

Weekly Economic and Financial Commentary

Global Economy

Last week, the European Central Bank launched a Pandemic Emergency Purchase Programme (PEPP) of private and public sector securities. The PEPP will have an overall envelope of €750 billion, with purchases expected to be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme. Also, the Bank of England increased the holdings of UK government bonds and sterling non-financial investment-grade corporate bonds by £200 billion to a total of £645 billion and reduced the bank rate by 15bps to 0.1%. The Committee also voted unanimously to enlarge the Small and Medium-sized Enterprises scheme.

Elsewhere, the Bank of Japan decided on Monday to double its purchasing of exchange-traded fund securities to 12 trillion yen (\$112 billion) a year as part of the first additional easing measures in three and a half years. The BOJ also elected to boost its target of commercial paper and corporate bond purchases by 2 trillion yen until the end of September. Also, the central bank will provide loans against corporate debt of about 8 trillion yen as of the end of February as collateral at the interest rate of zero percent with maturity of up to one year. However, the BOJ refrained from further cutting short-term interest rates into negative territory, which is currently set at minus 0.1 percent.

Data released last week by Eurostat showed the Euro area annual inflation rate softened to 1.2% YoY in February from 1.4% YoY in January. However, compared to the Month on month deflation of 1.0% recorded in January, inflation rate was 0.2% in February. The improvement during the month stemmed from higher cost of services (+0.50% vs. -0.7% in January) and price increase for non-energy industrial goods (+0.20% vs. -3.4% in January), both of which outweighed the deflation in energy (-1.6% vs. +0.8% in January).

Domestic Economy

In response to the ongoing global shocks, the apex bank last week released a circular titled CBN Policy Measures in Response to COVID-19 Outbreak and Spillovers. Beyond stating its resolve to provide liquidity backstops as lender of last resort, the CBN unveiled the following initiatives effective March 1, 2020:

- 1) Extension of moratorium on principal repayment for all CBN intervention facilities by one-year;
- 2) 400bps rate cut on all intervention facilities to 5% per annum for one-year;
- 3) creation of a N50 billion credit facility targeted at households and SMEs;
- 4) credit support for healthcare industry to meet

Sections

- [Global Economy](#)
- [Domestic Economy](#)
- [Crude Oil](#)
- [Foreign Exchange and Reserves](#)
- [Fixed Income](#)
- [Equities](#)

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

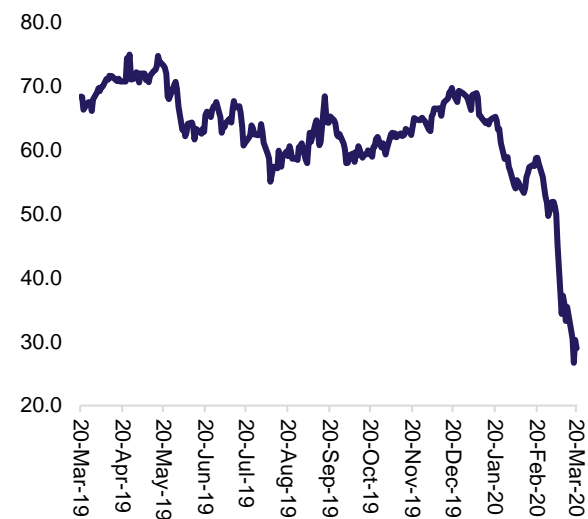
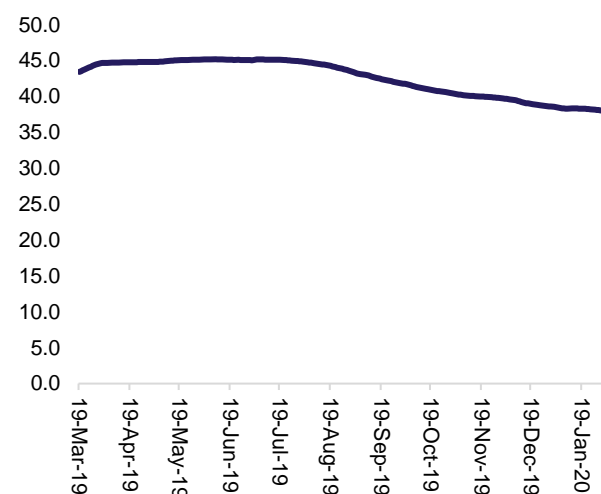


Figure 2: Movement in Gross Reserve (\$Bn)



potential increase in demand for healthcare services and products; 5) Regulatory forbearance to DMBs on restructuring of the tenor and loan terms; 6) strengthening of the CBN LDR Policy through additional incentives to encourage extension of longer tenured credit facilities; and 7) N1.1 trillion intervention fund to support critical sectors of the economy.

