INSIGHTS FOR THE QUINTESSENTIAL INVESTOR

momento

AFRICA: A FUTURE OF BOLD ECONOMIC POLICIES

MULTIDIMENSIONALITY OF THE RUSSIA-UKRAINE CONFLICT

VOLUME 02 · ISSUE 02 · FEB 2022

momento

Editor-in-chief **Mosope Arubayi**

Contributing Writers **Lasisi Lukman Abisoye**

Picture Attributions **The Lightwriter**

Zeferli

Seth Doyle

Vejaa

Markus Spiske

Pilesasmiles

EDITORIAL CORRESPONDENCE

Momento is published by Mosope Arubayi.
+2347-06277-4539 | info@mosopearubayi.com

www.mosopearubayi.com

CONTENTS

EDITOR'S NOTE

Who would have thought that a month where love and wine drinking are celebrated will end in a deep conflict in Eastern Europe, with cruise missiles being fired in a hostile attack? My heart goes out to all the victims of the ongoing Ukrainian invasion, including the non-whites that were victims of racial discrimination in their bid to flee for safety. Racism and xenophobia sure have no boundaries.

Against this backdrop, **Lasisi Lukman Abisoye** - an agricultural and international economist - assessed the butterfly effect of the conflict in **Multidimensionality of the Russia-Ukraine crisis** (Page 05). In the same vein, I shared my thoughts on the implications of the accompanying spike in oil prices on oil importers with petrol subsidy schemes in **Nigeria: Caught in a web** (Page 13).

February was also a symbolic month for Africa, as it marked the second year of COVID-19 touching down in the continent. In **Africa: A future of bold economic policies** (Page 07), I reiterated the opportunities created by the pandemic for African policymakers to build back better post-pandemic, including incorporating economic resilience to volatile climate-related factors – which I also shed some light on in **Climate change: Bracing for impact in Africa** (Page 10).

Amidst all the global chaos, it is important not to lose sight of some other big issues: scorching inflation and COVID-19. As individuals, the most we can do is wait out the dark storm that is gathering with the Ukrainian crisis - while focusing on China's posture on the crisis. The economic impacts of war ripple far and none can escape unscathed. It is even more difficult to protect your wealth from the indirect consequences of war in another country.

And remember, bad times make for good buys in the financial market. Baron Rothschild - an 18th-century British nobleman once said that "Buy when there's blood in the streets, even if the blood is your own."

Have yourself a tension-free March (I hope....lol).

Mosope Arubayi

MULTIDIMENSIONALITY OF THE RUSSIA-UKRAINE CONFLICT

BY LASISI LUKMAN ABISOYE

The Russian military incursion into Ukraine could have dire consequences for the global economy given the strategic position the country occupies in global politics. From time to time, the world is often engulfed in peace-threatening global crises. The outbreak of wars has become more prevalent and it is not confined to a particular region or part of the world. However, the question on the mind of most is how the ongoing war might impact economies around the globe.

For context, in 2016 the global economy lost about $14.3trn accounting for 12.6% of world Gross Domestic Product (GDP), in purchasing power parity (PPP) as a result of violence and conflict (Global Peace Index, 2017). Already, global macroeconomic variables are beginning to react to shocks being created by the war. Oil prices are at an 8-year high, nearing the $120/bbl psychological mark.

Large economies like China and India who depend heavily on cheap crude may likely be the first victims of this avoidable war. With the global economy barely recovered from the shocks of the pandemic, a disruption in the global supply chain, through sanctions, of important commodities like gas and wheat from Russia and Ukraine will create an inflationary shock with waves reaching all corners of the globe. Potentially, it is expected that the rise in crude price will drive up inflation and with the West slamming sanctions on Russia, a country that produces about 10% global oil demand, the price of crude could go even higher.

The impact of the ongoing Russian invasion on the G7 nations is not likely to be as mild as imagined. The United States and Canada, which are far removed from the scene of the showdown will not be spared and are perhaps going to be impacted through oil prices and their knock-on effect on other commodity prices. The possibility of economy crippling cyber-attacks from Russia in retaliation to US sanctions should not be dismissed. Japan faces a similar situation. However, for members of this group in Europe, the effect is likely to be multidimensional.

