Weekly Economic and Financial Commentary

Global Economy

Following the gradual reopening of some parts of the economy across advanced and developing economies, the rate of global economic contraction slowed in May, albeit still in the contractionary region. The J.P.Morgan Global Composite Output Index for the Month of May improved to 36.3 from April 22-year low of 26.5. Following the moderation in the rates of contraction in output, new orders and employment, the global manufacturing PMI improved to 42.2 from 39.8 in April. Also, the Global Services Business Activity Index posted 35.2 in May, up from April's record low of 23.7, to register its second-lowest reading to date and signal contraction for the fourth month in a row. For the U.S. Manufacturing PMI, May data signaled a slightly softer, but nonetheless severe contraction in U.S. manufacturing output with the PMI improving to 39.8, up from 36.1 in April. In the Eurozone, the composite PMI for the month of May saw a noticeable bounce, rising to 31.9 (higher than the flash reading of 30.5), from April's 13.6.

Data released last week showed U.S Nonfarm employment increased by 2.5 million in May from a loss of 20.5 million in April. Employment rose sharply in leisure and hospitality, construction, education & health services and retail trade following limited resumption of economic activity that had been curtailed in March and April due to the COVID-19 pandemic and efforts to contain it. The unemployment rate moderated by 140bps to 13.3% in May from 14.7% in April (March: 4.4%) as the number of unemployed persons fell by 2.1 million to 21.0 million in May. Reflecting the effects of the coronavirus pandemic and efforts to contain it, the unemployment rate and the number of unemployed persons are up by 9.8% and 15.2 million respectively since February. The broader measures of labour market under-utilization, which is underemployment, fell to 21.2% in May from 22.8% in April. Elsewhere, the European Central Bank (ECB) at its policy meeting last week increased the pandemic emergency purchase programme (PEPP) by €600 billion to €1,350 billion to support funding conditions in the real economy, especially for businesses and households.

Domestic Economy

Last week, the National Assembly approved the revised 2020 – 2022 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP), with slight adjustments compared to the proposal submitted by the Executive. The

Sections

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

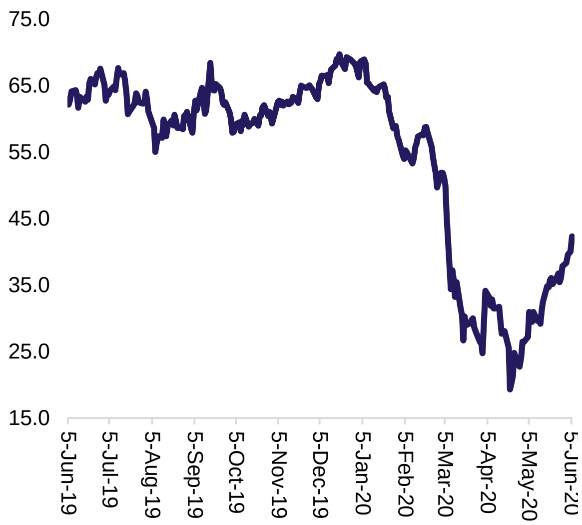
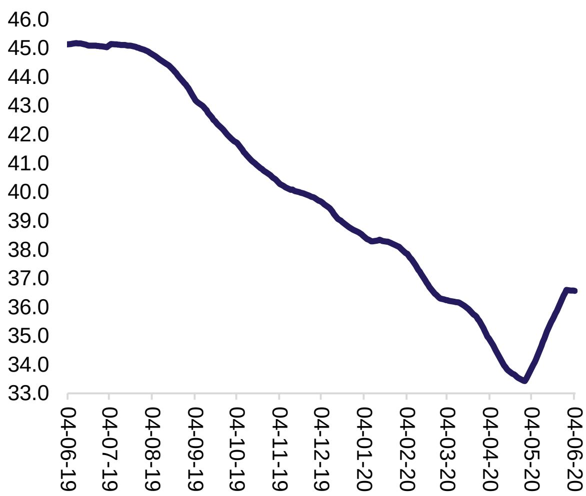


Figure 2: Movement in Gross Reserve ($Bn)



National Assembly increased the benchmark crude oil price to $28/barrel and reduced crude oil production to 1.8mbpd compared to the proposal of $25/barrel and 1.9mbpd respectively. Also, the national assembly officially assented to the planned foreign borrowings of $5.5 billion including the already deployed $3.4 billion from IMF and the excess of $2.1 billion from World bank, AfDB, and Islamic Development Bank. Also, the PPPRA in a press release last week (signed 20th March) indicated plans to remove the price cap per litre for petroleum motor spirit (PMS) and the adoption of a market-based pricing mechanism.

