



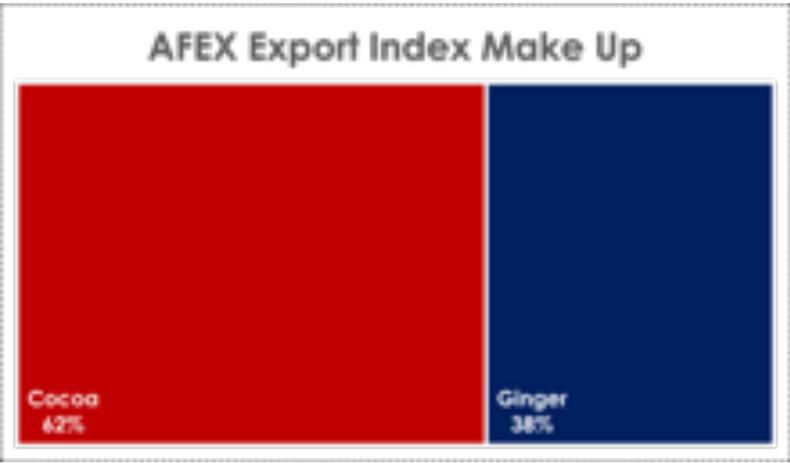
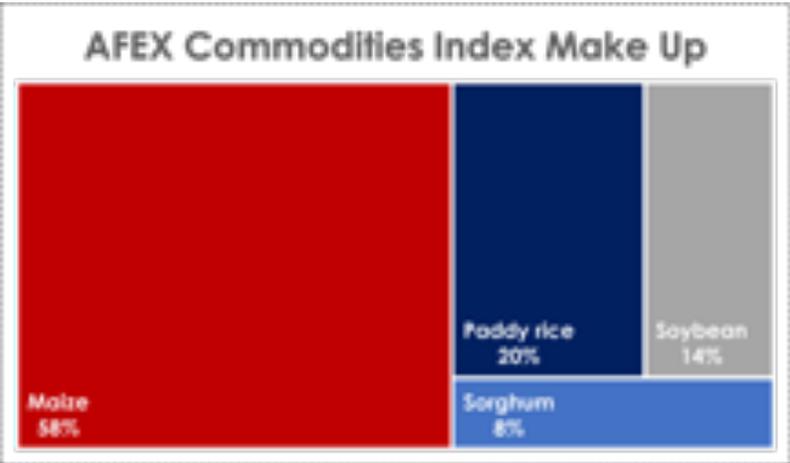
