

Weekly Economic and Financial Commentary

Global Economy

The Euro area GDP rose by 0.9% YoY in Q4 2019 (+1.2% YoY in Q3) and by 1.2% YoY (+1.9% YoY in 2018) overall in 2019, according to a flash estimate published by Eurostat. The deceleration over 2019 largely reflects the weak industrial production which affected manufacturing activities in Germany (the biggest economy in the region) and other domestically induced uncertainties in France, Italy and Spain which slowed growth during the year. Elsewhere, the first estimate of the Euro area international trade revealed that the region's exports of goods to the rest of the world rose by 2.7% YoY to €2,345.4 billion in 2019, while imports rose by 1.5% YoY to €2,119.7 billion. As a result, the euro area recorded a surplus of €225.7 billion, compared with a surplus of €194.6 billion in 2018.

China and US released January Consumer Price Index last week. For China, the inflation rate expanded by 5.4% YoY in January (4.5% YoY in December) to reach the highest level since October 2011. The increase emanated from higher pork prices due to city lockdowns and transport restrictions following the coronavirus outbreak. As a result, overall food prices rose 4.4% month-on-month. The producer price index (reflecting the prices that factories charge wholesalers for their products), rose 0.1% YoY in January, an improvement on the 0.5% contraction in December. In the US, consumer prices rose 2.5% YoY in January (from 2.3% in December) following surge in energy prices by 6.2% YoY and 1.8% rise in food prices.

Domestic Economy

Last week Wednesday, the FMDQ Securities Exchange Limited (FMDQ) published a bulletin informing all Dealing Member (Banks) of the introduction of long-term monthly Naira-settled OTC FX Futures contracts (monthly contracts from fourteen months up to five years). The new futures contracts are an improvement to the current contracts which only offers thirteen months contracts and provide hedging opportunities over a one-year period. Accordingly, the new contracts offer foreign investors and borrowers longer hedging opportunities for foreign exchange risk exposures. As a result, forty-seven new monthly OTC FX Futures contracts, in addition to the existing thirteen contracts, were introduced on February 13, 2020, bringing the total number of open OTC FX Futures contracts at any point to sixty.

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Figure 1: Euro area GDP Growth (% YoY)

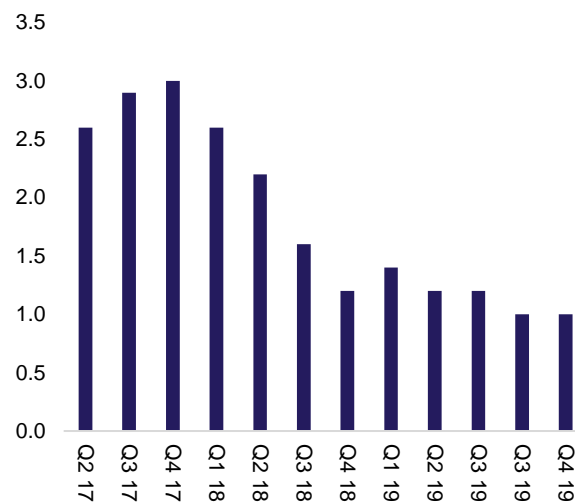
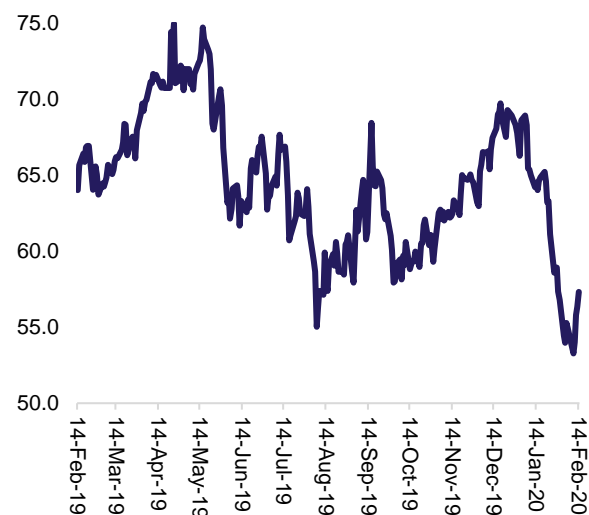


