

## Weekly Economic and Financial Commentary

### Global Economy

The US and China last week signed the “Phase One” trade agreement after about 18-months of trade war between both countries. With the deal signed, China is expected to (1) increase purchases of U.S. manufacturing, energy and agricultural goods and services by at least \$200 billion over two year, (2) makes commitments to try to root out the sale of counterfeit goods, (3) boost Chinese market access to financial services firms. The deal calls for China to submit an action plan to strengthen intellectual property protection within 30 days of the agreement taking effect and US in return revoked its decision to label China as a currency manipulator and reduced tariffs on \$120 billion worth of Chinese products from 15% to 7.5%.

The Chinese economy grew by 6.0% YoY in Q4 2019 (Q3 19: 6.0% YoY) and by 6.1% overall in 2019 (the slowest annual growth since 1990), according to the National Bureau of Statistics. The GDP growth largely reflects the weak industrial production as the trade war with the U.S affected manufacturing activities. Largely, the series of tariffs on imports, subdued the external sector for most part of 2019. In the US, consumer prices rose by 2.3% YoY in December (November: 2.1%) following increases in food and energy by 1.8% and 3.4% respectively.

### Domestic Economy

Data released last week by the National Bureau of Statistic revealed headline inflation expanded by 11.98% YoY in December from 11.85% YoY in November 2019, with headline inflation in 2019 averaging 11.39% compared to 12.15% average in 2018. Much of the expansion stemmed from the feedthrough of the land border closure on food prices, which more than outweighed the onset of the main harvest season, with food prices expanding 18bps to 14.67% YoY from 14.48% in November. The impact of the higher foods prices is further compounded by increase in the core index for the second consecutive month by 33bps to 9.32%YoY compared to 8.99% in November.

Last week, President Buhari signed the Finance Act which made incremental changes to Nigeria’s tax and fiscal laws. The major highlights of the act are the increase in Value Added Tax (VAT) from 5% to 7.5% - effective February 1st, 2020; the introduction of a N25 million VAT compliance threshold; the exemption of companies with less than N25 million annual turnover from payment of CIT; expansion of the scope of companies taxable in Nigeria to

Figure 1: Brent Crude Price Trend

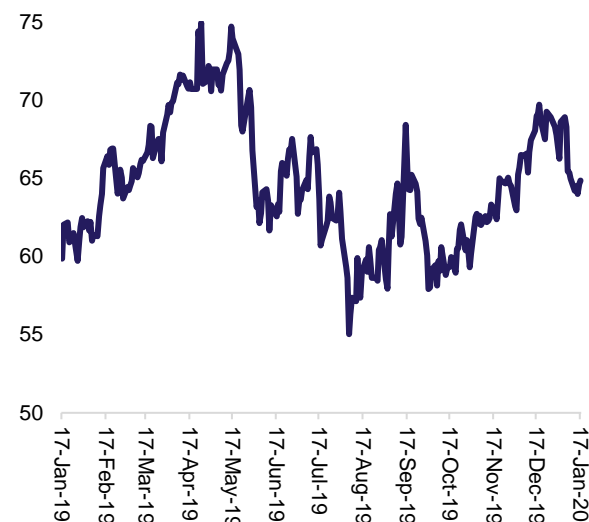
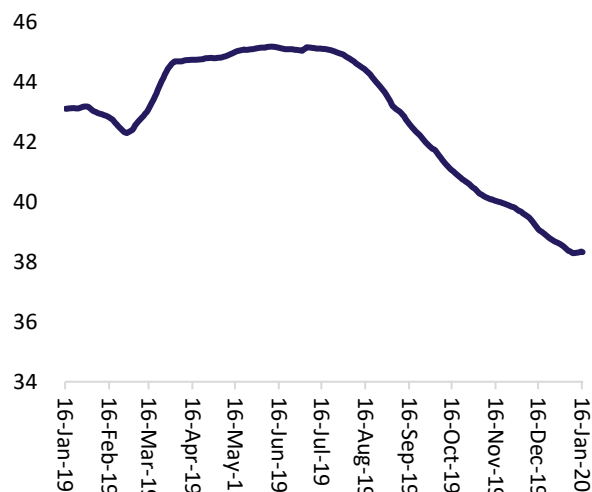


Figure 2: Movement in Gross Reserve (\$'Billion)



- The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will be holding its first meeting of the year between Thursday and Friday, January 23 and 24, 2020.

include companies that operate within the Nigeria digital space, among others; requirement of a tax identification number for opening of bank accounts or continue operation of existing bank account; provision of exceptions for the application of excess dividend tax under Section 19 of the CIT Act; and imposition of excise on certain imported products.