Between Russia and Ukraine is 25% of global wheat production with Italy being one of the top importers of wheat in the world. Besides, Russia supplies the bulk of the oil and gas, a key driver of the European market. About 60 -70% of Germany's demand for natural gas comes from Russia. Other non G7 developed economies in Europe will share the same fate, especially as there is an existential threat that the Russian invasion might extend to other Scandinavian countries. The travel and tourism sector in this region, which accounts for the bulk of the GDP, is expected to suffer greatly. Moreover, the destabilization of these countries may result in the proliferation of arms in the region which may prompt previously unseen levels of insurgencies in the future, perhaps, comparable to those experienced in North and West Africa.

In the Middle-East and North African region (MENA), particularly among the oil-exporting countries, an increase in oil revenue will most likely help national governments in this region combat inflationary shocks. However, there may be no immediate solution to the disruption in the supply chain for key production inputs arriving from Europe. Furthermore, the region may experience more violent instability in the coming months, as most of the arms now in civilian hands in Ukraine may likely end up in North African markets.

So far, China has kept a safe distance from Russia and the war. This is not only important for itself but also for most Sub-Saharan African (SSA) economies that depend on China for the supply of a substantial amount of consumer and capital goods. Trade between China and SSA has improved immensely over the last 2 decades, increasing from 4% in 2001 to 25% in 2020.

There is reason to believe that trade sanctions on Russia from the West will not necessarily be as damaging and effective as they were in 2014 when it invaded Crimea. However true this is, Russia will have to look up to China to mitigate the effect of some of these sanctions, which may subsequently put China in a difficult situation. The fate of SSA may depend on how China handles relations with Russia in the next couple of weeks.

Russia will have to look up to China to mitigate the effect of some of these sanctions, which may subsequently put China in a difficult situation.

AFRICA: A FUTURE OF BOLD ECONOMIC POLICIES

BY MOSOPE ARUBAYI

14th February was not just about chocolates and roses; it was also the second anniversary of the COVID-19 pandemic in Africa. The COVID-19 pandemic brought atypical disruptions to Africa—crunching incomes, magnifying poverty and food insecurity, and leading the region into its first recession in 25 years. Faced with the shock of unprecedented proportions, Africa has shown a resilience that many more developed parts of the world lacked.

However, with recovery on track in the global economy, and as the pandemic's economic effect continues to recede, recovery is turning out to be difficult for Africa as it is already falling behind in terms of growth prospects. A deadly cocktail of vaccine nationalism, restrictive patents, and limited vaccine manufacturing infrastructure has left the continent largely unvaccinated, leading to a two-track recovery - both between African economies and with the rest of the world. While the global economy is projected to grow by 4.4% in 2022 - led by growth in a few heavyweight countries -, the continent's outlook is not promising.

The African continent will face many challenges in the post-COVID-19 world, as such the IMF expects sub-Saharan Africa to grow by 3.7%. Past strategies focused on transformation as the main outcome, but the COVID-19 pandemic has highlighted the role resilience plays as an equally important economic outcome. Therefore, African countries' future economic development goals need to incorporate both objectives. Also, new sources of vulnerability (health, political, fiscal, etc.) have been unearthed and the region is likely to face even riskier external and internal environments in the future. Scarring from pandemics could reverse goals, exacerbate frictions, and deepen repression across the continent. The reality is that Africa's COVID crisis may be yet to come, therefore, African leaders must now adopt strategies for a resilient recovery post-COVID-19.

