

Weekly Economic and Financial Commentary

**Global Economy**

Following the gradual reopening of some parts of the economy in the Eurozone and US, Purchasing Managers' Index (PMI) data for May released last week showed the rate of decline eased in both countries in May relative to April. The Eurozone and US composite PMI remained in contraction to print at 30.5 (13.6 in April) and 36.4 (27.0 in April) respectively. The Eurozone services PMI rose to a 3-month high of 28.7 (12.0 in April), while the US services number rose to a 2-month high of 36.9 (26.7 in April). Also reflecting the gradual reopening of industrial activities, the manufacturing PMI in the Eurozone and US also improved to 2-month high of 39.5 (33.4 in April) and 39.8 (36.1 in April) in May respectively. The services and manufacturing PMI in both countries still signal one of the most severe contractions in economic activity on record due to weakness in domestic and foreign client demand.

Data released by Eurostat last week showed the inflation rate moderated to 0.3% YoY in the Euro area in April compared to 0.7% YoY in March. The moderation in April emanated largely from the energy sub index which declined 9.7% YoY, to neuter increases in prices of food, alcohol & tobacco (+3.6% YoY), services (+1.2% YoY) and non-energy industrial goods (+0.3% YoY). Breakdown by country revealed moderation in inflation rate across heavyweight countries Germany (+0.8% YoY vs. +1.3% YoY in March), UK (+0.9% YoY vs. +1.5% YoY in March), France (+0.4% YoY vs. +0.8% YoY in March), Spain (-0.7% YoY vs. +0.1% YoY in March) and Italy (+0.1% YoY vs. +0.1% YoY in March).

Japan Q2 2020 GDP released last week showed the economy entered its first recession since 2015, with annualized GDP contracting by 3.4% YoY (0.9% QoQ), after recording a similar contraction of 1.9% QoQ in Q4 2019. While spending in the economy was impacted by the consumption tax introduced in Q4 2019, the outbreak of Covid-19 and associated lockdowns further dampened economic activity. Private consumption, business capital spending and public investment fell by 2.8%, 2.1% and 1.6% QoQ, to more than outweigh higher government spending (+0.4% QoQ).

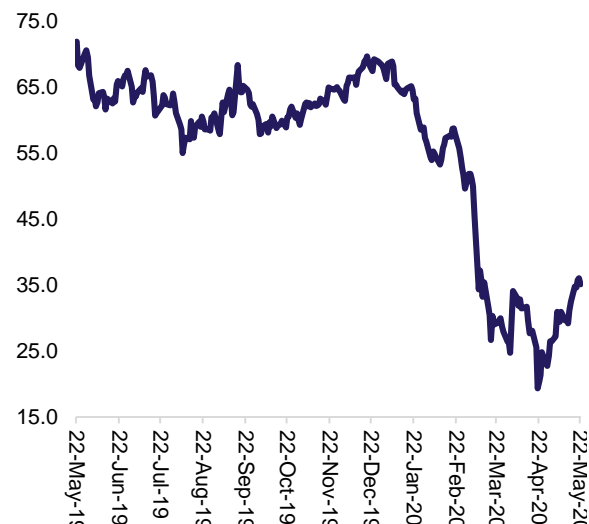
**Domestic Economy**

Data released last week showed the inflation rate in April expanded by 12.34%, coming ahead of March level of 12.26%. The expansion emanated from a much faster increase in the core index, which combined with a modest increase in

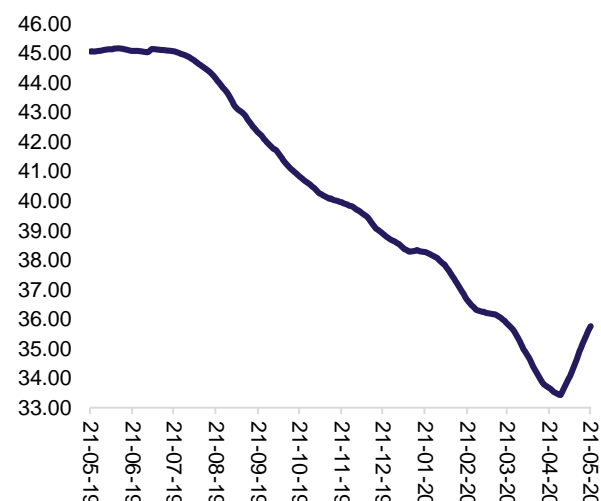
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**Figure 1: Brent Crude Price Trend (\$/bbl)**



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



the food index. Solidifying the pace for the third consecutive month, the core index surged 25bps to 9.98% YoY, following increases in Furnishing (+14bps to 9.64%), Transport (+28bps to 9.78% YoY), Health (+27bps to 10.27% YoY) amongst others. The food index (+5bps to 15.03% YoY) reflected a better picture of the disruptions to manufacturing activities, with processed foods expanding 171bps to 14.7% YoY to offset the decline in farm produce by 10bps to 15.07% YoY. Most of the increases in processed foods were attributed to higher prices of bread cereal, oil and fats. Relative to same period in the prior year, the food index is 132bps higher than the April 2019 level of 13.70% YoY while the core index increased by 70bps from 9.28% YoY in April 2019.

