

Weekly Economic and Financial Commentary

Global Economy

The International Monetary Fund in the latest update to its World Economic Outlook (WEO), released last week, projected global growth to rise from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% for 2021 (downward revision of 0.1% for 2019 and 2020 and 0.2% for 2021 when compared to those in the October WEO). The fund stated that the downward revision reflects negative surprises to economic activity in a few emerging market economies, notably India, which led to a reassessment of growth prospects over the next two years. Growth in emerging and developing economies was revised downward by 0.2% each for 2020 and 2021 to 4.4% and 4.6% respectively, largely reflecting 1.2% and 0.9% downward revisions for India in 2020 and 2021 respectively. The fund slightly adjusted growth in advanced economies lower by 0.1% to 1.6% for 2020 and maintained growth estimates for 2021 at 1.6%.

In its first-rate decision of the year, the European Central Bank's (ECB) governing council voted unanimously to keep the benchmark rate at the historic low of -0.5% and stated that the rate will remain unchanged until inflation, which is currently at 1.3%, is sufficiently close to or at par with the ECB target of 2.0%. The ECB also maintained the pace of its monthly bond buying program at EUR20.00 billion as it continues to reflate the economy. The ECB announced the expected launch of its monetary-policy strategy review. The review will encompass the ECB's definition of price stability and how it measures inflation, while also looking at how considerations such as financial stability and climate change could affect monetary policy and its goals.

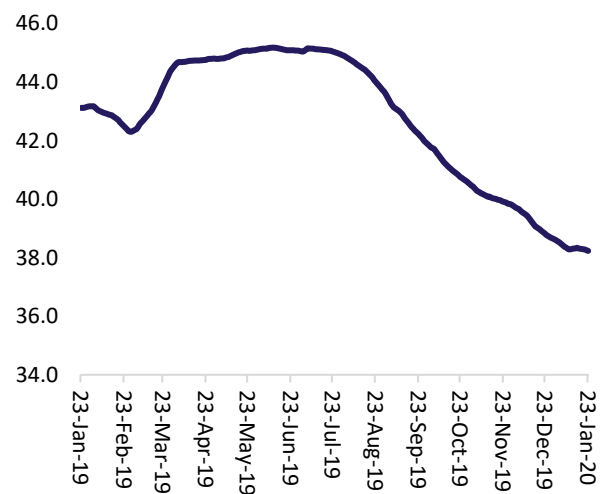
Domestic Economy

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), at its first-rate decision of the year, raised the cash reserve ratio (CRR) by 500bps to 27.5%, while maintaining other variables (MPR at 13.5%, Liquidity Ratio at 30% and asymmetric corridor at +200/-500bps around the MPR). The committee's argument largely focused on the impact of the exclusion of the nonbank financial institutions and individuals from investing in OMO securities and the impact maturing OMO securities attributed to these class of investors could have on the overall system liquidity. The committee stated the increase in CRR would help combat possible monetary induced inflation while retaining the benefits of the CBN's loan to deposit ratio policy.

Figure 1: Brent Crude Price Trend



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



The monetary policy communique revealed that the banking system's non-performing loans (NPLs) ratio improved from 6.6% in October to 6.1% in December 2019. Also, over the last six months, aggregate credit grew by N2.0 trillion. Sectoral distribution of the increase in private sector credit between May 2019 and December 2019 are as follows: manufacturing (N446.44 billion), General Retail and Consumer (N419.02 billion), General Commerce (N248.48 billion), Agriculture, Forestry and Fishing (N160.94 billion), Information and Communications (N156.47 billion), Finance and Insurance (N129.87 billion), Construction (N86.54 billion), and Transportation and Storage and (N68.61 billion), amongst others.

Crude Oil

The escalation of the coronavirus in China, which is raising concerns about a hit to the economy and slower oil demand growth, drove crude oil prices lower last week to close at \$61.1/bbl (6% lower). The close price is still ahead the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel.

