

## Weekly Economic and Financial Commentary

### Global Economy

The Bank of England at its meeting last week kept policy rates unchanged at 0.1%, but increased the level of quantitative easing by an additional £100bn to take the total stock of asset purchases to £745 billion. The Committee also voted to continue the existing programme of £200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases. Data released by the UK Office for National Statistics (ONS) last week showed the inflation rate moderated to 0.7% in May (from 0.9% YoY in April), following falls in the price of motor fuels and variety of recreational and cultural goods. However, the declines were moderated by rising prices for food and non-alcoholic drinks. Also, separate data released by the ONS showed that the headline rate of output inflation for goods leaving the factory gate was negative 1.4% YoY in May from negative 0.7% YoY in April. The price for materials and fuels used in the manufacturing process displayed negative growth of 10.0% YoY May 2020, up from negative 10.2% YoY in April 2020.

Following the ongoing re-opening of many states in the US, the Retail sales data for the month of May rose 17.7% MoM, but lower by 6.1% when compared to same period in the prior year. Total sales for the March 2020 through May 2020 period were down 10.5% from the same period a year ago.

### Domestic Economy

Preliminary estimates released the Central Bank of Nigeria last week showed the current deficit widened to \$4.9 billion in Q1 2020 compared to \$2.7 billion in Q1 2019. Decline in exports and remittances, more than outweighed moderation in imports services deficit (-2.3% YoY to \$7.8 billion) and income deficits (-7.3% YoY to \$2.8 billion), to account for the widening of the deficit. While import expenses fell 5.2% YoY to \$13.8 billion, export earnings declined by 12% YoY \$13.4 billion, resulting in a trade deficit of \$440 million compared to a surplus of \$634 million in Q1 19. Also, following the decline in remittances, the current transfer moderated 20% YoY to \$6.1 billion. Overall, the current account (CA) deficit widened to 4.2% of nominal GDP in Q1 20, compared to 2.6% in Q1 19. Elsewhere, the financial account booked a negative net balance of \$6.3 billion over Q1 20, from a positive net balance of \$4.8 billion same period in the prior year. The negative balance over Q1 20 emanated largely from the exodus of portfolio investment over the period, with a negative net outflow of \$8.3 billion compared to net inflow of \$14.4 billion in Q1 19.

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

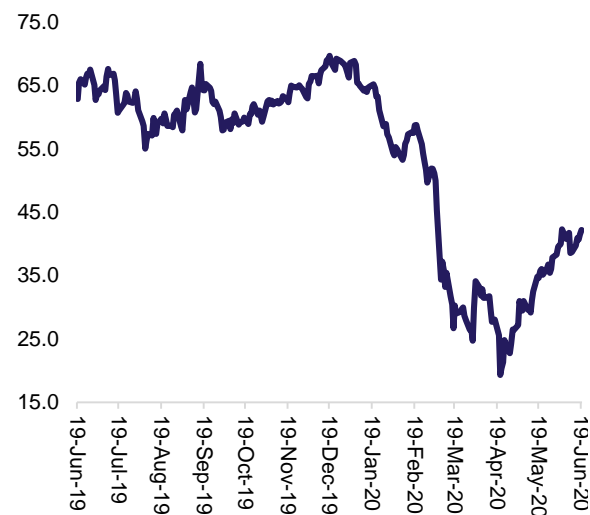
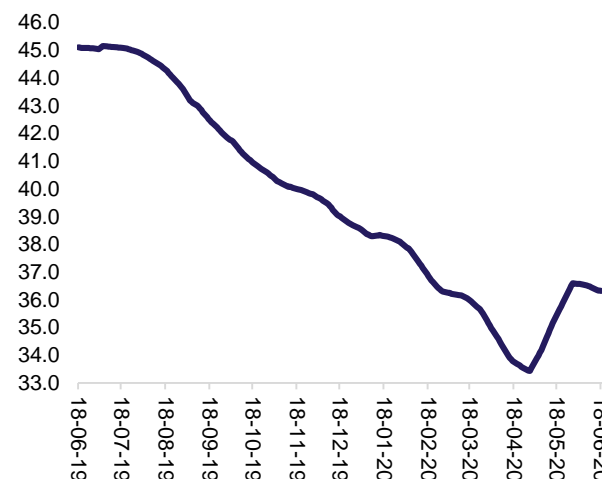