The States Internally Generated Revenue data for the full year 2019 released by the NBS last week showed an increase 20.9% YoY to hit N1.33trillion compared to N1.17trillion recorded in 2018. During the year, the highest annual increases of over 50% YoY were recorded in Yobe, Zamfara, Osun, Benue, Adamawa, Kaduna and Kebbi. By ranking, Lagos State accounted for 29.9% (32.7% in 2018) of the total IGR in 2019, followed by Rivers (10.5% vs. 9.7% in 2018), FCT (5.59% vs. 5.61% in 2018), Ogun (5.3% vs. 7.2% in 2018) and Delta (4.9% vs. 5.0% in 2018). PAYE accounted for 61% of the total IGR, followed by Other Taxes (16.9%), MDAs Revenue (16.6%), Direct Assessment (3.6%) and Road Tax (2.3%).

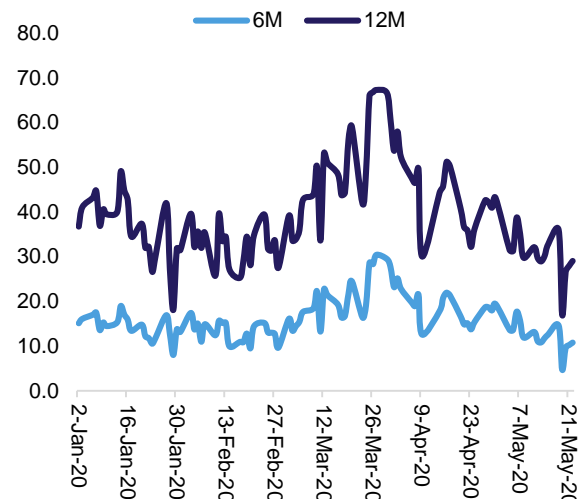
### Crude Oil

With the gradual reopening of some economies and series of planned production cuts by OPEC+ members (even out of quota cuts) and voluntary shut-ins in US and Canada, Brent crude prices gained 8.1% WoW and 33% MoM to end the week at \$35.13/barrel, which represent a year to date decline of 48.2% and is 41% above the Federal Government of Nigeria 2020 revised budget benchmark of \$25/barrel. EIA last week estimated further decline in US shale oil output in June by 197,000kbpd to 7.822mbpd, from May production estimate 8.019mbpd.

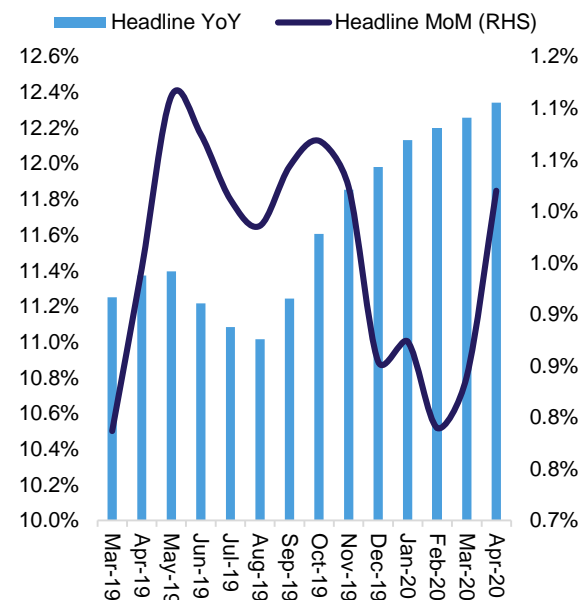
### Foreign Exchange and Reserve

As at Thursday (May. 21, 2020), the gross external reserve accrued by \$731 million to \$35.77 billion when compared to \$35.03 billion as at May. 14, 2020. Month to date, the gross reserve has increased by \$2.4 billion reflecting inflows from the recently secured IMF loan of \$3.4 billion and other official receipts. The naira strengthened at the IEW last week by 0.02% to N385.94/\$, and weakened at the parallel market by 1.7% to N455.0/\$. The 6-months and 12-months forward points declined by N1.81 and N3.71 to N396.72/\$ and N415.01/\$ respectively. Activity slowed at the OTC futures market, with the sum of transaction of \$100.2 million last week, compared to \$152.5 million in the prior week.