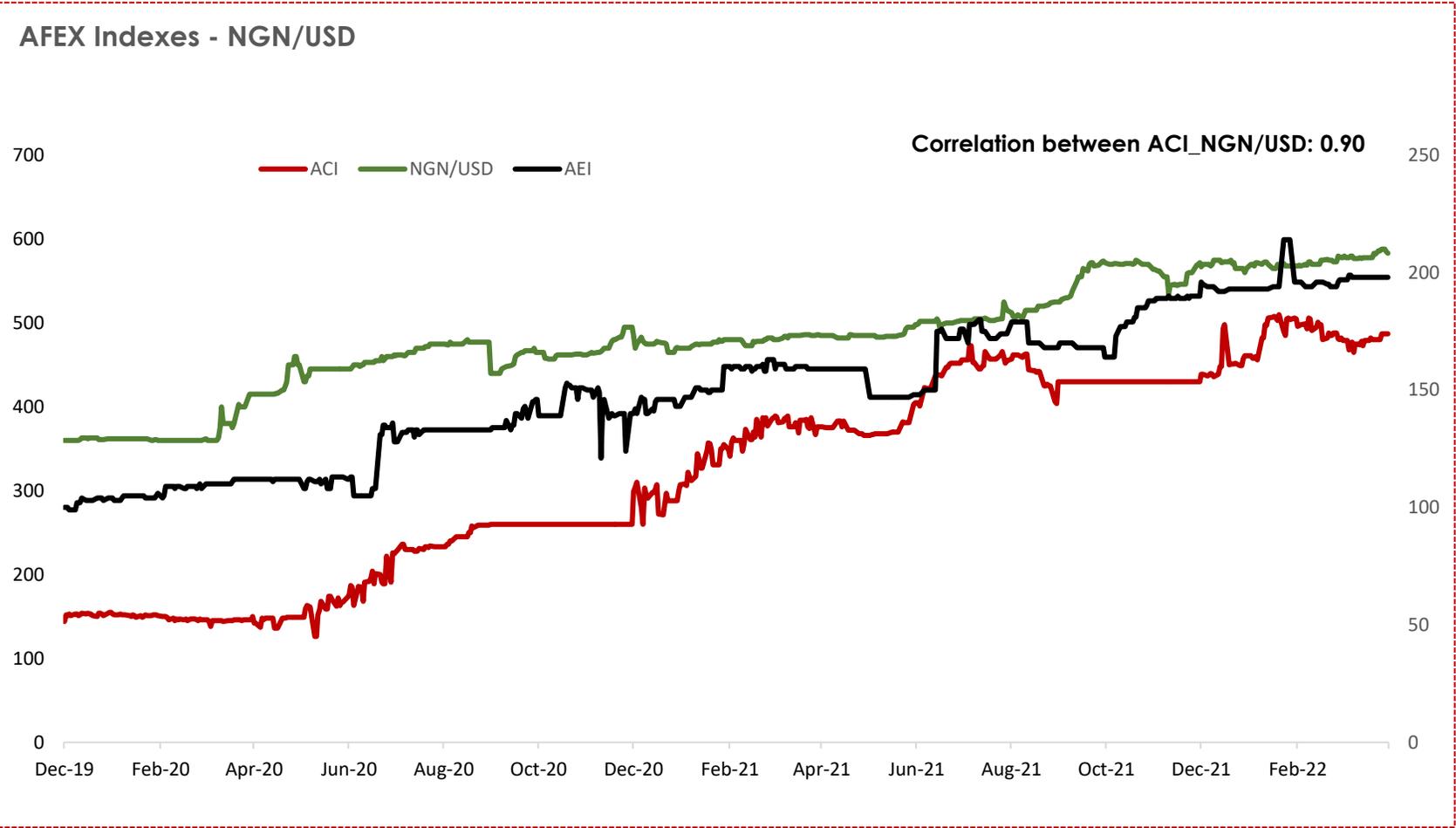
Q1 2022 Capital Market Committee Meeting

