

Weekly Economic and Financial Commentary

Global Economy

The J.P.Morgan Global Composite Output Index for the Month of February released last week revealed the impact of the rising disruption to demand, supply chains and international trade flows resulting from the COVID-19 outbreak. The disruptions have resulted in the steepest drops in global economic activity and new business since mid-2009 in February. The index fell to 46.1 in February, down sharply from 52.2 in January and its lowest level since May 2009. The more than six-point drop in the headline index was the second sharpest in the survey history, the first record being set in October 2001 (the month directly following the 9/11 attacks). Global manufacturing output and service sector business activity both contracted in February, halting the recent recovery in the former and ending a 126-month sequence of expansion in the latter. Downturns in economic activity and new business were registered across all six of the sub-sectors (consumer, intermediate and investment goods producers and business, consumer and financial service providers) in February.

In response to the domino effect of possible further escalation of COVID-19, monetary authorities have started implementing measures to assuage the impact. The US Federal Open Market Committee (FOMC) and Bank of Canada both lowered benchmark rates by 50bps each last week. The FOMC action was unusual, coming ahead of the regularly scheduled meeting on March 18. In the statement that announced the rate cut, the FOMC reiterated its earlier view that the fundamentals of the U.S. economy remain strong but cited that the ravaging coronavirus poses evolving risks to economic activity. Also, the Bank of England governor recently signaled that that bank's Monetary Policy Committee would be prepared to cut interest rates and allow banks to use "rainy day" funds to soften the impact of the coronavirus outbreak on the UK economy.

Data released during last week showed the U.S added 273,000 jobs in February compared to 225,000 in January. Average hourly wage rate increased by 0.3% in February compared to a growth of 0.2% in January. The unemployment rate contracted back to a 50-year low of 3.5%. Notable job gains occurred in construction, health care, transportation and warehousing.

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Figure 1: Brent Crude Price Trend (\$/bbl)

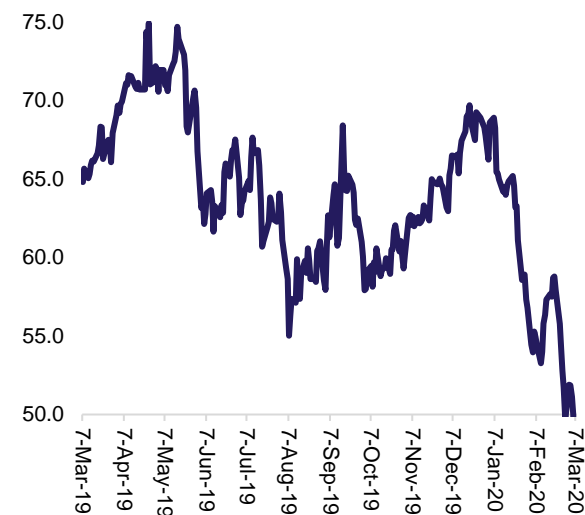
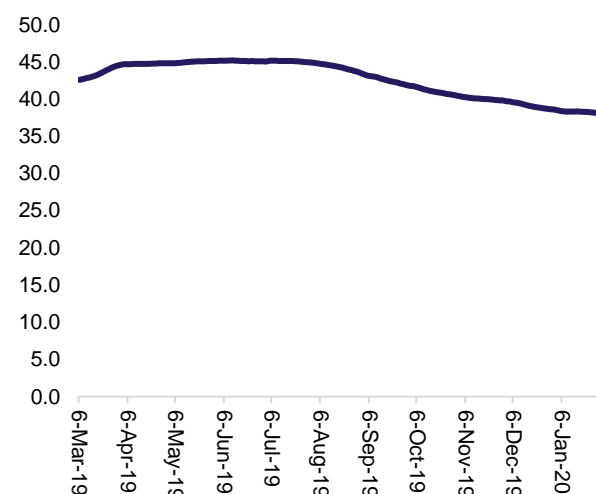


Figure 2: Movement in Gross Reserve (\$Bn)



Domestic Economy

The upper chamber of the National Assembly last week approved President Muhammadu Buhari's plan to borrow \$22.7 billion from external creditors to finance infrastructure projects. The highlighted creditors are the Islamic Development Bank, the African Development Bank, the World Bank and creditors in China, Japan and Germany. The planned borrowings will be used to expand the railways, build a new hydro power dam and fund special intervention projects across Nigeria.

