

Weekly Economic and Financial Commentary

**Global Economy**

The depressed energy prices continue to move the inflationary trend in the Euro area closer to deflation. Preliminary data released by Eurostat last week showed the inflation rate moderated to 0.1% YoY in the Euro area in May compared to 0.3% YoY in April. The moderation in May (as in the last three months) emanated largely from the energy sub index which declined 12.0% YoY, to neuter increases in prices of food, alcohol & tobacco (+3.3% YoY), services (+1.3% YoY) and non-energy industrial goods (+0.2% YoY). Breakdown by country revealed moderation in inflation rate across heavyweight countries: Germany (+0.5% YoY vs. +0.8% YoY in April), Spain (-0.9% YoY vs. -0.7% YoY in April), France (+0.2% YoY vs. +0.4% YoY in April) and Italy (-0.2% YoY vs. +0.1% YoY in April). Elsewhere, the European Commission last week unveiled total fiscal stimulus package worth up to EUR750 billion, higher than earlier proposals by Germany and France of EUR500 billion. The incremental EUR250 billion will be disbursed in the form of loans rather than grants. Further details revealed the combined stimulus package will be funded by joint debt issuance by countries within the bloc.

The Chinese government unveiled a fiscal stimulus package of ~3.6 trillion yuan (\$506 billion) at the annual “Two Sessions” conference last week. The stimulus packaged is expected to increase the budget deficit to 3.6% in GDP in 2020 (from 2.8% in 2019), which will be funded through issuing special bonds to fund “new infrastructure” investment. Also, a new a new national security law for Hong Kong was announced, which has resulted in heightened tension between US and China, with the US threatening further sanctions on China if the new security law is passed. Elsewhere in Japan, the cabinet approved a JPY 31.9 trillion second supplementary budget, which includes a JPY117 trillion (USD 1.1tn) stimulus package. The stimulus package includes financing for companies, subsidies for business rents, health care assistance, funding for local authorities and access to loans and investment through government supported financial institutions.

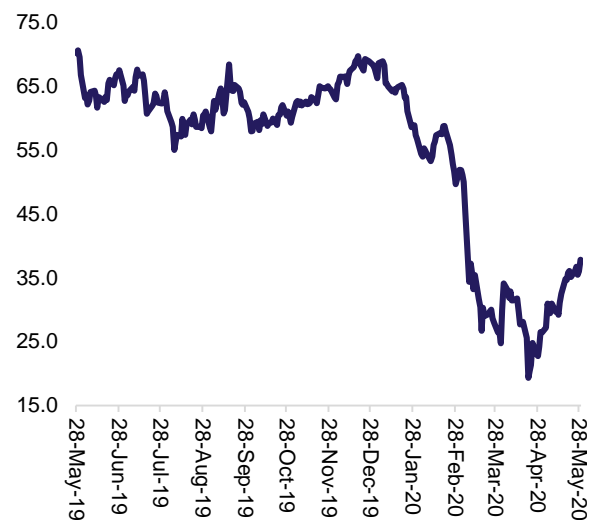
**Domestic Economy**

Data released last week showed Nigeria’s Q1 GDP expanded by 1.87% YoY and contracted 14.27% QoQ – which is much deeper than the 3-year historical Q1 QoQ decline of 13.5%. On an attribution basis, the services sector contributed 1.3% to overall growth in Q1, followed by agriculture and crude oil

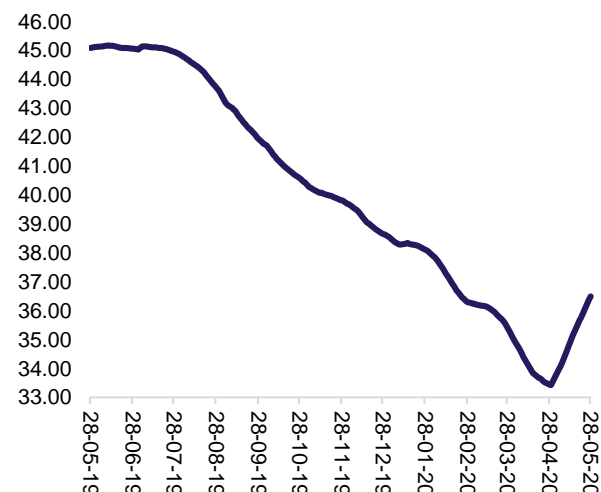
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**Figure 1: Brent Crude Price Trend (\$/bbl)**



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



of 0.5% each. Services and agriculture composition to GDP improved to 38.3% and 22% from 37.7% and 21.9% in Q1 2019 respectively. While the headline GDP was not as bad as expected, the details of the report were less encouraging. Specifically, agriculture recorded the slowest Q1 growth of 2.2% YoY, compared to 3-year average Q1 growth of 3.2% YoY. Also, manufacturing growth over Q1 slowed to 0.4% YoY compared to 3-year average Q1 growth of 1.9% YoY. Elsewhere, retail & wholesale trades fell by 2.8% YoY, to record the sharpest contraction in more than 13 quarters.