Ayodeji Balogun – Chief Executive Officer

Sustained Level of Trading Activities on the Exchange (1/2)

▲ **ACI**
Q1'22 vs Q1'21 **56%**

▲ **AEI**
Q1'22 vs Q1'21 **38%**



Sustained Level of Trading Activities on the Exchange (2/2)

Spot Board



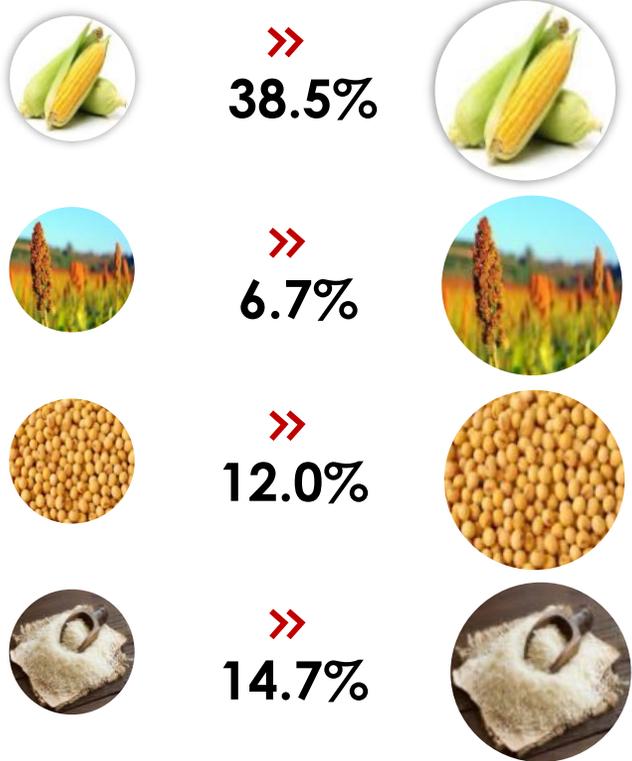
Inclusive of Dawa Trades

OTC Board



Inclusive of the CBN Trades

Fixed Income Products on the Exchange		
Product	Subscribers	Value – NGN'bn
ABCP	109	26.90
FETC	296	1.25



*Returns are Season to Date

Skyrocketing Global Commodities Prices



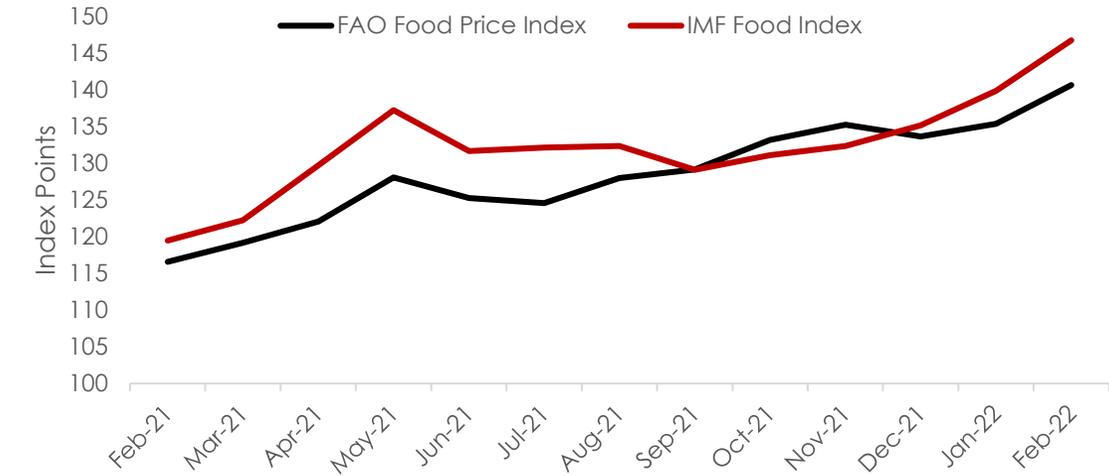
The Russia-Ukraine war is affecting Global food security.

Global food prices set a record last month, according to the United Nations, as Russia's invasion of Ukraine disrupted shipments from the countries that, together, supply one-quarter of the world's grain and much of its cooking oil. More-expensive food may be frustrating to the middle class, but it's devastating to communities trying to claw their way out of poverty.

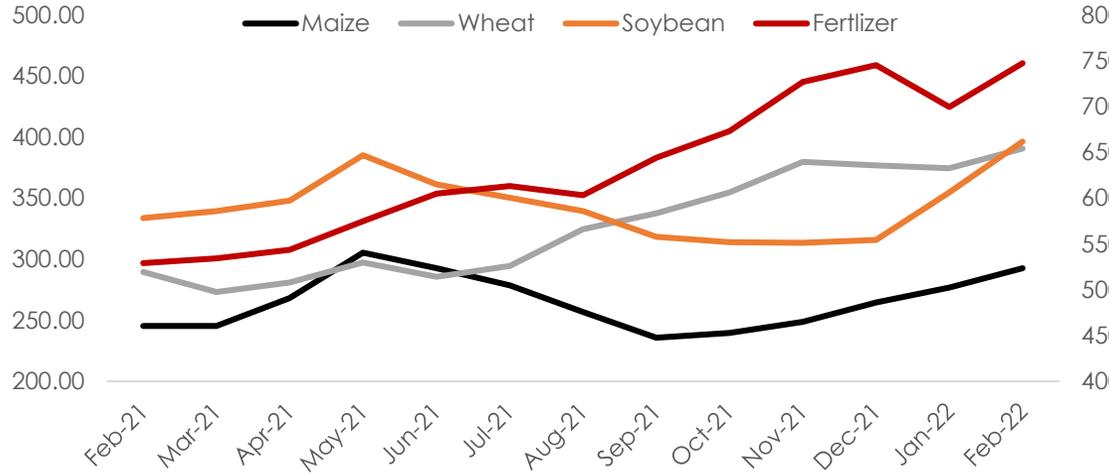
The high export concentration that characterizes agricultural commodity markets is especially mirrored by the fertilizer sector, where the Russian Federation plays a leading supplier role.