Figure 2: Movement in Gross Reserve (\$Bn)



Reflecting the widened CA deficit amidst the negative financial account, the Naira depreciated 6.6% YoY to N385.6/\$1 at the end of Q1 2020.

The impact of foreign exchange scarcity and supply chain disruptions became more evident on the core index in the month of May, with prices reaching the highest level last seen in August 2018. The core index grew by 14bps to 10.12% YoY reflecting the impact of interstate travel restriction on prices of essential items and feedthrough of the Naira depreciation on prices of imported foods and other imported components. Specifically, key components of the core basket expanded, starting with imported food (+2bps to 16.26% YoY), Transport (+32bps to 10.66% YoY), Communication (+13bps to 8.47%), Health (+40bps to 10.66% YoY), clothing (+8bps to 10.40% YoY), amongst others. Elsewhere, while the bountiful harvest during the off season (April and June 2020) kept market well supplied with farm produce largely flat at 15.04% YoY, the supply chain disruptions necessitated increase in prices of processed foods by 11bps to 14.8% YoY.

### Crude Oil

The OPEC Monthly Oil Market Report released last week showed OPEC output fell by 6.3mbpd in May, coming below the agreed 9.7mbpd production cut for May. Saudi Arabia and the UAE accounted for most of the production cuts (achieving over 95% compliance), while Angola, Iraq and Nigeria exceeded the agreed production quota. OPEC estimates global oil demand for 2020 to decline by 9.07mbpd compared to 2019. The EIA's weekly US Petroleum Report released last week estimates that crude oil in commercial storage rose by around 1.2 million barrels last week (below the 5.7 million barrels reported the prior week) to 540 million barrels. Oil prices recovered last week 8.9% to cross \$40/barrel. The price at the end of last week of \$42.19/barrel moderated the year to date decline to 37.8% and is 50.7% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

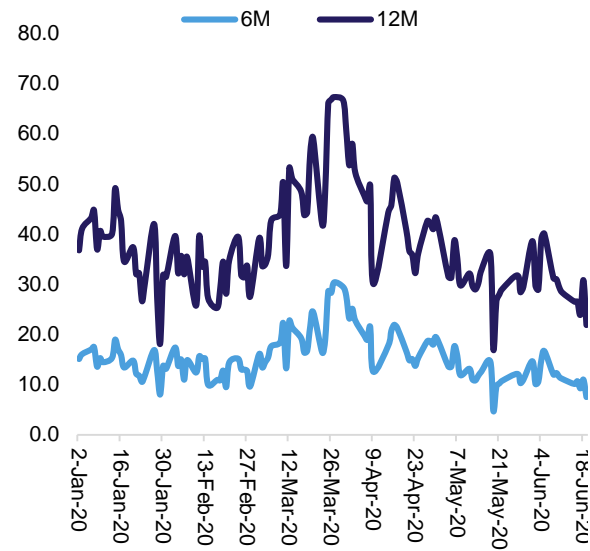
### Foreign Exchange and Reserve

As at Thursday (June. 18, 2020), the gross external reserve depleted by \$132 million (marking the second consecutive week of depletion) to \$36.32 billion when compared to \$36.45 billion as at June 11. The naira depreciated at both the IEW and Parallel market last week by 0.19% and 1.11% to N386.5/\$ and \$450/\$ respectively. The 6-months and 12-months forward points declined by N3.61 and N6.44 to N394.02/\$ and N408.37/\$ respectively. Activity improved at the OTC futures market last week, with the transactions of \$86.01 million compared to \$67.44 million in the prior week.