Reflecting the Federal Government effort to generate more revenue, the Department of Petroleum Resources (DPR) flaged-off the 2020 marginal bid round last week, 18 years after the first one was conducted in 2002. DPR announced that a total of 57 fields located on land, swamp and shallow offshore terrains are on offer. The exercise which will be conducted electronically, will include expression of interest/registration, pre-qualification, technical and commercial bid submission and bid evaluation. According to the DPR guidelines on the 2020 oil bid round exercise, and payment by interested bidders shall attract non-refundable chargeable fees as follows, Application fee of N2 million per field, Bid Processing Fee of N3 million per field, Data prying fee of $15,000 per field, Data Leasing fee of $25,000 per field, Competent Persons Report of $50,000 and $25,000 for Fields Specific Report. The DPR also unveiled that plans are underway to commercialise its 96 gas flare points in a bid to generate revenue and ensure domestic consumption of gas.

Crude Oil

In the first month of the Phase 1 OPEC deal, the cartel recorded a strong level of compliance with its production cut target for May. Estimated production from the 10 OPEC countries that are part of the deal fell to 20.6mbpd from a baseline of 26.68mbpd. Saudi Arabia achieved nearly 92% of its target cut, while UAE achieved 100%. On the other hand, both Iraq and Nigeria failed to hit even 50% of their targeted production cuts, with Iraq output of 4.2mbpd in May compared with target of around 3.6mbpd, while Nigeria's of 1.69mbpd was above the target of 1.4mbpd. With the debate last week on the extension of the Phase 1 OPEC cut deal of 9.7mbpd by an extra month, crude oil prices surged 11.8% WoW to close the week at $42.3/barrel. Further supporting the gains last week was the EIA's weekly US Petroleum Report, which showed that crude oil in commercial storage fell by around 2.1 million barrels. The price at the end of last week moderated the year to date decline to 37.6% and is 69.2% above the Federal Government of Nigeria 2020 revised budget benchmark of $25/barrel.

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

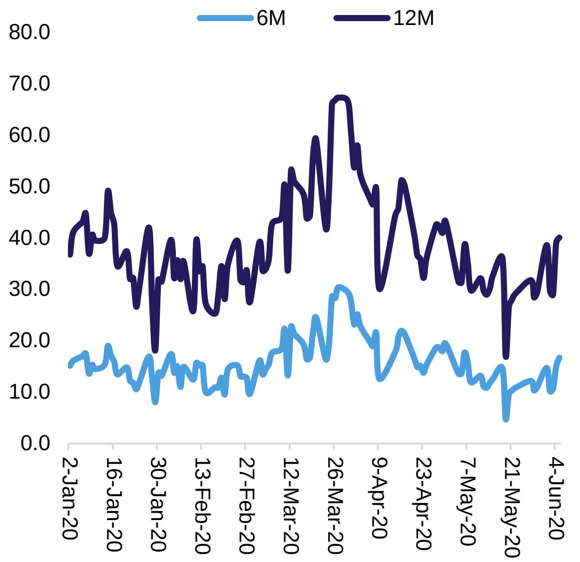
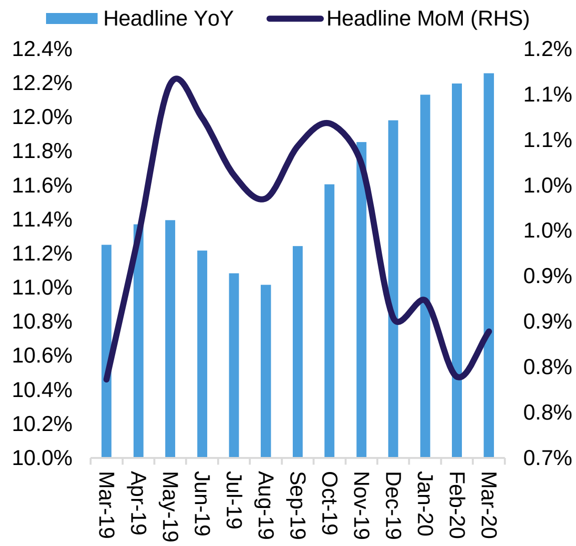


Figure 4: Nigeria YoY and MoM Inflation Trend



Foreign Exchange and Reserve

As at Thursday (June. 04, 2020), the gross external reserve accrued by $64 million to $36.56 billion when compared to $36.50 billion as at May. 28. The gross reserve increased by $3.07 billion at the end of May following inflows from the recently secured IMF loan of $3.4 billion and other official receipts. The naira weakened at the IEW last week by 0.04% to N386.50/$ and closed flat at the parallel market at N445.0/$. The 6-months and 12-months forward points increased by N5.71 and N10.55 to N403.18/$ and N426.56/$ respectively. Activity slowed at the OTC futures market, with the sum of transaction of $328.9 million compared to $989.7 million in the prior week despite the public holiday.

Fixed Income

At last week's OMO auction, CBN offered N70 billion and sold the same amount. However, subscription came in at N299 billion, offering a convenient compression in the 1-year stop rate by 100bps to 8.9%. In the secondary market, average fixed income yields increased by 56bps to 6.48% following declines at both ends of the curve. Average NTB yields rose by 121bps WoW to 3.33% while bond yields fell by 9bps WoW to 9.63% following interest in the Feb-2028 (-60bps), Jan-2026 (-55bps) and March-2024 (-46bps) bonds. The apex bank released the third quarter NTB auction calendar last week which showed its plan to largely rollover maturing bills worth N822 billion. It is worthy of note that, while the Q2 2020 NTB calendar had a scheduled rollover of maturing bills of N512.8 billion, the CBN over the first two months in the quarter has sold a total of N487.8 billion compared to offered amounts of N378.9 billion. In line with its recent weekly practice, the CBN sterilized a total of NGN459.72 billion from the banking system last week Thursday in form of LDR shortfall and other unusual debits that are accounted for as excess CRR.