Last week, the Debt Management Office (DMO) unveiled its borrowing plans for the year 2020, based on the 2020 Appropriation Acts, which comprises of N850 billion and N744.99 billion for external and domestic borrowings respectively. The domestic borrowings will be raised through FGN Bonds (which will include the introduction of a 15-year maturity for the first time and will sell a new 30-year bond to extend the maturity profile of its debt), N150 billion in Sukuk, FGN savings Bonds and possibly Green Bonds. For External Borrowings the strategy is to first seek out concessionary and semi concessionary loans due to the lower interest rate and longer tenors. Any shortfall thereafter may be raised from commercial sources.

### Crude Oil

The OPEC Monthly Oil Market Report (MOMR) released last week, showed OPEC output declined by 162,000bpd in December, according to secondary sources. The lower output was accounted for by Saudi Arabia (continued to produce below quota to compensate for overproduction elsewhere), Iraq, Libya, United Arab Emirates, and Nigeria. Irrespective, crude oil prices traded lower last week to close at \$64.85/barrel (20bps lower). The close price is still ahead the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel.

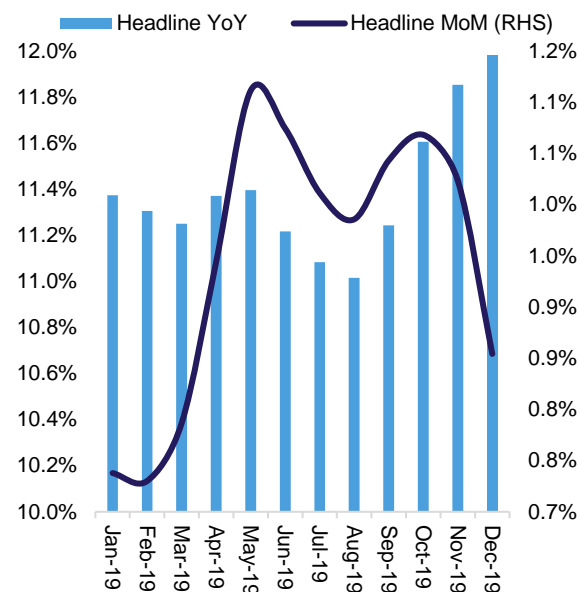
### Foreign Exchange and Reserve

As at Thursday (Jan. 16, 2020), the gross external reserve increased by \$30.84 million to \$38.32 billion when compared to \$38.28 billion as at Jan. 09, 2020. Year to date, the reserve is down \$275 million. However, the naira appreciated at the I&E window by 21bps to close at N361.84/\$, weakened at the BDC and Parallel market by 42bps and 14bps to N360.50/\$ and N361.00/\$ respectively.

### Fixed Income

The CBN held both NTB and OMO auctions last week. At the NTB auction, the CBN (on behalf of the Debt Management Office) sold a total of N225 billion, higher than the maturing bills worth N152 billion. With subscription totalling N417.6 billion, average stop rate declined 53bps to 3.99%, with the 1-year rate closing at 5.09%. At the OMO auction, compared to the N200billion offering by the CBN, subscription totalled N410 billion (reflecting maturing bill of N434.7 billion). The apex bank sold a total of N201.25 billion with the 1-year stop rate declining 5bps to 13.25%. At the secondary market, average NTB yields moderated 74bps to 3.53%, due to faster declines in long tenor bills of 169bps.

**Figure 3: Nigeria YoY and MoM Inflation Trend**



On the other hand, bond yields rose 5bps to 10.27% following increases in long tenor bonds – Jul-2034 (26bps), Apr-2037(23bps) and Apr-2049 (25bps).