The Monetary Policy Committee at the end of its meeting last week signaled an accommodative posture with a reduction of the Monetary Policy Rate (MPR) by 100bps to 12.5%, citing the need to rapidly stimulate aggregate demand in a bid to accentuate a fast recovery of the economy and possibly avoid prolonged contraction in economic activity as measured by GDP. The committee voted to maintain the Cash Reserve Ratio (CRR) at 27.5%, Liquidity Ratio at 30% and asymmetric corridor around the MPR at +200/-500bps. The reduction in the MPR is largely a signaling factor, as the MPC at its meeting in March stated that a reduction in the MPR will not encourage DMBs to reduce lending rates.

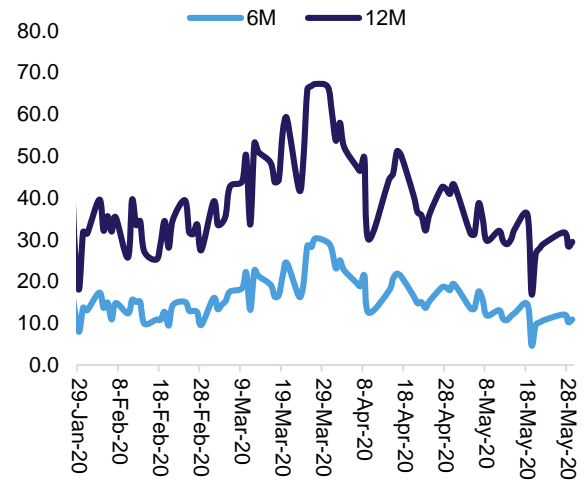
### Crude Oil

Following gradual reopening of major economies, the increasing production cuts by OPEC+ members (even out of quota cuts) and voluntary shut-ins in US and Canada, Brent crude prices gained 43% in May and 8% WoW to end the month at \$37.84/barrel. The price at the end of May moderated the year to date decline to 44% and is 51.4% above the Federal Government of Nigeria 2020 revised budget benchmark of \$25/barrel. OPEC+ ministers are considering to move up their meeting to June 4, from the previously scheduled June 9-10, so that July nominations can factor in any changes to oil production quotas. With the outlook for the oil market still uncertain, some members are suggesting that the 9.7mbpd cuts to be extended beyond June 2020.

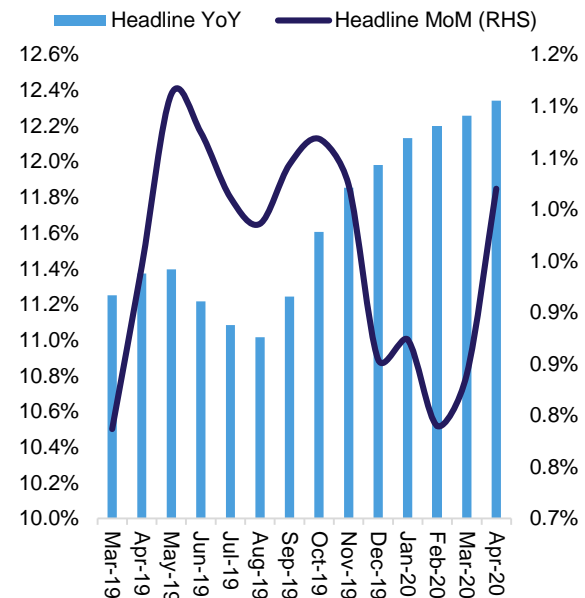
### Foreign Exchange and Reserve

As at Thursday (May. 21, 2020), the gross external reserve accrued by additional \$734 million to \$36.50 billion when compared to \$35.77 billion as at May. 21, 2020. The gross reserve increased by \$2.98 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 0.10% to N386.33/\$, and strengthened at the parallel market by 2.3% to N445.0/\$. The 6-months and 12-months forward points declined by N0.19 and N0.44 to N397.30/\$ and N415.84/\$ respectively. Despite being a holiday shortened week, activity surged at the OTC futures market, with the sum of transaction of \$989.7 million last week, compared to \$100.2 million in the prior week.

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



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



### Fixed Income

The CBN held both OMO and NTB auction last week. At the OMO auction, compared to N160 billion offered by the DMO, subscription came in at N355 billion with the CBN allotting a total of N114 billion. As a result, the 1-year stop rate fell by 281bps to enter single digit of 9.9%. At the NTB auction, the CBN (on behalf of DMO) sold exactly what it offered. With total maturity of N59.37 billion, the CBN offered same amount, albeit subscription came in at N130.6 billion, with the average stop rate remaining constant at 3.06% and 1-year rate stop rate expanding 8bps to 4.02%. In the secondary market, average fixed income yields moderated by 27bps to 5.92% following declines at both ends of the curve. Average NTB yields declined by 25bps WoW to 2.12% and bond yields fell by 29bps WoW to 9.72% following demand for the March-2025 bond.