Following the crash in global crude oil prices and feedthrough to refined products, the Federal Government last week reduced the pump price of petrol to N125 from N145 effective 19th March 2020. Going forward, the PPPRA in a press release stated it will continue to monitor trends in market fundamentals and announce a monthly Guiding/Expected Open Market price at the beginning of every month, effective 1st April 2020.

Elsewhere, data released last week showed that inflation rate in January expanded by 12.20%, coming ahead of January level of 12.13% and below our estimate of 12.27%. The expansion emanated from increases in both the core (9bps to 9.43% YoY) and food index (+6bps to 14.90% YoY). Relative to same period in the prior year, the food index is 143bps higher than the February 2019 level of 13.47% YoY while the growth in the core index moderated by 37bps from 9.80% YoY in February 2019.

Crude Oil

Following stepped-up COVID-19 containment efforts across key economies (with implication for crude oil demand) and a lack of clarity regarding US efforts to bail out domestic oil producers, crude oil prices closed sharply lower by 18.2% WoW to \$29.00/bbl. The close price represents a year to date decline of 57.2% and is 49% below the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel. Saudi Aramco has also pledged to supply 12.3 million b/d of crude in April and May amid a price war with Russia, following the collapse of the OPEC+ supply cuts that will expire at the end of March.

Foreign Exchange and Reserve

The CBN conducted interbank FX sales to banks on Friday at a rate of N359.50/ compared to a range of N306-307/\$, indicating an adjustment to the official rate. In the same vein, the apex bank announced adjustments to the NAFEX and BDC rates to a synchronized rate of N380/\$, suggesting a year to date depreciation of 4% and 15% for the NAFEX and official rate respectively. As at Thursday (Mar. 19, 2020), the gross external reserve depleted by \$216.51 million to \$35.94 billion when compared to \$36.16 billion as at Mar. 12, 2020. Year to date, the reserve is down \$2.65 billion. The naira appreciated 0.67% last week at the parallel market. The 6-months and 12-months forward points appreciated by N3.08 and N8.00 to N396.45/\$ and N431.01/\$ respectively.

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

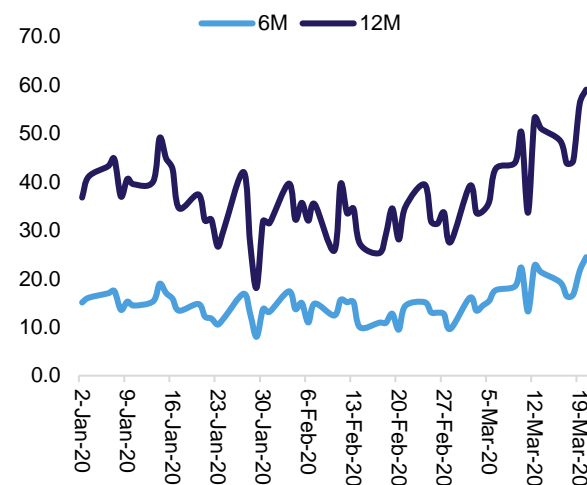
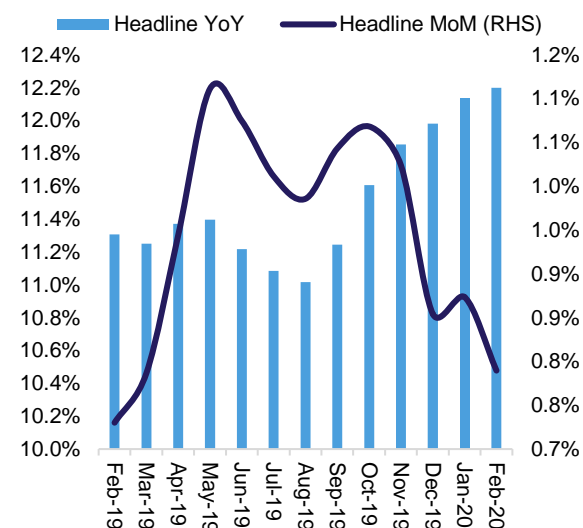


Figure 4: Nigeria YoY and MoM Inflation Trend



Fixed Income

Reflecting the risk-off sentiment, activities at last week's OMO auction depicted limited foreign portfolio participation. While the apex bank offered a total of N150 billion in response to maturing instruments of N304 billion, subscription came in at just N18 billion with range of bids for the 1-year instrument between 17-18% compared to 12-13% at the penultimate auction. At the NTB auction last week, compared to offered amount of N47.56 billion, subscription amounted to N128.67 billion with the FGN selling the offered amount. Average stop rate dropped 43bps to 3.43%, with the 1-year stop rate declining by 70bps to 4.6%. At the secondary market, average fixed income yields expanded by 16bps to 7.82% following sell-off at both the long and short ends of the curve. Average bond yields expanded 17bps to 11.62% following sell-off of the April-2023 (+136bps) and July-2030 (+196bps) bonds. On the short end, NTB yields rose 14bps WoW to 4.01%, following sell-off of mid-tenor bills.