Figure 2: Brent Crude Price Trend (\$/bbl)



Existing FPI, FDI and FCY loan transactions executed prior to the effective date (Wednesday, February 12, 2020), will not qualify for purchase of the 14-month to 60-month OTC FX Futures contracts offered by the CBN. Only new or incremental FX exposures arising from FPI, FDI and FCY loans evidenced by valid Certificates of Capital Importation shall qualify for hedging with the long-term OTC FX Futures contracts.

Also last week, the CBN released a circular informing all banks of a review of the restriction on the importation of milk and other dairy products. The new circular limited the importation of milk and its derivatives to only 6 companies (FrieslandCampina Wampco, Chi Limited, TG Arla Dairy Products Limited, Promasidor Niger Limited, Nestle Nigeria Plc and Integrated Dairies Limited). According to the CBN, the 6 companies have keyed into its backward integration program by enhancing capacity in local milk production.

Crude Oil

The OPEC Monthly Oil Market Report for February released last week showed that the cartel's production declined by 510,000bpd in January to 28.86mbpd (excluding condensates), according to secondary sources. The decline stemmed largely from Libya (down 344,000bpd) due to the blockade of export terminals. Other members also recorded declines during the month, but Nigeria and Saudi Arabia recorded output increases of 25,000bpd and 57,000bpd respectively. While Saudi Arabia had consistently produced below its quota and pledged another 500,000bpd cut, the higher output in January suggests the Kingdom produced just 400,000bpd below its quota. Brent crude price steadied last week to close higher by 5% WoW to \$57.31/bbl following improved market sentiment as factories in China started to reopen and its government eased monetary policy. Also, the World Health Organization said the jump in China's reported coronavirus cases did not necessarily mean a wider epidemic but reflected a decision to reclassify a backlog of suspected cases. The close price is now higher than the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel.

Foreign Exchange and Reserve

As at Thursday (Feb. 13, 2020), the gross external reserve depleted by \$493.94 million to \$37.23 billion when compared to \$37.73 billion as at Feb. 06, 2020. Year to date, the reserve is down \$1.36 billion. The naira depreciated at both the I&E window and BDC by 11bps and 14bps WoW to close at N364.76/\$ and N359.00/\$ respectively, while it remained flat at the parallel market at N359.00/\$. The 6-months and 12-months forward points declined by N4.93 and N8.18 to N374.72/\$ and N391.96/\$ respectively.

Figure 3: Movement in Gross Reserve (\$Bn)

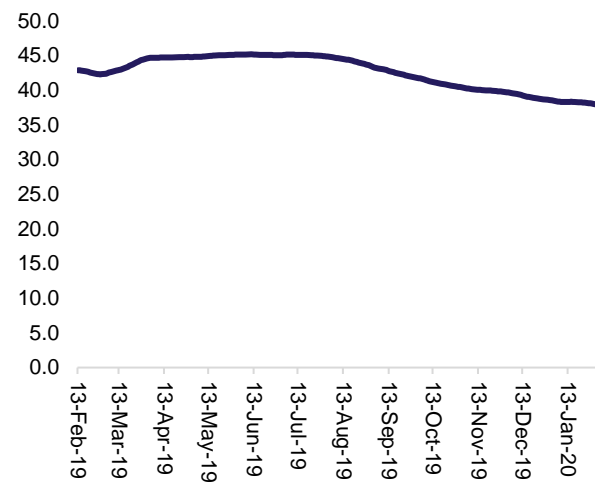


Figure 4: Movement in Forward Points (N/\$)