S&P global ratings agency downgraded Nigeria's outlook from a stable outlook to negative. S&P lowered Nigeria's long- and short-term national scale ratings to 'ngA/ngA-2' from 'ngA/ngA-1', and affirmed 'B/B' for the country's long- and short-term sovereign credit ratings.

Crude Oil

The breakdown in OPEC+ negotiations for deeper output cuts in response to reduced oil demand stemming from the COVID-19 virus pushed oil prices below \$40/barrel last week and opened at \$32/barrel at the opening of market this morning. OPEC+ had recommended that its existing 1.7mbpd production cut be extended through 2020 with an additional 1.5mbpd cut implemented by the end of June, split 1mbpd for OPEC and 500,000bpd for non-OPEC. However, Russia on Friday refused to go along with the proposal, causing crude futures to fall 10% in one day. At the close of last week, Brent oil price plunged 9% WoW to \$45.27/bbl, the lowest level last seen in November 2016. The close price represents a year to date decline of 33% and is 20% below the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel.

Foreign Exchange and Reserve

As at Thursday (Mar. 05, 2020), the gross external reserve depleted by \$108.42 million to \$36.22 billion when compared to \$36.33 billion as at Feb. 27, 2020. Year to date, the reserve is down \$2.37 billion. The naira depreciated at the I&E window by 27bps WoW to close at N366.25/\$, while it remained flat at the BDC and parallel market at N358.50/\$ and N359.00/\$ respectively. The 6-months and 12-months forward points declined by N7.97 and N15.15 to N383.88/\$ and N408.94/\$ respectively.

Fixed Income

At last week's OMO auction, compared to the N100 billion offering by the CBN, subscription was N112 billion and the apex bank sold N110.51 billion. The 1yr stop rate declined further by 1bp lower at 12.99%. At the secondary market, average fixed income yields expanded by 53bps to 7.06% following sell-off at the long end of the curve, which outweighed demand in the treasury bills. Average bond yields surged 107bps to 10.12% following sell-off of the Mar

Figure 3: Movement in Forward Points (N/\$)

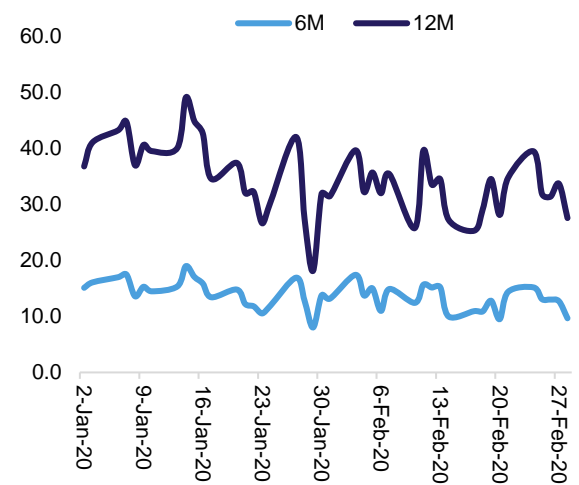
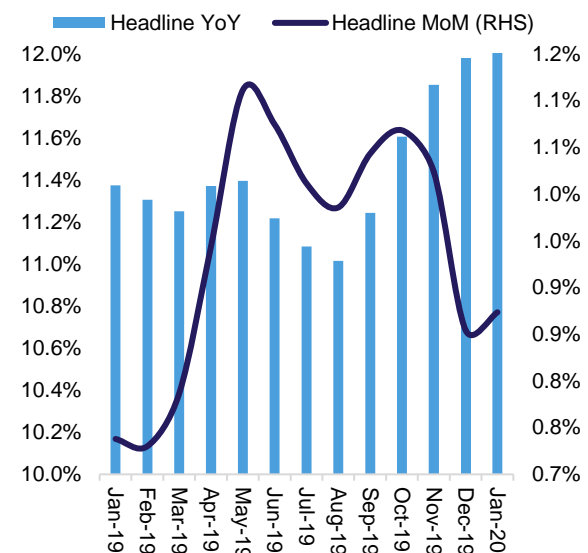


Figure 4: Nigeria YoY and MoM Inflation Trend



-2025 (324bps), Mar-2024 (+267bps), Apr-2023 (+178bps) and Jan-2026 (+172bps) bonds. NTB yields declined 1bp WoW to 4.00%.