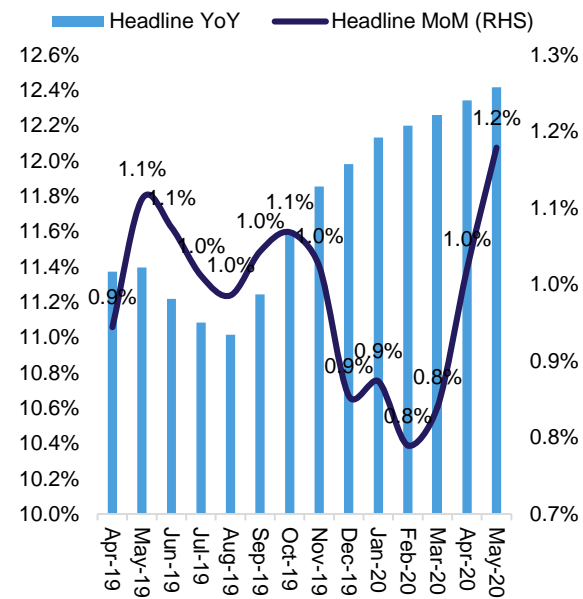
### Fixed Income

Bond, NTB and OMO auctions were conducted last week. At the NTB auction,

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



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



CBN (on behalf of DMO) offered N14.61 billion to rollover maturing bills, and sold the same amount. However, subscription came in at N89.01 billion, offering a convenient compression in the average stop rate by 21bps to 2.53%, while the 1-year stop declined 27bps to 3.75%. The bond auction saw sizeable subscription of N545.16 billion compared to offered amount of N150 billion, with the FG allotting just N100 billion worth of bonds. Average stop rate at the bond auction compressed 78bps to 10.38%. At the OMO auction, the CBN offered and sold N80 billion worth of bills, despite subscription coming in at N167.58 billion, but the 1-year stop rate was unchanged at 8.9%. In the secondary market, average fixed income yields moderated by 96bps to 5.56% following decline at both ends of the curve. Average NTB yields fell by 122bps WoW to 2.17%, while bond yields fell by 70bps WoW to 8.96% following interest in the April-2029 (-135bps) and Jan-2026 (-129bps) bonds. The CBN conducted another round of unusual debits last week of N216 billion, with average money market rate reaching 15.92%.

### Equities

The Nigerian equities market closed last week lower by 1.41% WoW, rounding off at 24,826.75 points with the market capitalization at N13 trillion. The negative performance last week was driven by sell-off in the Oil & Gas (-4.9%), Insurance (-3.1%) and Banking (-3.1%) indices, which offset gains in the Industrial Goods (+2.2%) and Consumer Goods (+1.8%) indices. Worst performing stocks last week were ZENITH (-3.0%), GUARANTY (-3.54%), DANGCEM (-6.47%), UBA (-5.19%) and NB (-9.52%) stocks.