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



**Figure 4: Nigeria YoY and MoM Inflation Trend**



### Fixed Income

At last week's bond auction, compared to N60 billion offered by the DMO, subscription came in at N425.2 billion with the DMO allotting a total of N390.7 billion of which N296.2 billion was allotted via competitive bids. Notwithstanding the higher allotments, average PMA stop rate closed flat at 11.2%. In the secondary market, average fixed income yields moderated by 15bps to 6.09% following declines at both ends of the curve. Average NTB yields declined by 11bps WoW to 2.17% and bond yields fell by 18bps WoW to 10.02% following demand for the March-2024 (-71bps) and March-2025 (-47bps) bonds.

### Equities

The Nigerian equities market closed last week higher by 5.59% WoW, rounding off at 25,204.75 points with the market capitalization at N13.1 trillion. The gains last week was driven by the Industrial Goods (+15.5%), Banking (+7.2%), Oil and Gas (+4.9%), Insurance (+2.0%), and Consumer Goods (+0.9%) indices.

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

Foreign Exchange rates	15-May-20	18-May-20	19-May-20	20-May-20	21-May-20	22-May-20	WoW % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	361.00	0.00%
NAFEX	386.00	386.33	386.33	386.42	386.50	385.94	0.02%
BDC	442.50	442.50	445.00	448.50	450.50	450.50	-1.78%
Parallel	447.50	447.50	452.50	452.50	455.00	455.00	-1.65%
Money Market rates %	15-May-20	18-May-20	19-May-20	20-May-20	21-May-20	22-May-20	WoW Change (bps)
Open Buy Back (OBB)	2.75	1.83	1.90	1.67	1.42	15.00	1225.00
Overnight (O/N)	3.42	2.33	2.30	2.17	2.00	15.63	1220.83
FGN Bonds %	15-May-20	18-May-20	19-May-20	20-May-20	21-May-20	22-May-20	WoW Change (bps)
Jul-21	5.21	5.15	5.13	5.11	5.09	5.15	-6.30
Jan-22	6.39	6.35	6.34	6.32	6.31	6.33	-6.51
Apr-23	9.17	9.16	9.16	8.71	9.06	9.09	-7.78
Mar-24	9.61	9.61	9.56	8.90	8.90	8.90	-71.39
Mar-25	10.13	10.13	10.02	9.69	9.69	9.66	-46.76
Jan-26	10.52	10.52	10.37	10.26	10.26	10.22	-29.89
Mar-27	10.97	10.96	10.75	10.66	10.66	10.66	-30.95
Feb-28	11.04	11.00	11.00	10.90	10.90	10.94	-9.36
Jul-30	11.25	11.21	11.21	11.21	11.21	11.19	-5.98
Jul-34	11.61	11.61	11.61	11.61	11.61	11.43	-17.47
Mar-36	11.63	11.53	11.53	11.52	11.52	11.52	-10.10
Apr-37	11.55	11.49	11.49	11.49	11.49	11.49	-5.83
Apr-49	12.54	12.63	12.44	12.40	12.40	12.50	-3.97
Mar-50	12.62	12.71	12.51	12.47	12.47	12.58	-3.83
T-Bills	15-May-20	18-May-20	19-May-20	20-May-20	21-May-20	22-May-20	WoW Change (bps)
NGOMOB 05/28/20	5.04	5.04	5.04	4.24	4.24		-80.40
NGOMOB 06/18/20	5.72	5.72	5.71	5.33	5.33	5.33	-38.69
NGOMOB 07/16/20	6.76	6.76	6.76	6.24	6.24	5.86	-89.88
NGOMOB 08/27/20	6.66	6.65	6.65	5.98	5.97	5.23	-142.55
NGOMOB 09/24/20	7.34	7.34	7.34	5.04	5.04	5.04	-230.57
NGOMOB 10/22/20	7.49	7.48	7.48	7.48	5.82	5.82	-166.94
NGOMOB 11/17/20	8.61	8.61	8.60	8.60	6.37	6.37	-223.89
NGOMOB 12/29/20	8.43	7.49	7.48	7.49	7.49	7.48	-94.19
NGOMOB 01/19/21	10.62	10.61	10.60	6.12	7.23	7.23	-338.62
NGOMOB 02/23/21	10.84	9.24	8.82	6.32	6.32	6.32	-452.46
NIGTB 07/02/20	2.36	2.36	2.36	2.37	2.37	2.37	0.37
NIGTB 10/01/20	2.04	2.29	2.29	2.29	2.29	1.82	-21.82
NIGTB 11/26/20	2.30	2.66	2.79	2.02	2.02	2.12	-17.79
NIGTB 01/14/21	2.79	2.92	2.97	2.69	2.69	2.72	-6.95

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