Equities

The Nigerian equities market closed last week lower by 2.35% WoW to close at 22,198.43 points with the market capitalization closing at N11.6 trillion (-2.35%). The Industrial Goods (-4.9%), and Consumer Goods (-3.2%) recorded losses, which more than outweighed gains in the Insurance (+2.8%), Banking (+0.3%) and Oil & Gas (+0.2%) indices.

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

Foreign Exchange rates	13-Mar-20	16-Mar-20	17-Mar-20	18-Mar-20	19-Mar-20	20-Mar-20	WoW % Change
CBN Official	306.95	306.95	307.00	307.00	307.00	361.00	-14.97%
NAFEX	368.47	367.78	367.57	368.02	370.35	372.00	-0.95%
BDC	365.00	374.00	371.50	371.50	371.50	371.50	-1.75%
Parallel	377.50	375.00	377.50	377.50	372.50	375.00	0.67%
Money Market rates %	13-Mar-20	16-Mar-20	17-Mar-20	18-Mar-20	19-Mar-20	20-Mar-20	WoW Change (bps)
Open Buy Back (OBB)	9.17	17.40	11.71	10.40	5.20	4.80	-436.67
Overnight (O/N)	10.08	18.10	12.64	11.20	5.90	5.30	-478.33
FGN Bonds %	13-Mar-20	16-Mar-20	17-Mar-20	18-Mar-20	19-Mar-20	20-Mar-20	WoW Change (bps)
Jul-21	7.35	7.31	7.30	7.29	6.94	6.84	-51.66
Jan-22	9.25	8.02	8.01	8.57	8.56	8.55	-69.97
Apr-23	9.42	10.81	10.94	10.94	10.61	10.78	135.67
Mar-24	9.53	9.52	9.52	9.52	9.51	9.51	-1.80
Mar-25	12.80	12.80	12.65	12.45	12.55	12.75	-5.00
Jan-26	12.80	12.80	12.65	12.45	12.55	12.75	-5.00
Mar-27	14.05	14.05	13.39	12.82	12.69	12.68	-136.71
Feb-28	12.75	12.75	12.75	12.81	12.96	12.95	19.43
Jul-30	10.81	13.25	13.25	12.57	12.77	12.77	196.00
Jul-34	11.80	11.80	11.80	11.80	12.65	12.65	85.01
Mar-36	12.02	12.02	12.02	12.02	12.02	12.95	93.67
Apr-37	12.18	12.19	12.52	12.52	13.15	13.15	97.22
Apr-49	13.96	14.06	13.55	12.98	13.04	13.04	-92.30
T-Bills	13-Mar-20	16-Mar-20	17-Mar-20	18-Mar-20	19-Mar-20	20-Mar-20	WoW Change (bps)
NGOMOB 04/23/20	16.69	16.66	16.66	16.65	14.73	14.72	-196.28
NGOMOB 05/28/20	16.62	16.60	16.59	14.55	14.94	14.94	-168.41
NGOMOB 06/18/20	13.26	13.25	13.24	13.24	13.23	13.23	-3.36
NGOMOB 07/16/20	13.98	13.96	13.96	13.95	13.95	13.94	-3.74
NGOMOB 08/27/20	13.50	13.49	13.48	13.48	13.47	15.94	244.08
NGOMOB 09/24/20	19.15	18.90	18.89	17.79	17.16	17.15	-200.50
NGOMOB 10/22/20	19.79	19.31	17.12	17.29	17.29	17.28	-251.19
NGOMOB 11/17/20	16.90	16.87	16.87	16.63	16.62	16.61	-28.60
NGOMOB 12/29/20	16.07	16.05	16.05	17.27	17.26	17.25	117.72
NGOMOB 01/19/21	16.98	16.96	19.85	18.45	19.00	17.05	6.22
NIGTB 04/02/20	3.97	3.97	3.97	3.97	3.97	3.97	-0.30
NIGTB 07/02/20	4.20	4.20	4.20	4.20	4.20	3.36	-84.22
NIGTB 10/01/20	3.61	3.50	3.50	3.50	3.21	4.63	102.50
NIGTB 11/26/20	3.77	3.73	3.73	3.73	3.73	3.73	-4.23
NIGTB 01/14/21	4.14	4.14	4.14	4.14	4.14	4.14	-0.33

The material contained in this report is the property of NOVA Merchant Bank Limited (NOVAMBL) and may not be reproduced in any way without express authorization. The statements and statistics contained herein have been prepared by NOVAMBL Research based on information from sources considered to be reliable. We make no representation or warranty, as to its accuracy or completeness. Customers relying on this information either in part or in whole to make their business decisions agree to do so at their own risk and shall not hold NOVAMBL liable for any loss or undesirable outcomes incurred therefrom. This publication is for the information of investors and businesspersons and does not constitute an offer to sell or a solicitation to buy securities.