

Weekly Economic and Financial Commentary

Global Economy

The US economy registered the sharpest drop since 2008, with Q1 2020 GDP contracting 4.8% YoY following measures implemented to curb the spread of the coronavirus. Personal consumption expenditure fell 7.6% YoY, the biggest drop since 1980, compounding the outlook for Q2, given the outsized role of consumer spending in driving two-third of economic activity in US. While private sector investment also fell sharply by 5.6% YoY, net trade contributed positively to top-line GDP in Q1 following a faster decline in imports by 15.3% YoY compared to decline in exports by 9% YoY. Elsewhere, still reflecting the damage inflicted by COVID-19, the Euro area GDP contracted by 3.3% YoY in Q1 2020, according to a flash estimate published by Eurostat. The contraction largely reflects falls across large economies. French GDP tumbled 5.8% QoQ, Italian GDP plunged 4.7% QoQ, and Spanish GDP fell 5.2% QoQ. Other data released include a record German unemployment increase of 373,000 in April and a 5.6%MoM fall in German retail sales.

The Bank of Japan (BoJ) held its policy rate steady last week but increased its holdings of Japanese Government Bonds by roughly ¥80 trillion per year and significantly increased its purchase targets for corporate bonds and commercial paper to ¥20 trillion in a bid keep yields stable and low. The US Federal Reserve kept interest rate close to zero last week, pledging to take additional steps if needed. European Central Bank (ECB) kept its policy interest rates steady but eased the terms of the targeted longer-term refinancing operations between June 2020 and June 2021, such that the financing cost will be as much as 50bps below the average deposit rate over the life of those loans. The ECB also announced seven non-targeted pandemic emergency longer-term refinancing operations to be conducted between May 2020 and September-2021, with the financing rate 25bps below the average main refinancing rate over the life of those loans.

Domestic Economy

Last week, the Executive Board of the International Monetary Fund (IMF) approved Nigeria's request for emergency financial assistance of \$3.4 billion, (which is 100% of its SDR quota) under the Rapid Financing Instrument (RFI) to meet the urgent balance of payment needs stemming from the outbreak of COVID-19. The RFI is a 5-year non-conditional loan, with a 3-year moratorium, interest charge estimated between 1.2% and 1.5%. In a separate report, the

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

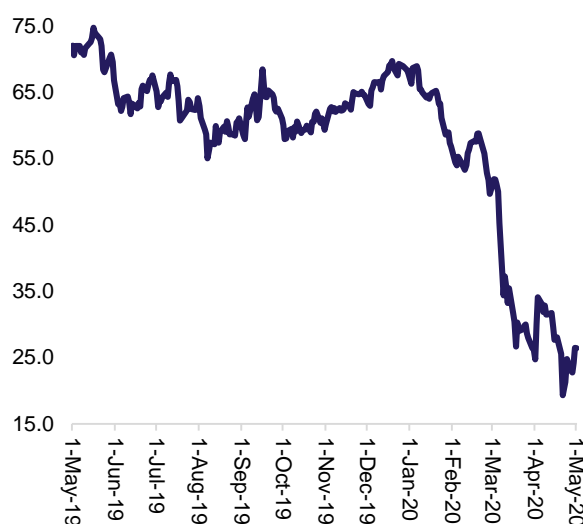
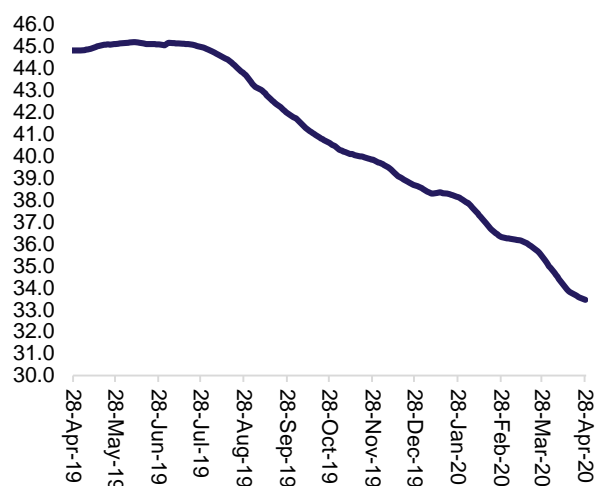


Figure 2: Movement in Gross Reserve (\$Bn)



IMF estimated Nigeria's BOP gap for 2020 at about \$14 billion or 3.2% of GDP, with the RFI expected to cover about 24%. In addition, the planned borrowings from World Bank and the African Development Bank of about \$3.6 billion, are expected to cover almost 26% of the BOP gap, with the rest of the financing gap expected to be met by further reserve drawdown and possible greater exchange rate flexibility. Elsewhere, the Senate last week approved the conversion of the hitherto planned N850 billion external borrowing to be financed from domestic sources.