### Equities

The Nigerian equities market closed last week higher by 0.25% WoW, rounding off at 25,267.82 points with the market capitalization at N13.2 trillion. The equities market gained 9.8% MoM with the year to date loss moderating to 5.9%. The gains last week were driven by Consumer Goods (+3.0%), Banking (+2.4%) and Insurance (+0.6%) sectors. On the other hand, the Oil & Gas (-1.0%) and Industrial Goods (-1.8%) sectors recorded losses. Best performing stocks during the week were ACCESS (+5.97%), GUARANTY (+1.05%), MTNN (+0.87%) and BUACEM (+7.69%).

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

Foreign Exchange rates	21-May-20	22-May-20	27-May-20	28-May-20	29-May-20	WoW % Change	MoM % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	0.00%	0.00%
NAFEX	386.50	385.94	385.94	386.33	386.33	-0.10%	0.25%
BDC	450.50	450.50	451.00	446.00	443.50	1.58%	-0.79%
Parallel	455.00	455.00	450.00	450.00	445.00	2.25%	-0.56%
Money Market rates %	21-May-20	22-May-20	27-May-20	28-May-20	29-May-20	WoW Change (bps)	MoM Change (bps)
Open Buy Back (OBB)	1.42	15.00	15.00	2.67	2.20	-1280.00	-5.00
Overnight (O/N)	2.00	15.63	15.60	3.42	3.00	1220.83	25.00
FGN Bonds %	21-May-20	22-May-20	27-May-20	28-May-20	29-May-20	WoW Change (bps)	MoM Change (bps)
Jul-21	5.09	5.15	5.05	5.03	5.01	-14.21	31.90
Jan-22	6.31	6.33	6.14	6.20	6.02	-31.29	19.31
Apr-23	9.06	9.09	8.71	8.96	8.38	-70.99	-10.68
Mar-24	8.90	8.90	8.88	8.88	8.96	5.96	39.49
Mar-25	9.69	9.66	9.65	9.50	8.51	-114.97	50.79
Jan-26	10.26	10.22	10.22	9.98	9.82	-40.12	66.76
Mar-27	10.66	10.66	10.65	10.65	10.30	-35.32	-70.57
Feb-28	10.90	10.94	10.94	10.94	10.94	-0.44	-21.50
Jul-30	11.21	11.19	11.04	11.04	10.82	-37.43	-46.62
Jul-34	11.61	11.43	11.43	11.43	11.43	0.00	13.17
Mar-36	11.52	11.52	11.52	11.35	11.35	-17.36	-6.95
Apr-37	11.49	11.49	11.49	11.49	11.43	-5.79	12.74
Apr-49	12.40	12.50	12.50	12.34	12.34	-16.26	-7.02
Mar-50	12.47	12.58	12.58	12.40	12.41	-17.07	-8.54
T-Bills	21-May-20	22-May-20	27-May-20	28-May-20	29-May-20	WoW Change (bps)	MoM Change (bps)
NGOMOB 06/18/20	5.33	5.33	5.33	5.33	5.33	-0.54	-378.46
NGOMOB 07/16/20	6.24	5.86	5.86	5.85	5.85	-0.66	-250.70
NGOMOB 08/27/20	5.97	5.23	5.23	5.23	5.23	-0.52	-341.00
NGOMOB 09/24/20	5.04	5.04	5.03	5.03	5.03	-0.49	-388.05
NGOMOB 10/22/20	5.82	5.82	5.81	5.81	5.81	-0.65	-336.84
NGOMOB 11/17/20	6.37	6.37	6.37	6.36	6.37	-0.78	-330.54
NGOMOB 12/29/20	7.49	7.48	7.48	6.97	6.22	-126.57	-389.64
NGOMOB 01/19/21	7.23	7.23	7.22	7.22	7.22	-1.00	-412.27
NGOMOB 02/23/21	6.32	6.32	6.31	6.31	6.31	-0.76	-503.57
NGOMOB 03/30/21	6.49	6.49	6.49	6.48	6.48	-0.81	-789.96
NIGTB 07/02/20	2.37	2.37	2.37	2.17	2.11	-25.21	-25.07
NIGTB 10/01/20	2.29	1.82	1.82	1.82	1.82	-0.06	-90.98
NIGTB 11/26/20	2.02	2.12	2.12	2.33	2.33	20.36	-20.99
NIGTB 01/14/21	2.69	2.72	2.72	2.72	2.72	-0.14	-23.37

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