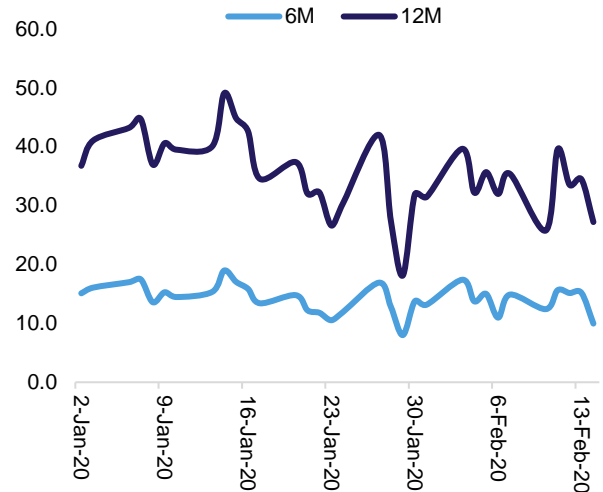
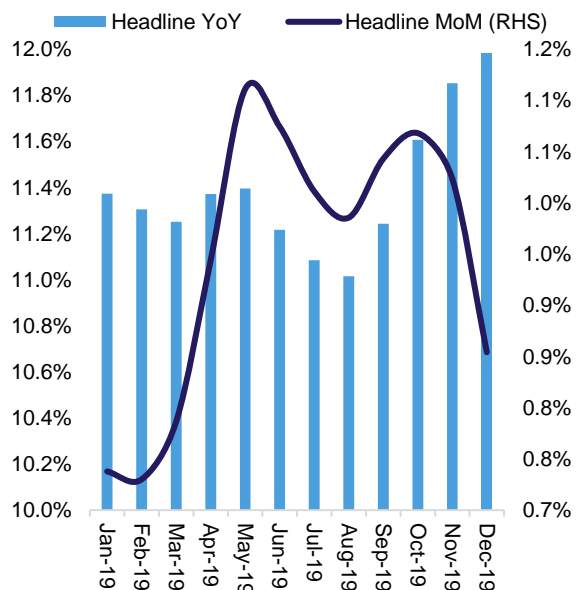


Figure 5: Nigeria YoY and MoM Inflation Trend



Fixed Income

The CBN held both NTB and OMO auctions last week. At the NTB auction, the CBN (on behalf of DMO) offered securities worth N154.4 billion to refinance maturing bills of N147.4 billion. However, despite subscription rates exceeding the maturing instruments and the offered amount at N287.8 billion, the CBN sold exactly what it offered. While the 1 year stop rate advanced 4bps to 6.54%, stop rates for the 90-day and 180-day declined by 50bps each with average stop rate at the auction contracting 32bps to 4.51%. At the OMO auction, compared to the N250 billion offering by the CBN, subscription was lower at N214.87 billion despite maturing bills of N440.90 billion last week. Notwithstanding the lower subscription rate, the 1yr stop rate was 1bp lower at 13.04% and the CBN cleared the total subscription. At the secondary market, average bond yields expanded 29bps WoW to 10.08% driven by increases in the JAN -2022 (+67bps) which offset decline in the JUL-2021 (-49bps). However, NTB yields declined 4bps to 3.82% following declines observed across the short-tenor bills and long-tenor bills. Accordingly, average fixed income yields expanded 13bps WoW to 6.95%.

Equities

The Nigerian equities market closed the week lower by 1.11% WoW to close at 27,755.9 points with market capitalisation declining by N162 billion. Losses were recorded across most sectors, led by Consumer Goods (-6.5%), Insurance (-2.2%), Oil and Gas (-0.7%) and Banking (-0.2%) indices. The Industrial Goods (+0.78%) index was the sole gainer.

