World Bank Report, 2013.

This led to the forecast that the food market would reach US\$1 trillion by 2030 in Sub-Saharan Africa, with most of the growth driven by urban demand.

However, the food market was estimated to be \$278.8 billion in 2013, was \$354.9 billion at the end of 2012 and is projected to be \$369.7 billion at the end of 2023.

This shows that the 2030 forecast is still far-fetched, as the region has yet to double its agricultural market value for close to 10 years

Role of Liquidity on Achieving Africa's Commodities Potential

Several studies observed that the availability of finance to farmers is much more important than any other factor in improving the resource use efficiency in the agriculture sector.

According to a report of African union in 2023, in terms of private-sector financing, the total demand for agricultural finance in Nigeria (farmers, MSMEs, and large agro-firms) is estimated to be 83 trillion (\$200 billion),

Access to financing is a key hurdle to investment from the private sector in African agriculture. According to the African Development Bank, the current financial shortfall is estimated to be between US\$27 billion and US\$65 billion annually.

However, the total supply of agricultural finance is estimated to be 1.6 trillion (\$4 billion), with an additional 6 trillion (\$15 billion) self-financed by entrepreneurs, accounting for less than 1%.

One key challenge for agriculture in Africa is a lack of finance from both the public and private sectors.

Banks are Nigeria's leading supplier of agricultural finance despite agriculture accounting for only 5% of their entire loan portfolio.

According to the Comprehensive African Agricultural Development Program (CAADP) Maputo and Malabo commitment, the recommended public expenditure for the sector is 10% of the national budget; however, the Biennial Review (BR) report shows that many African Countries like Nigeria is falling short of this

As a result, there is a huge financial vacuum that must be filled in an innovative manner in order for the sector to be transformed.

target.

Unlocking Capital For Commodities Through the Capital Market

Undoubtedly, the capital market is a vital pillar for long-term fund mobilization required for capital formation to accelerate economic growth and development through agriculture.

The capital market has the capacity to unlock better access to credit and finance for the sector through innovative financing structures and products.

Corporate and project-specific bonds are sources through which the capital market can help bridge the funding gap in the Nigerian agriculture sector.

However, the concern with project-specific bonds is its ability to guarantee that its estimated cash flows would be sufficient for the repayment of the bondholders.



This concern may be satisfied by the provision of long-term offtake contracts with distributors of the company's products and the provision of security on its assets or third-party guarantees as a further means of investor protection.

Also, crowdfunding, regulated by the SEC, is a viable option to be considered. The crowdfunding rules also create a Commodities Investment Platform (CIP)

The CIP is a framework that permits digital platforms to link investors to specific agricultural or commodities projects and corporates to raise up to N1 billion for agricultural or commodities projects.