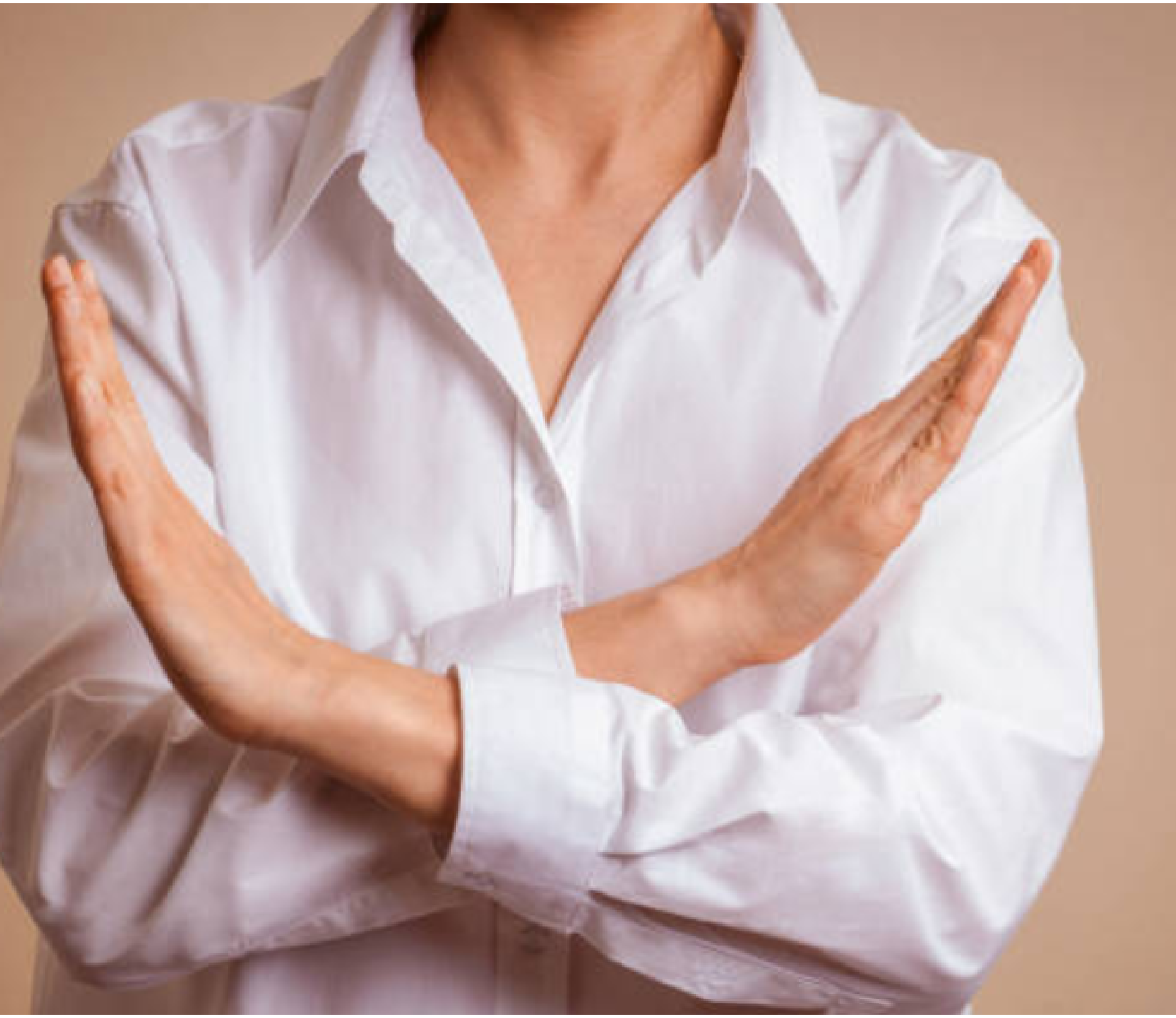
In a resilient economy, fewer assets are lost when shocks occur, thus more sustained improvements in economic welfare occur for the same amount of investment. The pandemic presents a unique opportunity for Africa to re-think its development policies. The pandemic has been a major destabilizing force and achieving resilient, sustainable growth will not be easy, and will require food value chains to become more internationally competitive; increasing on-farm productivity; reducing production and distribution costs to cities and small towns; facilitating private investments in logistics and processing; reducing intra-African nontariff trade barriers, and successfully implementing the right adaptation policies for climate-vulnerable regions.

While the pandemic has intensified Africa's need for more international support within the framework of a more modern form of multilateralism, the region needs to re-build its own future by forming a new kind of partnership with the private sector - both at the national and international level - so as to plug financing gaps in the course of its economic recovery and mitigate the medium and long-term impact of the crisis. At a time like this, rating agencies should not be considered as a part of the problem but as part of the solution because they are necessary to have a measured voice to bring about some stability.