Equities

The Nigerian equities market closed last week lower by 1.0% WoW, rounding off at 25,016.30 points with the market capitalization at N13.0 trillion. The negative performance last week was driven by profit taking, after a month to date gain of 9.8% in May. The losses were evident in the Banking (-3.7%), Oil and Gas (-0.7%) and Consumer Goods (-0.4%), which outweighed gains in the Insurance (+2.4%) and Industrial Goods (+1.6%) sectors. The worst performing stocks were MANSARD (-8.9%), TOTAL (-6.5%), OANDO (-5.7%), ACCESS (-6.3%), BUACEMENT (-4.8%), ZENITH (-0.9%), WAPCO (-0.4%) and GUARANTY (-0.4%).

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

Foreign Exchange rates	29-May-20	01-Jun-20	02-Jun-20	03-Jun-20	04-Jun-20	05-Jun-20	WoW % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	361.00	0.00%
NAFEX	386.33	385.50	386.38	387.68	386.70	386.50	-0.04%
BDC	443.50	435.00	436.50	436.50	436.50	446.50	-0.67%
Parallel	445.00	435.00	440.00	442.50	443.50	445.00	0.00%
Money Market rates %	**29-May-20**	**01-Jun-20**	**02-Jun-20**	**03-Jun-20**	**04-Jun-20**	**05-Jun-20**	**WoW Change (bps)**
Open Buy Back (OBB)	2.20	2.40	2.00	2.00	1.90	15.60	1340.00
Overnight (O/N)	3.00	3.00	2.75	2.70	2.50	16.70	1370.00
FGN Bonds %	**29-May-20**	**01-Jun-20**	**02-Jun-20**	**03-Jun-20**	**04-Jun-20**	**05-Jun-20**	**WoW Change (bps)**
Jul-21	5.01	5.30	5.37	5.20	5.29	5.26	24.96
Jan-22	6.02	6.22	6.30	6.18	6.24	6.09	7.38
Apr-23	8.38	8.37	8.48	8.47	8.47	8.47	8.47
Mar-24	8.96	8.95	8.51	8.50	8.50	8.50	-46.03
Mar-25	8.51	7.93	7.71	7.70	8.70	8.70	18.42
Jan-26	9.82	9.75	9.71	9.71	9.84	9.40	-41.87
Mar-27	10.30	10.30	10.10	10.10	10.10	10.11	-19.87
Feb-28	10.94	10.94	10.94	10.94	10.33	10.34	-60.52
Jul-30	10.82	11.45	11.30	11.30	11.00	11.00	18.02
Jul-34	11.43	11.43	11.25	11.25	11.25	11.25	-18.18
Mar-36	11.35	11.35	11.35	11.35	11.35	11.36	0.77
Apr-37	11.43	11.43	11.42	11.43	11.43	11.43	-0.31
Apr-49	12.34	12.32	12.23	12.29	12.30	12.21	-12.68
Mar-50	12.41	12.38	12.30	12.36	12.37	12.27	-13.61
T-Bills	**29-May-20**	**01-Jun-20**	**02-Jun-20**	**03-Jun-20**	**04-Jun-20**	**05-Jun-20**	**WoW Change (bps)**
NGOMOB 06/18/20	5.33	4.18	4.17	4.17	4.17	4.01	-131.98
NGOMOB 07/16/20	5.85	4.45	4.33	4.05	4.05	4.13	-172.86
NGOMOB 08/27/20	5.23	5.02	4.52	5.21	3.27	3.27	-195.23
NGOMOB 09/24/20	5.03	5.03	5.03	3.89	4.25	4.25	-77.62
NGOMOB 10/22/20	5.81	5.10	5.10	4.45	4.45	4.22	-159.54
NGOMOB 11/17/20	6.37	5.79	5.79	5.78	5.78	5.78	-58.23
NGOMOB 12/29/20	6.22	6.22	6.21	6.21	5.73	5.73	-48.84
NGOMOB 01/19/21	7.22	7.22	6.67	6.49	5.59	5.91	-131.03
NGOMOB 02/23/21	6.31	5.78	5.78	6.24	6.20	5.41	-90.55
NGOMOB 03/30/21	6.48	7.21	6.87	6.55	6.55	6.55	6.22
NIGTB 07/02/20	2.11	2.11	2.12	3.02	3.02	3.02	90.71
NIGTB 10/01/20	1.82	1.82	1.82	3.79	3.79	3.79	197.28
NIGTB 11/26/20	2.33	2.33	2.33	2.33	2.33	2.33	-0.10
NIGTB 01/14/21	2.72	2.72	2.72	2.72	2.72	2.72	0.14