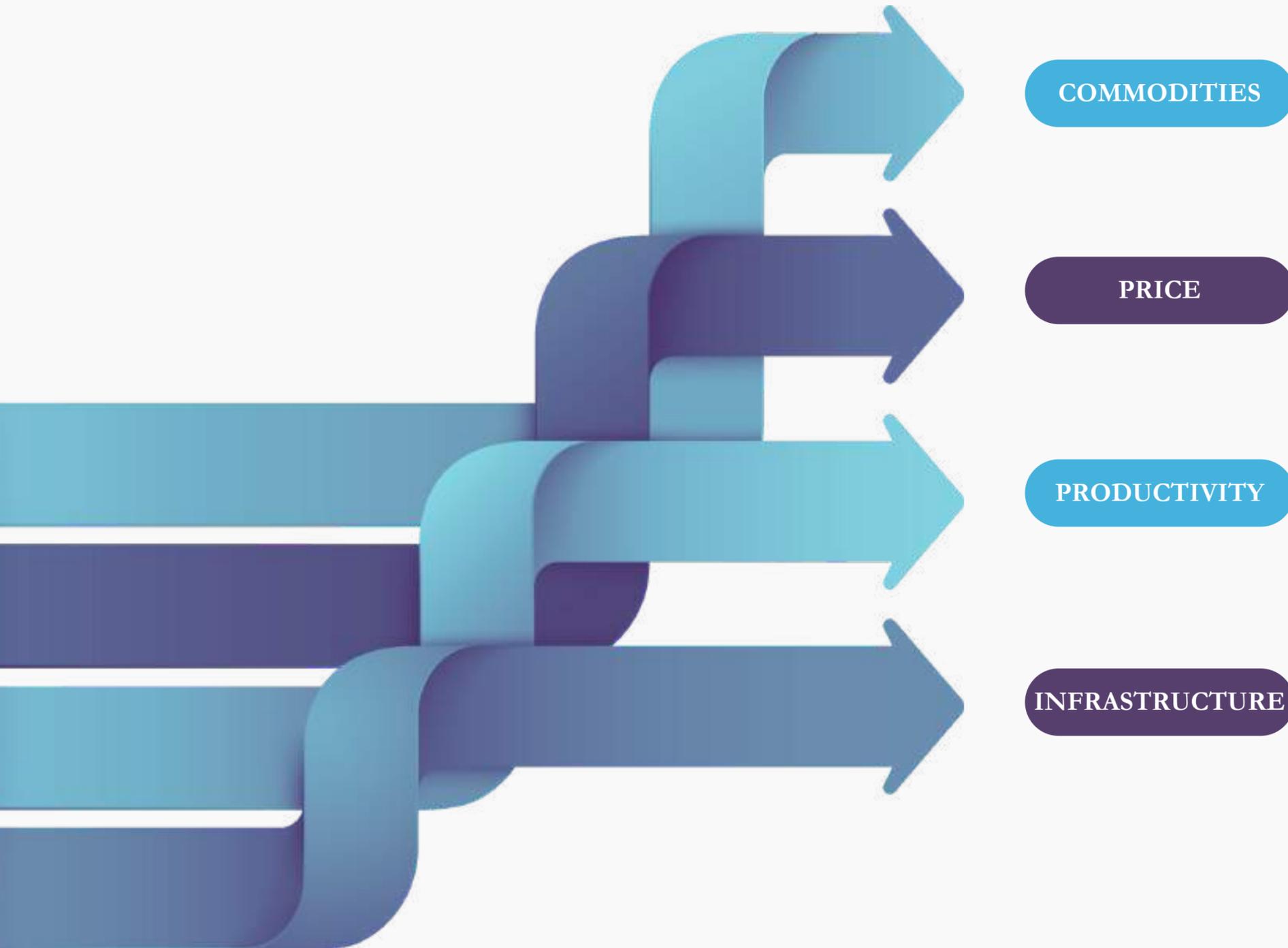
Agriculture-focused companies may also raise funds through the securitization of their future cash flows. In this regard, factors to evaluate include the economic potential of agricultural products and the availability of long-term contracts.

Summary and

IMPLICATIONS



Summary and Conclusion



Commodities will continue playing essential roles in global economies, particularly in developing economies like Nigeria.

Price volatility, which has an influence on all market participants in commodity-producing countries, is one of the major risk factors for developing countries that are dependent on commodities.

Swift attention is needed to improve agricultural productivity at the farm level, reduce farmers' significant losses in revenue, and make financial services affordable to farmers.

Infrastructure development, such as transportation, storage facilities, and processing plants, is critical for improving commodity market efficiency and attracting investment.

Implication & Outlook

The global grain market is poised for improvement in 2023/24, primarily because of record-level production of three staple grains: wheat, maize, and rice.

01



One of the many inadequacies of local commodity exchanges is their limited success in harnessing their potential to promote agricultural productivity.

02



For example, weather occurrences are challenging to forecast and can sometimes lead to supply disruptions in commodity markets, particularly within the agricultural sector.

03



Facilitating access to affordable financing, such as credit facilities and investment capital, can allow commodities market players to increase their operations and value.

06



Promoting technology use throughout the commodities value chain may boost production, efficiency, and value generation.

05



04

Therefore, broadening the economic base through diversification is an important strategy for commodity-dependent countries, which will reduce the negative effects of commodity price fluctuations.

THANK YOU

For Listening