Figure 6: Daily Money Market, FX and Fixed Income Rates

Foreign Exchange rates	07-Feb-20	10-Feb-20	11-Feb-20	12-Feb-20	13-Feb-20	14-Feb-20	WoW % Change
CBN Official	306.95	306.90	306.90	306.90	306.95	306.95	0.00%
NAFEX	364.37	364.56	364.90	364.85	364.92	364.76	-0.11%
BDC	358.50	359.00	359.00	359.00	359.00	359.00	-0.14%
Parallel	359.00	359.00	359.00	359.00	359.00	359.00	0.00%
Money Market rates %	07-Feb-20	10-Feb-20	11-Feb-20	12-Feb-20	13-Feb-20	14-Feb-20	WoW Change (bps)
Open Buy Back (OBB)	5.50	2.50	2.64	15.42	15.14	15.33	983.00
Overnight (O/N)	6.33	3.25	3.36	15.92	16.00	16.00	967.00
FGN Bonds %	07-Feb-20	10-Feb-20	11-Feb-20	12-Feb-20	13-Feb-20	14-Feb-20	WoW Change (bps)
Jul-21	7.35	6.86	6.87	7.27	7.30	7.31	-3.78
Jan-22	6.87	7.54	7.47	7.57	7.61	6.84	-3.46
Apr-23	9.16	9.06	9.13	9.13	9.06	9.07	-8.66
Mar-24	9.56	9.46	9.47	9.47	9.50	9.50	-5.66
Mar-25	9.88	10.00	9.88	9.88	9.88	9.88	-0.29
Jan-26	9.88	10.00	9.88	9.88	9.88	9.88	-0.29
Mar-27	10.40	10.39	10.39	10.39	10.39	10.39	-0.36
Feb-28	10.82	10.76	10.63	10.82	10.82	10.82	-0.14
Jul-30	10.95	10.88	10.79	10.90	10.91	10.95	-0.10
Jul-34	11.33	11.13	11.13	11.14	11.14	11.14	-18.69
Mar-36	11.25	11.15	11.15	11.10	11.10	11.25	0.00
Apr-37	11.34	11.03	11.03	11.06	11.15	11.06	-28.16
Apr-49	12.32	12.32	12.30	12.28	12.30	12.33	0.96
T-Bills	07-Feb-20	10-Feb-20	11-Feb-20	12-Feb-20	13-Feb-20	14-Feb-20	WoW Change (bps)
NGOMOB 01/30/20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NGOMOB 02/27/20	13.90	13.77	14.30	14.22	14.14	13.97	7.24
NGOMOB 03/26/20	13.23	12.93	12.89	13.20	13.21	13.21	-1.83
NGOMOB 04/23/20	12.34	12.55	12.85	12.86	12.82	12.74	40.16
NGOMOB 05/28/20	12.90	12.73	12.74	12.91	12.96	12.89	-0.89
NGOMOB 06/18/20	12.78	12.86	12.75	13.18	13.00	12.91	13.37
NGOMOB 07/16/20	13.09	10.01	10.01	10.01	10.01	13.15	6.44
NGOMOB 08/27/20	13.29	13.02	13.07	13.23	13.24	13.28	-1.39
NGOMOB 09/24/20	13.70	13.59	13.60	13.80	13.80	13.69	-1.05
NGOMOB 10/22/20	13.95	13.75	13.75	13.89	13.90	13.94	-1.35
NGOMOB 11/17/20	14.02	13.72	13.94	14.00	14.05	13.99	-2.50
NGOMOB 12/29/20	14.18	14.05	14.04	14.15	14.16	14.17	-1.46
NIGTB 04/02/20	3.42	3.98	3.98	3.98	3.42	3.42	-0.35
NIGTB 07/02/20	3.41	3.18	3.86	3.86	3.44	3.41	-0.36
NIGTB 10/01/20	4.21	4.20	4.20	4.20	4.20	4.21	-0.47
NIGTB 11/26/20	4.93	4.19	4.19	4.19	4.93	4.93	-0.15

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