

Weekly Economic and Financial Commentary

Global Economy

President Trump on Wednesday announced that the Phase 1 trade deal with China will be signed on January 15, 2020, after the US and China both agreed to terms of the deal on December 13, 2019. The Phase 1 deal reduced tariffs on imports from China by \$120 billion and nullified the additional 15% tariff on \$156 billion worth of imports from China that was expected to take effect in December. The finalisation of the deal is expected to support overall global trade and global output growth.

In a bid to free up funds for banks to lend and support the fragile economic growth, People's Bank of China last week announced it will cut the amount of cash that all banks must hold as reserves by 50 basis points, effective Jan. 6. It is expected that the cut will bring the cash reserve requirement for big banks down to 12.5%. As a result, global stocks rallied on the first trading day of the year with S&P 500 advancing 0.8, Nasdaq Composite by 1.3%, Dow Jones Industrial Average by 1.2% and CSI 300 of Shanghai and Shenzhen-listed companies increasing 1.4% to reach the highest level since February 2018.

Domestic Economy

The December Purchasing Managers' Index (PMI) data released by the Central Bank of Nigeria (CBN), revealed that both the manufacturing and non-manufacturing sectors expanded by 60.8 and 62.1 index points from 59.3 points and 60.1 points in November respectively. The increases mirrored improvements across all sub-indices.

Crude Oil

Geopolitical tensions between US and Iran pushed oil prices higher last week, gaining 2.2% to close the week at \$68.49/barrel. Specifically, the drone attack which resulted in the death of General Qassem Soleimani, a top Iranian

Figure 1: Brent Crude Price Trend

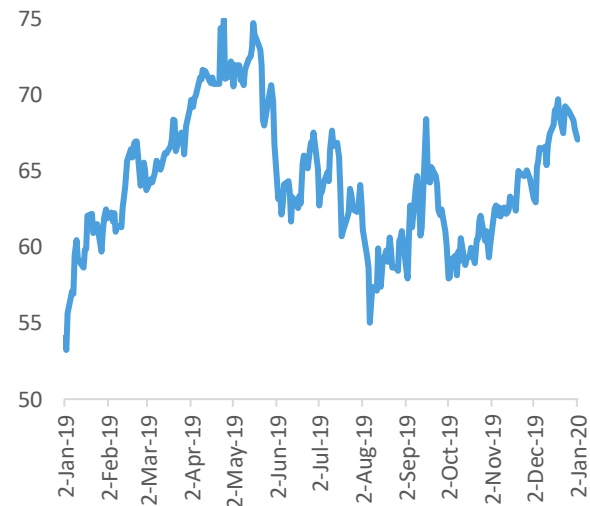
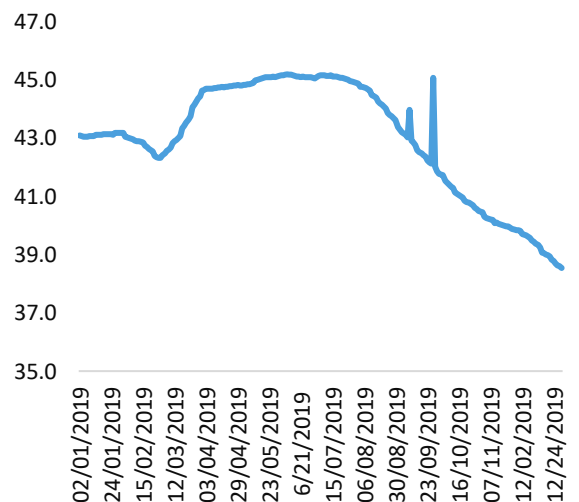


Figure 2: Movement in Gross Reserve (\$'Billion)



commander (a said retaliation to an Iranian-backed militia attack on the US embassy in Baghdad). Accordingly, Iranian officials have stated they would respond which risks an escalation of the conflict and this could keep oil prices high in the short term, above the budget benchmark of \$57/barrel.

Foreign Exchange and Reserve

The gross foreign reserves depleted by \$148.06 million last week to \$38.53 billion (02 Jan. 2020). The naira was stable at the I&E window and parallel market at NGN364.94/USD and NGN361.00/USD respectively.