The upshot is that countries that are highly dependent on the Russian Federation and Ukraine for essential food and fertilizer supplies will need to prepare contingency plans to source from other countries, in the expectation that these countries can exact a rapid supply response

Global Food Prices



Global Prices of Major Commodities (\$/mt)



Source: FAO, IMF, World Bank Pink Sheet, AFEX Research

Potentials of the Global Food Crisis on the Nigerian Commodities Market

The recent escalation of conflict engaging such important global agricultural commodity market players, at a time of already high and volatile international food and input prices, raises significant concerns over its potential negative impact on food security domestically. Simulations undertaken by local and international food experts to assess the possible ramifications if suggest that this conflict and the ensuing crisis could lead to further increases in local and international prices of the foods most traded by the countries, including spillover effects into other food sectors, as well as an increase in the global number of undernourished people.



Sustained Elevated Prices of Commodities

- ❖ Domestic prices of the four commodities (**Wheat, Maize, Sunflower & Barley**) with important Ukrainian and Russian export shares are rising.
- ❖ These price increases will be influenced by the magnitude of the shock, supply elasticities of alternative suppliers and the commodities' relative demand elasticities



Increasing Financing Gap

- ❖ Higher spreads are being witnessed in the Fixed Income space in the Nigerian capital market due to the volatility in the global financial market.
- ❖ Nigerian Commodities market players need to continue to support the growth of the agriculture sector through innovative financing and synergies.



Price transmission through the input side

- ❖ Price of fertilizer and other inputs are rising steadily, because of the conflict.
- ❖ Lower affordability for farmers and ultimately lower use levels, and lower yields and compromised qualities in the next cropping season.
- ❖ AFEX will play a leading role in financing the fertilizer value chain to ensure availability and affordability of inputs for farmers.



Need for Increased Market Transparency and Dialogue

- ❖ Policy dialogue and coordination between market participant in the Nigerian commodities market are necessary to minimize disruptions and ensure that the market continue to function properly.
- ❖ Market transparency also plays a key role in dealing with uncertainty and adjusting to shocks affecting supply and demand.

Factors Shaping Domestic Commodities Performance

01.

Rising Cost of Production

- ❖ Prices of major crop nutrient inputs have soared in the past 12 months and have risen by over 30% in 2022.
- ❖ Higher levels than what was witness during the food and energy crisis of 2008.

04.

Translatory effect of FX movement

- ❖ Researches have shown a strong correlation between Nigeria's parallel market rate and price movements in commodities.
- ❖ Devaluation of Naira has a sizable effect on the cost of production especially imported inputs such as seedlings, fertilizer, and machinery etc.

02.

Demand-Supply Gap

- ❖ Nigeria's agricultural productivity is insufficient to meet the demand of its growing population thus increasing the demand and supply gap in Nigeria.
- ❖ This has led to food insecurity driving the continuous surge in prices.

05.

Unabating Security Challenges

- ❖ There has been renewed violent conflicts in food producing states across the country.
- ❖ This has led to a sizable decline in Nigeria's food production output

03.

Pending Structural Challenges

- ❖ Unresolved issues such as infrastructure gap across the Agric value chain form the fundamental factor pressuring prices.
- ❖ These issues influences the insufficient food production along the value and supply chain

06.