However, African countries will have to invest in investor confidence in order to gain the trust of capital markets - which account for 40% of the region's external debt - to close the financing gap that weighed on Africa's development pre-COVID and now threatens its post-COVID-19 economic recovery. Attracting stable foreign investment will require African governments to de-risk their economies by strengthening the quality of their national institutions and taking measures such as stepping up good governance, improving transparency, improving the ease of doing business, intensifying the fight against corruption, and investing in infrastructure, technology, and human capital.

The aim for Sub-Saharan Africa should not be to bounce back to the unsustainable forms of development it pursued pre-pandemic but chart a new development course – that is digital and green - for the region. It also needs to incorporate transparency, fairness, and realism to tackle the scale and depth of endemic development challenges. The list of efforts African countries will have to make over the next few years to mitigate the impact of the ongoing economic crisis may seem to be very long. But the path to the post-COVID transformation is a marathon and not a sprint. A marathon that is being run at a time when it is being changed by global circumstances.

The aim for Sub-Saharan Africa should not be to bounce back to the unsustainable forms of development it pursued pre-pandemic but chart a new development course – that is digital and green - for the region.



#breakthebias

Happy International Women's Day

8th March 2022

CLIMATE CHANGE: BRACING FOR IMPACT IN AFRICA

BY MOSOPE ARUBAYI

Globally, climatic shocks have become more frequent and intense. Many people still think of climate change as a future phenomenon, probably because climate change-related projections are tied to future dates: 2030, 2050, or 2100, for instance. But we are, unfortunately, experiencing climate change, and have done so for some time now. Over the past century, global temperatures have increased and sea-level rise is already starting to affect certain low-lying coastal communities.

Climate change is having severe impacts on Africa. More than 50 major African cities are vulnerable to severe climate-related hazards posed by sea level and air temperatures rise. The rise in Africa's surface temperature has outpaced the world's. Africa experienced its fourth-warmest year since 1910, in 2020. The temperature rises and distortion in rainfall patterns have culminated in the increase in frequency and intensity of extreme weather events across the continent. As a matter of fact, the frequency of natural disasters in Africa has outpaced the rest of the world.

After drought, flooding incidents affect most people across the continent, though they are concentrated in a few countries, including Kenya, South Africa, and Mozambique. Southern Africa is no stranger to the devastating impacts of weather-related hazards such as floods, wildfires, storms, and droughts. The region has already been experiencing climate changes that are more rapid, and with impacts that are more severe than the global average, making it particularly vulnerable.

For the past three years, five tropical storms have hit the Southern Africa region killing around 780 people and leaving nearly five million people extremely vulnerable. Many times, the storms are followed by dry weather and drought, perfect condition to breed pests such as fall armyworms that have decimated thousands of hectares of crops. These events have decimated infrastructure and impoverished communities, causing ruinous economic and social losses.

Tropical storm Ana, which made landfall from late January to early February, caused widespread destruction and triggered flooding across Southern Africa. Fatalities were recorded in a few countries including Mozambique, Malawi, and Uganda. In Malawi, for instance, the tropical storm Ana left over 100,000 families displaced, and thousands of hectares of crops and vital infrastructure damaged by heavy rainfall, strong winds, and large-scale flooding. In addition to dozens of fatalities and hundreds of missing person reports, many communities are inaccessible by road – mainly in poor, rural areas - leaving many stranded and cut off from communication and electricity.

Similarly, Mozambique has suffered repeated destructive storms in recent years, and this has made it extremely vulnerable. While still counting the losses from cyclones Idia and Kenneth that struck in 2019, Mozambique is dealing with a complex crisis – in addition to the COVID-19 pandemic - which has caused an enormous strain on its budget and the population. Cyclone Idia left Mozambique with the second-highest death toll.