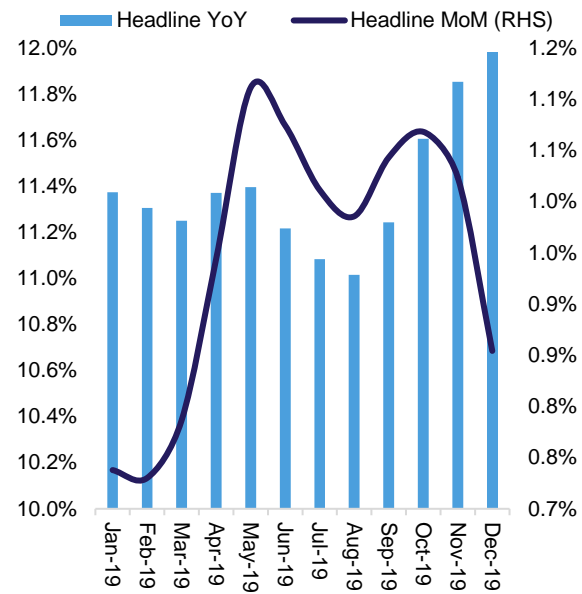
Foreign Exchange and Reserve

As at Thursday (Jan. 23, 2020), the gross external reserve reversed all the gains recorded in the past week as it depleted by \$88.32 million to \$38.23 billion when compared to \$38.32 billion as at Jan. 16, 2020. Year to date, the reserve is down \$363.58 million. The naira depreciated at the I&E window by 25bps to close at N362.75/\$, it however, appreciated at the BDC and Parallel market by 42bps and 28bps to N359.00/\$ and N360.00/\$ respectively.

Fixed Income

At the first bond auction of the year held last week, three instruments worth N150.00 billion were offered by the DMO to investors through re-openings. Compared to the offered amount, subscription totaled N624.5 billion, with the DMO eventually allotting instruments worth N409.99 billion, including non-competitive allotment of N1.83 billion. Reflecting the higher than expected subscription, average stop rates declined 82bps to 11.18%, compared to last auction's average stop rates of 12.0%. Also, the CBN held OMO auction last week, offering a total of N300 billion. Like the bond auction, subscription totaled N587.57 billion, with the apex bank allotting instruments worth N240.29 billion. Accordingly, the 1-year stop rate declined 14bps to 13.11%. At the secondary market, average fixed income yields contracted by 20bps to 6.70% anchored mainly by moderation in bond yields. Average bond yields declined 40bps to 9.87% WoW with bulk declines seen in the Jul-2021 (-149bps), Feb-2020 (-84bps) and Apr-2023 (-51bps). At the short end of the curve, average NTB yields closed flat at 3.53%.

Figure 3: Nigeria YoY and MoM Inflation Trend



Equities

The Nigerian equities market gained 0.03% WoW to close at 29,628.84 points with market capitalization advancing by N15.3 billion. On a sectoral basis, gains were recorded across Cement (+3.67%), Brewers (+1.26%), Oil & Gas (+6.89%), Insurance (+1.37%), and construction (+0.03%) sectors. While the banking sector (-2.12%), Telecom (-0.87%), Personal care (-3.58%) and Food (-4.78%) recorded losses.