### Equities

The Nigerian equities market appreciated by 0.69% WoW to close at 29,618.52 points with market capitalization advancing by N81.8 billion. On a sectoral basis, gains were recorded across Banking (+1.54%), Oil & Gas (+0.82%) and Telecom (+6.42%), while Cement (-1.28%), Brewers (-7.45%), Food (-0.20%), Insurance (-0.83%), Personal care (-1.04%) and Construction (-1.04%) sectors booked losses.

Figure 4: Daily Money Market, FX and Fixed Income Rates

Foreign Exchange rates	10-Jan-20	13-Jan-20	14-Jan-20	15-Jan-20	16-Jan-20	17-Jan-20	WoW % Change
CBN Official	306.95	306.95	306.90	306.90	306.90	306.90	0.02%
NAFEX	362.60	362.48	362.43	362.60	361.92	361.84	0.21%
BDC	359.00	359.50	360.00	360.50	360.50	360.50	-0.42%
Parallel	360.50	360.50	361.00	361.00	361.00	361.00	-0.14%
Money Market rates %	10-Jan-20	13-Jan-20	14-Jan-20	15-Jan-20	16-Jan-20	17-Jan-20	WoW Change (bps)
Open Buy Back (OBB)	9.71	13.17	12.33	13.33	4.14	3.00	-671.00
Overnight (O/N)	10.71	14.00	13.42	14.17	5.07	3.86	-685.00
FGN Bonds %	10-Jan-20	13-Jan-20	14-Jan-20	15-Jan-20	16-Jan-20	17-Jan-20	WoW Change (bps)
Jul-21	8.66	8.63	8.70	8.73	8.56	8.54	-12.00
Jan-22	8.86	8.88	8.87	9.15	9.14	8.75	-11.00
Apr-23	9.72	9.71	9.71	9.80	9.80	9.78	6.00
Mar-24	9.86	9.79	9.79	9.79	9.79	9.91	5.00
Mar-25	10.02	10.02	10.02	10.02	10.40	10.40	38.00
Jan-26	10.44	10.45	10.45	10.45	10.42	10.45	1.00
Mar-27	11.07	11.07	11.07	11.10	11.10	11.21	14.00
Feb-28	11.37	11.37	11.37	11.37	11.37	11.37	0.00
Jul-30	11.33	11.33	11.33	11.33	11.38	11.39	6.00
Jul-34	11.24	11.24	11.24	11.48	11.50	11.50	26.00
Mar-36	11.24	11.24	11.24	11.24	11.41	11.44	20.00
Apr-37	11.35	11.35	11.35	11.35	11.35	11.58	23.00
Apr-49	12.36	12.60	12.65	12.49	12.61	12.61	25.00
T-Bills	10-Jan-20	13-Jan-20	14-Jan-20	15-Jan-20	16-Jan-20	17-Jan-20	WoW Change (bps)
NGOMOB 01/30/20	10.82	10.85	11.40	12.74	12.74	12.73	191.00
NGOMOB 02/27/20	12.35	12.22	12.22	12.53	12.67	12.55	20.00
NGOMOB 03/26/20	12.04	12.28	12.28	12.99	13.01	12.99	95.00
NGOMOB 04/23/20	12.38	12.34	12.44	12.91	12.91	12.90	52.00
NGOMOB 05/28/20	12.57	12.36	12.30	12.56	12.83	12.84	27.00
NGOMOB 06/18/20	12.67	12.59	12.43	12.71	12.70	12.70	3.00
NGOMOB 07/16/21	12.98	12.96	12.72	12.71	12.71	12.70	-28.00
NGOMOB 08/27/22	13.22	13.12	13.11	13.36	13.42	13.42	20.00
NGOMOB 09/24/23	13.62	13.94	14.15	14.32	14.10	13.90	28.00
NGOMOB 10/22/20	14.06	14.04	14.04	14.03	13.99	13.88	-18.00
NIGTB 04/02/20	3.52	3.52	3.78	3.78	1.92	2.01	-151.00
NIGTB 07/02/20	3.56	3.46	4.81	4.81	4.36	3.23	-33.00
NIGTB 10/01/20	5.08	5.08	5.08	5.08	5.08	4.36	-72.00

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