Fixed Income

At last week's NTB auction, the CBN rolled over maturing treasury bills worth N74.84 billion (same as the offered amount), despite subscription level settling at N174.7 billion. As a result of the high subscription level, average stop rates declined 30bps to 4.53%. At the secondary market, average fixed income yields dropped further by 60bps WoW to 7.55%. following contractions at both the short end (102bps to 10.15%) and long end (18bps to 10.52%). It is worth noting that average fixed income yields declined by 741bps YoY to 7.72% at the end of 2019.

Equities

The Nigerian equities market gained 2.09% WoW to close at 26,968.79 pts, while market capitalization increased N266.6 billion to N13.02 trillion. The positive performance was supported by gains in the Banking (+3.39%), Cement (+1.32%), Telecom (+2.53%), Food (+2.40%), Oil & Gas (+15.04%) and insurance (+4.45%) sectors. The brewery (-2.65%) and Personal care (-3.85%) sectors closed lower last week. In other news, the recapitalization deadline for insurance companies earlier slated for June 30th, 2020 was extended to 31st of December 2020 by NAICOM.

Figure 3: Nigeria YoY and MoM Inflation Trend

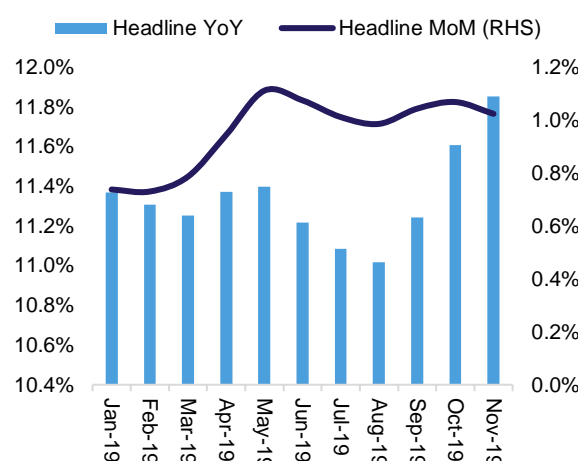


Figure 4: Daily Money Market, FX and Fixed Income Rates

Money Market rates %	27-Dec-19	30-Dec-19	31-Dec-19	02-Jan-20	03-Jan-20	WoW Change
Open Buy Back (OBB)	3.93	2.67	2.50	2.14	2.36	66.53%
Overnight (O/N)	4.57	3.43	12.64	2.79	3.07	48.86%
Foreign Exchange rates						
CBN Official	307.00	307.00	307.00	307.00	307.00	0.00%
CBN SMIS Window	358.51	358.51	358.51	358.51	358.51	0.00%
NAFEX	364.57	364.66	364.51	364.79	364.98	-0.11%
FGN Bonds %						
Jul-21	8.20	8.25	8.20	8.47	8.46	-3.07%
Jan-22	10.37	9.80	10.21	10.20	9.06	14.46%
Apr-23	9.96	10.20	10.20	10.20	10.16	-1.97%
Mar-24	10.01	10.00	10.00	9.99	9.99	0.20%
Mar-25	10.91	10.30	10.30	10.30	10.30	5.92%
Jan-26	11.65	11.05	11.10	11.11	11.11	4.86%
Mar-27	11.80	11.63	11.28	11.28	11.23	5.08%
Feb-28	11.43	11.50	11.56	11.56	11.56	-1.12%
Jul-34	11.84	11.68	11.68	11.68	11.68	1.37%
Mar-36	12.05	11.88	11.88	11.88	11.88	1.43%
Apr-37	12.12	11.96	11.96	11.97	11.95	1.42%
Apr-49	12.88	12.88	12.89	12.95	12.77	0.86%
T-Bills						
NGOMOB 02/06/20	13.45	12.53	12.53	11.85	11.85	13.50%
NGOMOB 03/19/20	12.85	12.62	12.56	12.56	12.55	2.39%
NGOMOB 06/04/20	12.67	12.40	12.31	12.31	12.46	1.69%
NGOMOB 08/13/20	12.72	12.07	12.33	12.33	12.33	3.16%
NGOMOB 09/03/20	13.05	11.90	12.00	12.00	12.00	8.75%
NGOMOB 10/22/20	12.03	12.00	12.85	12.85	12.85	-6.38%
NIGTB 04/02/20	5.10	5.10	5.10	5.10	5.10	0.00%
NIGTB 07/02/20	6.19	4.87	4.03	4.03	4.24	45.99%
NIGTB 10/01/20	5.00	4.50	4.50	4.50	4.50	11.11%

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