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

| Foreign Exchange rates | 17-Jan-20 | 20-Jan-20 | 21-Jan-20 | 22-Jan-20 | 23-Jan-20 | 24-Jan-20 | WoW % Change |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| CBN Official | 306.90 | 306.95 | 306.95 | 306.95 | 306.95 | 306.95 | -0.02% |
| NAFEX | 361.84 | 362.38 | 362.20 | 362.88 | 362.51 | 362.75 | -0.25% |
| BDC | 360.50 | 360.50 | 360.00 | 360.00 | 359.50 | 359.00 | 0.42% |
| Parallel | 361.00 | 361.00 | 360.50 | 360.50 | 360.00 | 360.00 | 0.28% |
| Money Market rates % | 17-Jan-20 | 20-Jan-20 | 21-Jan-20 | 22-Jan-20 | 23-Jan-20 | 24-Jan-20 | WoW Change (bps) |
| Open Buy Back (OBB) | 3.00 | 2.58 | 2.40 | 2.14 | 2.93 | 3.67 | 67.00 |
| Overnight (O/N) | 3.86 | 3.50 | 3.10 | 2.86 | 3.57 | 4.33 | 47.00 |
| FGN Bonds % | 17-Jan-20 | 20-Jan-20 | 21-Jan-20 | 22-Jan-20 | 23-Jan-20 | 24-Jan-20 | WoW Change (bps) |
| Jul-21 | 8.54 | 8.36 | 8.29 | 8.16 | 7.28 | 7.05 | -149.00 |
| Jan-22 | 8.75 | 8.73 | 8.42 | 8.41 | 8.40 | 8.39 | -36.00 |
| Apr-23 | 9.78 | 9.96 | 9.85 | 9.80 | 9.22 | 9.27 | -51.00 |
| Mar-24 | 9.91 | 9.90 | 9.90 | 10.05 | 9.76 | 9.66 | -25.00 |
| Mar-25 | 10.40 | 10.40 | 10.10 | 10.10 | 9.93 | 10.13 | -27.00 |
| Jan-26 | 10.45 | 10.44 | 10.44 | 10.44 | 10.44 | 10.44 | -1.00 |
| Mar-27 | 11.21 | 11.07 | 11.05 | 11.04 | 10.91 | 10.75 | -46.00 |
| Feb-28 | 11.37 | 11.37 | 11.07 | 11.07 | 10.89 | 10.89 | -48.00 |
| Jul-30 | 11.39 | 11.39 | 11.18 | 11.18 | 11.03 | 11.02 | -37.00 |
| Jul-34 | 11.50 | 11.50 | 11.55 | 11.50 | 11.30 | 11.30 | -20.00 |
| Mar-36 | 11.44 | 11.44 | 11.44 | 11.44 | 11.35 | 11.31 | -13.00 |
| Apr-37 | 11.58 | 11.58 | 11.58 | 11.50 | 11.44 | 11.43 | -15.00 |
| Apr-49 | 12.61 | 12.61 | 12.59 | 12.53 | 12.48 | 12.49 | -12.00 |
| T-Bills | 17-Jan-20 | 20-Jan-20 | 21-Jan-20 | 22-Jan-20 | 23-Jan-20 | 24-Jan-20 | WoW Change (bps) |
| NGOMOB 02/27/20 | 12.55 | 12.75 | 12.53 | 12.66 | 12.65 | 12.38 | -17.00 |
| NGOMOB 03/26/20 | 12.99 | 13.02 | 12.51 | 12.78 | 12.78 | 12.72 | -27.00 |
| NGOMOB 04/23/20 | 12.90 | 12.57 | 12.18 | 12.59 | 12.58 | 11.86 | -104.00 |
| NGOMOB 05/28/20 | 12.84 | 12.83 | 12.28 | 12.73 | 12.73 | 12.72 | -12.00 |
| NGOMOB 06/18/20 | 12.70 | 12.65 | 12.03 | 12.69 | 12.57 | 12.32 | -38.00 |
| NGOMOB 07/16/21 | 12.70 | 12.69 | 12.09 | 12.23 | 12.20 | 11.89 | -81.00 |
| NGOMOB 08/27/22 | 13.42 | 13.36 | 12.49 | 13.59 | 13.25 | 13.16 | -26.00 |
| NGOMOB 09/24/23 | 13.90 | 13.97 | 12.77 | 14.07 | 14.00 | 13.55 | -35.00 |
| NGOMOB 10/22/20 | 13.88 | 14.07 | 12.80 | 14.15 | 14.15 | 13.77 | -11.00 |
| NIGTB 04/02/20 | 2.01 | 2.00 | 2.00 | 2.01 | 2.01 | 2.01 | 0.00 |
| NIGTB 07/02/20 | 3.23 | 3.19 | 3.19 | 3.34 | 3.52 | 3.52 | 29.00 |
| NIGTB 10/01/20 | 4.36 | 4.23 | 4.23 | 4.36 | 4.36 | 4.32 | -4.00 |

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