Equities

The Nigerian equities market closed last week higher by 0.24% WoW to close at 26,279.61 points with the market capitalization closing the week at N13.7 trillion. Gains were recorded Banking (+4.7%) and Insurance (+0.9%), which combined outweighed losses in the Consumer Goods (-5.9%), Industrial Goods (-4.0%) and Oil & Gas (-0.7%) indices.

Figure 5: Daily Money Market, FX and Fixed Income Rates

Foreign Exchange rates	28-Feb-20	02-Mar-20	03-Mar-20	04-Mar-20	05-Mar-20	06-Mar-20	WoW % Change
CBN Official	306.95	307.00	307.00	307.00	307.00	307.00	-0.02%
NAFEX	365.25	365.46	366.01	366.31	366.57	366.25	-0.27%
BDC	358.50	358.50	358.50	358.50	358.50	358.50	0.00%
Parallel	359.00	359.00	359.00	359.00	359.00	359.00	0.00%
Money Market rates %	28-Feb-20	02-Mar-20	03-Mar-20	04-Mar-20	05-Mar-20	06-Mar-20	WoW Change (bps)
Open Buy Back (OBB)	15.50	14.83	14.67	14.50	14.57	11.71	-378.57
Overnight (O/N)	16.42	15.58	15.42	15.17	15.64	12.86	-355.95
FGN Bonds %	28-Feb-20	02-Mar-20	03-Mar-20	04-Mar-20	05-Mar-20	06-Mar-20	WoW Change (bps)
Jul-21	6.45	6.26	6.24	6.32	6.07	6.08	-36.63
Jan-22	6.60	6.46	6.45	6.50	6.32	6.87	27.43
Apr-23	6.95	6.94	6.94	6.93	6.93	8.73	177.58
Mar-24	7.37	8.49	8.49	8.86	8.86	10.04	266.81
Mar-25	8.66	8.65	8.65	8.65	8.65	10.38	172.84
Jan-26	8.66	8.65	8.65	8.65	8.65	10.38	172.84
Mar-27	9.94	9.93	9.93	10.59	10.60	10.60	66.15
Feb-28	9.95	10.28	10.28	10.27	10.95	11.25	129.96
Jul-30	10.08	10.08	10.40	10.69	10.69	10.81	73.12
Jul-34	10.36	10.36	10.36	10.72	10.72	11.28	91.40
Mar-36	10.73	10.73	10.73	10.73	10.73	11.47	74.52
Apr-37	10.62	10.62	10.62	10.62	10.62	10.62	-0.13
Apr-49	12.00	12.08	12.10	12.08	12.19	12.56	55.83
T-Bills	28-Feb-20	02-Mar-20	03-Mar-20	04-Mar-20	05-Mar-20	06-Mar-20	WoW Change (bps)
NGOMOB 03/26/20	9.37	9.93	10.97	10.68	11.18	11.18	181.06
NGOMOB 04/23/20	9.61	9.61	10.22	11.47	11.46	11.47	185.72
NGOMOB 05/28/20	8.63	8.62	8.62	8.62	8.62	11.07	244.21
NGOMOB 06/18/20	10.61	10.60	10.60	12.34	12.33	13.30	268.22
NGOMOB 07/16/20	10.06	10.05	10.05	10.05	11.94	13.33	326.77
NGOMOB 08/27/20	11.23	12.13	12.12	12.12	12.12	13.54	230.83
NGOMOB 09/24/20	11.79	12.68	13.24	13.31	13.32	13.66	186.79
NGOMOB 10/22/20	11.80	11.79	13.31	13.30	13.51	13.80	199.77
NGOMOB 11/17/20	11.55	12.56	12.60	13.06	13.06	13.80	224.86
NGOMOB 12/29/20	12.10	13.36	13.35	13.63	13.71	14.21	211.04
NGOMOB 01/19/21	12.51	13.66	13.66	13.78	13.77	14.48	196.90
NIGTB 04/02/20	3.98	3.97	3.97	3.97	3.97	3.97	-0.55
NIGTB 07/02/20	3.03	3.03	3.03	3.03	3.03	3.03	-0.18
NIGTB 10/01/20	4.10	4.10	4.10	3.73	3.93	3.93	-17.14
NIGTB 11/26/20	4.86	4.86	4.86	4.31	4.01	4.01	-84.44
NIGTB 01/14/21	5.24	5.24	5.24	4.79	4.14	4.14	-109.29

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