Increased cross border trade

- ❖ The continuous fall of the Naira/CFA Franc exchange rate made Nigerian agricultural exports attractive to its neighboring countries such as Niger.
- ❖ This has further put a strain on the inadequate supply in the country.

Product Development Initiatives

AFEX Quest to help players hedge against risk – Building a Commodities Derivatives Market

Objectives



- Develop products and services; risk hedging & management strategies.
- Design and introduce appropriate benchmarks to support the financing objectives of financial institutions.
- Assessment of commodities market and business environment validation

Steps Taken



- Identification and engagement of potential synergistic partnerships.
- Preliminary engagements (surveys and personal interviews) with market participants to gauge the market appetite for derivatives products.
- Policy and regulatory compliance engagement with relevant stakeholders, internal and external.

Updates



- We are finalizing the product structure and specification of Five futures contracts.
- We are in discussion with DGCX to advance the implementation of derivatives .
- We are currently engaging both FMDQClear and NGClearing as potential Central Clearing Counterparty (CCP).

Elements of Derivatives Implementation

Policy and Rule Development

Internal and external engagements are ongoing with the Commission, leveraging on existing guidelines, to encourage the design and structuring pathway.

The Exchange is in constant engagement with the **Commission** on guidance on rules and guidelines for the trading of derivatives in the commodities space

Product Development

Product development process in conjunction with relevant market stakeholders is at its final stage.

Product design and concept structuring have reached advanced stages with current product array spread across the soft, agro and precious metal commodities

The Exchange also continues to initiate connections and engagements with various local and international participants that are critical to the development of the product.

Technological Gap Reduction

Over the past 9 months, the Exchange has acquired the services of consultants to scope the requirements for the derivatives markets and guide the in-house technology team in identifying a workable structure.

AFEX Unlocking Value in the Commodities Ecosystem via ABCP Issuances

Asset Backed Commercial Paper (ABCP) represent a fixed income instrument with commodities serving as the credit enhancement element in the transaction. The product seeks to help eradicate the high cost of procurement incurred by agro-processors and FCMG suppliers operating in the country. The Exchange got necessary regulatory approvals from the Commission to launch a 3-year N100bn commercial paper program targeted at fulfilling this goal.



5

Processors Financed



₦26.9bn*

Amount Raised so far



30,000MT

Volume Aggregated

As at Q1 2022

* The capital raise was oversubscribed by 8%



Market Development Efforts

Capital Market Exchange Initiative



Field Trips to Warehouses and Local Markets

This initiative is a structured market training initiative for **Capital Market Players** that cut across the operationality of commodities trading from the open market to securitization and the enabling technologies.



Five (5) Capital Market Operators have Participated so far.



Training on Market Fundamentals and Introduction to AFEX's Trading/Market Infrastructure

Deepening Understanding of the Commodities Market - Trainings and Engagements



2022 Commodities Outlook

Beneficiaries

- Commodities market ecosystem (January 2022)



Upscaling with ComX

Beneficiaries

- Retail Investors (March 2022)



MoU with CIS (Chartered Institute of Stockbrokers)

Beneficiaries

- Capital Market Operators (March 2022)



MOU with Niger State Ministry of Agriculture and NSCEPA

Beneficiaries

- Niger State Farmers (March 2022)



Exploring the Goldmine in the Commodities Space

Beneficiaries

- The public (March 2022)



Africa Tech Summit

Beneficiaries

- Technology and Commodities Market Ecosystem (February 2022)

- Retail Investors (March 2022)



Empowering Commodities Market Stakeholders

We continue to provide extraordinary value to our stakeholders by regular market engagements and educational initiatives.



The Exchange has also continued to collaborate on necessary synergies to increase the participation and level of activity of investors in the commodity market.



These collaborations will also ensure the continued development and expansion of knowledge on the commodities market and commodities backed securities.

Strong and Growing Relationships With CMOs & Financial Institutions



**Thank
You**

AFEX