Madagascar is still counting the toll of cyclone Batsirai, which left 121 people dead earlier in February, according to official figures, and destroyed many buildings and roads. A few weeks earlier, Tropical Storm Ana claimed 58 lives and displaced 130,000 people in Madagascar. South Africa and Lesotho have also been hit by unusually heavy rainfalls, triggering floods that have killed scores of people. Likewise, parts of Zimbabwe and Zambia also received torrential rainfalls, floods, and strong winds from the Tropical Storm Ana but not as severe damages compared to Mozambique and Malawi.

With Southern African communities reeling from the impact of inclement weather that has destroyed several houses and other property, there is no avoiding the reality that southern Africa is in the throes of a climate emergency.

With Southern African communities reeling from the impact of inclement weather that has destroyed several houses and other property, there is no avoiding the reality that southern Africa is in the throes of a climate emergency. Southern Africa has been notified of its high risk of climate change-related high-impact tropical cyclones, coastal flooding, and intense rainfall and advised to stay prepared. The Southern Africa region and nearby islands in the Indian Ocean are expecting about eight to 12 more cyclones before the end of the cyclone season in May.

Africa's islands and coastal cities are at a high risk of more extreme weather in the coming years. They are likely to see continued rises in the sea level in this century leading to severe coastal flooding, marine heatwaves, ocean acidification, and reduced oxygen levels. The Indian Ocean’s surface has warmed faster than the global average, which can lead to more cyclones and more droughts. Temperature changes and distortion in rainfall patterns can affect economic activity, especially in climate-sensitive sectors like agriculture, fishing, and tourism. Besides disrupting economic activity, they can intensify the volatility of government revenues.

Without urgent adaptation measures, African cities and towns – especially those in Southern Africa - will be hard hit, leaving millions exposed and vulnerable to climate change. A higher frequency of climatic shocks in the region – including tropical storms - means the 88 million extremely poor people across this region (due to inequality and enduring two years of the COVID-19 pandemic) have little resilience left and their capacity to bounce back is severely constrained. This is due largely to decreased funding to emergency, recovery, and long-term support to affected communities.

To build communities’ resilience and ensure they are better prepared for future storms, it is important to invest in early warning systems and anticipatory action. In Malawi, for instance, the intensity of the storm was only forecasted two days before it hit, giving communities in its path little warning to evacuate. Finance is also needed to help disaster-struck communities recover and rebuild. Mechanisms to facilitate quick insurance payouts when disaster hits should be introduced.

Evacuation drills that prepare people for storms could also help community response and minimize losses. Anticipatory action, before a hazard strikes, is critical to reducing losses and damages. They could prevent a lot of human suffering and are cost-effective. The U.N. Economic Commission for Africa has also called for climate-smart planning in all economic sectors to counter the threatening outcomes from extreme events. Sustained investments in disaster risk reduction and resilient nature-based ecosystems are needed to cushion Africa’s socio-economic growth, fast-track poverty alleviation, and attain a smart and climate-neutral industrialization agenda.

Without urgent adaptation measures, African cities and towns – especially those in Southern Africa - will be hard hit, leaving millions exposed and vulnerable to climate change.

NIGERIA: CAUGHT IN A WEB

BY MOSOPE ARUBAYI

Oil prices are on a tear, along with everything else in this inflationary period. Players in the global oil market are spooked by supply-related constraints, and their continued panic has seen oil prices climb by no less than 50% YTD. While Western oil companies are drilling fewer wells post-pandemic - partly due to pressure from investors and environmental activists and to also avoid over-supplying the market -, outages in countries like Ecuador, Kazakhstan and Libya because of natural disasters and political turbulence have deepened the production gap in recent months. On the other hand, much of the world is learning to live with the pandemic, and while people are eager to commute, many are wary of contracting the virus and are opting for private vehicles rather than shared public transport systems.