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

Foreign Exchange rates	11-Jun-20	15-Jun-20	16-Jun-20	17-Jun-20	18-Jun-20	19-Jun-20	WoW % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	361.00	0.00%
NAFEX	385.75	386.50	386.00	386.00	385.70	386.50	-0.19%
BDC	445.00	447.00	447.00	447.50	447.00	448.50	-0.78%
Parallel	445.00	445.00	448.50	449.00	449.00	450.00	-1.11%
Money Market rates %	11-Jun-20	15-Jun-20	16-Jun-20	17-Jun-20	18-Jun-20	19-Jun-20	WoW Change (bps)
Open Buy Back (OBB)	8.83	5.83	6.33	8.17	2.80	15.17	-676.67
Overnight (O/N)	9.83	6.92	7.08	8.92	3.70	16.67	-686.67
FGN Bonds %	11-Jun-20	15-Jun-20	16-Jun-20	17-Jun-20	18-Jun-20	19-Jun-20	WoW Change (bps)
Jul-21	4.90	4.81	4.79	4.77	4.74	4.80	-35.84
Jan-22	5.56	5.49	5.48	5.46	5.53	5.54	-53.56
Apr-23	8.52	8.52	8.62	8.60	7.38	7.28	5.14
Mar-24	8.45	8.44	8.43	8.43	7.84	7.71	-4.74
Mar-25	8.69	8.40	8.40	8.40	7.45	7.44	-1.21
Jan-26	9.70	9.67	9.66	9.66	8.46	8.46	29.12
Mar-27	10.41	10.40	10.30	10.30	9.95	9.95	30.01
Feb-28	10.65	10.35	10.32	10.33	9.41	9.41	31.68
Jul-30	10.99	10.99	10.99	10.97	10.97	10.97	-0.82
Jul-34	11.26	11.03	11.03	11.03	11.03	10.75	0.64
Mar-36	11.37	11.11	11.11	11.19	11.06	10.85	0.90
Apr-37	11.44	11.15	11.20	11.17	11.17	10.65	1.06
Apr-49	12.24	12.24	12.24	12.24	12.08	11.98	2.89
Mar-50	12.30	12.32	12.32	12.32	12.15	12.08	3.03
T-Bills	11-Jun-20	15-Jun-20	16-Jun-20	17-Jun-20	18-Jun-20	19-Jun-20	WoW Change (bps)
NGOMOB 07/16/20	3.76	3.76	3.76	3.76	3.76	3.76	-0.31
NGOMOB 08/27/20	3.27	4.20	4.29	4.03	4.03	4.03	75.80
NGOMOB 09/24/20	4.05	4.04	4.04	4.04	4.25	4.31	26.56
NGOMOB 10/22/20	4.83	4.83	4.31	4.31	4.31	4.42	-41.79
NGOMOB 11/17/20	5.51	5.04	4.95	4.90	4.90	4.90	-61.06
NGOMOB 12/29/20	5.46	5.14	5.46	5.35	5.35	5.35	-10.73
NGOMOB 01/19/21	5.69	5.58	5.58	5.31	5.31	5.40	-29.49
NGOMOB 02/23/21	5.61	5.61	5.64	5.82	5.39	5.39	-22.22
NGOMOB 03/30/21	5.59	5.58	5.59	5.59	5.59	5.59	0.57
NIGTB 07/02/20	3.02	3.02	3.02	3.02	3.02	3.02	0.02
NIGTB 10/01/20	3.79	3.79	3.79	3.79	3.79	2.01	-178.03
NIGTB 11/26/20	2.32	2.32	2.32	2.32	2.32	2.02	-30.69
NIGTB 01/14/21	2.72	2.72	2.71	2.71	2.71	2.71	-0.16
FBN Eurobonds	11-Jun-20	15-Jun-20	16-Jun-20	17-Jun-20	18-Jun-20	19-Jun-20	WoW Change (bps)
\$500M JUL 2023	6.09	6.35	6.00	5.90	6.04	5.96	-13.00
\$1.118B NOV 2025	7.40	7.82	7.31	7.30	7.43	7.34	-6.00
\$1.5BN NOV 2027	7.59	7.99	7.47	7.46	7.59	7.49	-10.00
\$1.25B FEB 2030	8.33	8.65	8.19	8.19	8.33	8.21	-12.00
\$1.0B JAN 2031	8.93	9.30	8.76	8.76	8.90	8.78	-15.00
\$1.5B FEB 2032	8.79	9.10	8.57	8.57	8.72	8.61	-18.00
\$1.25BN FEB 2038	8.82	9.11	8.63	8.62	8.76	8.68	-14.00
\$1.5BN NOV 2047	8.77	9.06	8.62	8.61	8.74	8.69	-8.00
\$750M JAN 2049	9.36	9.59	9.13	9.12	9.23	9.16	-20.00

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