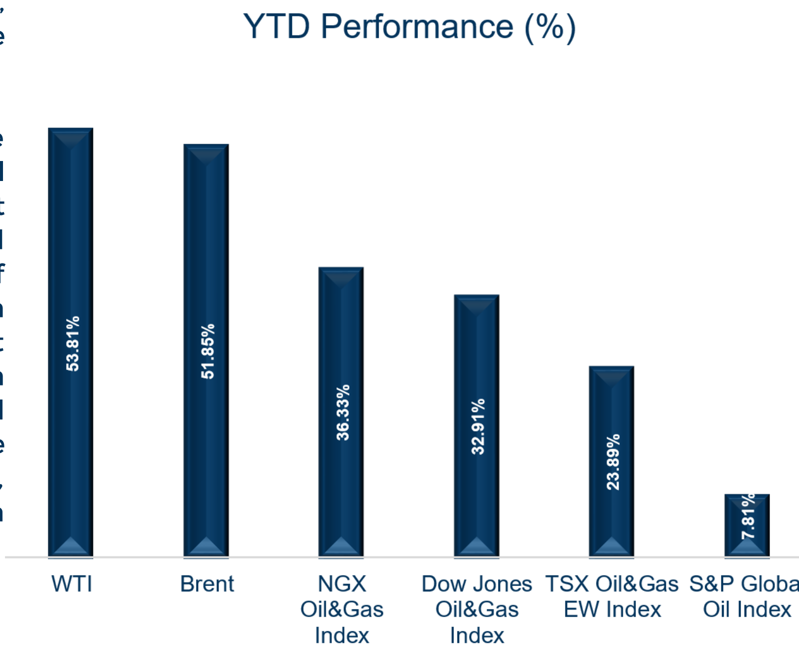
The price rally has been good news for oil-producing countries, like Russia, Saudi Arabia, Nigeria, and shale producers in the United States. Countries that depend - to a high degree - on oil to finance their budgets are in better fiscal and external positions, thanks to higher oil receipts. As a result, Angola is being viewed more favourably by Fitch and has been upgraded to B- (Stable). Business is also booming for oil companies, and their stocks have rallied along with oil prices. The Dow Jones and Nigeria's oil & gas indices are both up 32.9% and 36.3% respectively, YTD.

Unfortunately, every coin has two sides, and the rally in crude oil prices in recent months is no exception. The oil shocks of 1973/74 and 1979/80 are remembered for the disruption and hardship they caused in the major oil-consuming countries. Even today, as oil prices flirt with $120/bbl, the damaging impact of very high oil prices is painfully being re-learned, painting a different picture in oil-importing countries. The oil rally is evoking pain globally, as it ultimately feeds into petrol's landing cost. Fuel prices are higher than they have been in a long time for global consumers, and the majority are paying more to fill up their tanks.

Also holding the short end of the stick, are some emerging economies whose governments subsidize energy consumption. The reflated subsidy bills will further drag already-stretched government budgets, as it is not popular vote to embark on subsidies removal when pump prices are purse-pinching consumers. Therefore, as the rally boosts budget implementation and reserves accretion in oil-producing economies, it leaves an inflationary impact through higher fuel prices on oil importers and weakens the fiscal profile of energy subsidizers. Some countries, including India, Angola, and Nigeria are caught between two or more of these dynamics.

While oil prices may have soared, the most immediate and critical factor in the global oil market is geopolitical risk – following Russia's military offensive against Ukraine, with threats of military action issued to Finland and Sweden as well. Russia produces roughly one of every 10 barrels used around the world on any given day. In the face of tougher sanctions - targeted at Russian access to foreign currency and hydrocarbon supply -, already-pressured fuel supplies in Europe will be at further risk, crippling much of the continent. More than a third of Europe's gas supplies come from Russia, and around a third of those supplies are shipped via Ukraine.

Broadly, the prospect of higher oil prices is a double-edged sword being wielded by Russia's President at this time. While a temporary imbalance in the market could yield some short-term wins for oil exporters, an extended disruption to oil's global supply chain will have a painful effect on the global economy's post-pandemic recovery. Oil's recovery may be a boon for the market's big suppliers, but its knock-on effects are certainly coming back to bite.



Sources:Bloomberg; Mosope Arubayi

Unfortunately, every coin has two sides, and the rally in crude oil prices in recent months is no exception..... Fuel prices are higher than they have been in a long time for global consumers, and the majority are paying more to fill up their tanks.

BUY WHEN THERE'S BLOOD IN THE STREETS, EVEN IF THE BLOOD IS YOUR OWN

BARON ROTHSCHILD