Moody's Investors Service (Moody's) last week changed its outlook for Nigeria's banking system to negative from stable following its expectation of possible weakening of loan quality and foreign-currency liquidity challenges posed by the depressed oil prices. Moody's expects problem loans to rise to between 8% and 10% of total loans from 6% in December 2019, with risk tilted to the downside should the depressed oil price persist for more than a year.

Crude Oil

Data released by the US Energy Information Administration last week showed a rebound in refined product demand and a less drastic build in crude oil inventories. Total product supplied last week increased by 1.66mbpd to 15.76mbpd, the highest since late March. US gasoline stocks showed their first decline since mid-March, falling 3.7million barrels to 259.57million barrels. Following series of plans released by OPEC+ members on structures adopted to comply with the agreed productions cuts, oil markets recovered last week after three weeks of consecutive declines. Brent Crude prices closed higher last week by 6.6% to \$26.44/barrel, representing a year to date decline of 61% and is 12% below the Federal Government of Nigeria 2020 revised budget benchmark of \$30/barrel.

Foreign Exchange and Reserve

As at Tuesday (Apr. 28, 2020), the gross external reserve depleted by \$183 million to \$33.44 billion when compared to \$33.63 billion as at Apr. 22, 2020. While the reserve has depleted year to date by \$5.15 billion, adjusting the reserve level on Tuesday for the IMF loan of \$3.4 billion should put the adjusted reserves at about \$36.8 billion. The CBN last week released a circular, indicating its interest to resume FX sales to all commercial banks for onward sales for settlement of school fees and SMEs wishing to make essential imports. In particular, the CBN is resuming the provision of over US\$100 million per week for both categories. Also, FX sales to BDC segments for business travels, personal travels and other designated retail uses will resume as soon as international flights resume. The naira weakened across segments of the FX market with the largest being the BDC segment with depreciation of 14.8% WoW to N440.00/\$. The Naira also weakened at the parallel market and IEW

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

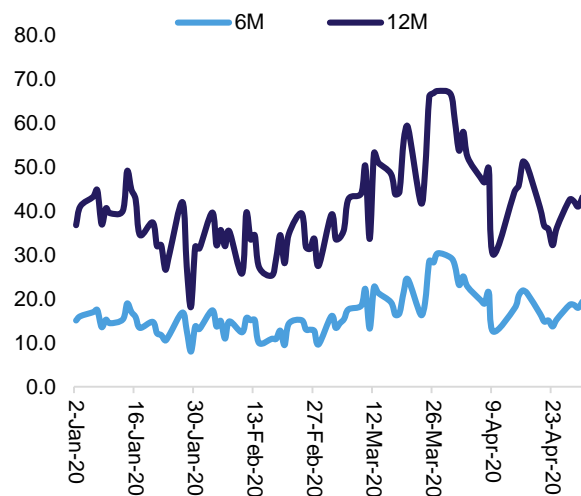
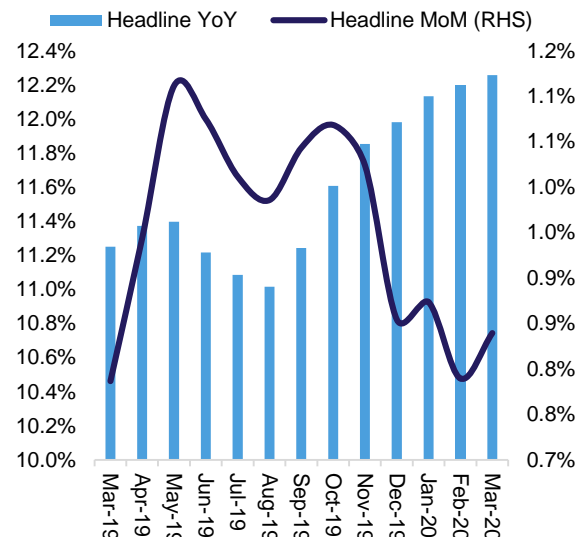


Figure 4: Nigeria YoY and MoM Inflation Trend



by 0.79% and 1.11% WoW to N442.5/\$ and N387.30/\$ respectively. The 6-months and 12-months forward points expanded by N4.01 and N6.92 to N406.70/\$ and N430.45/\$ respectively. Activity improved at the OTC futures, with the sum of transaction of \$822.8 million last week, compared to \$500.7 million in the prior week.

Fixed Income

At last week's NTB auction, compared with N131.53 billion maturing instruments offered for rollover by the DMO, subscription was N268.21 billion. The DMO allotted rolled over the maturing instruments, with average stop rate contracting 16bps to 2.73%. At the secondary market, average fixed income yields declined by 18bps WoW to 6.20% following contraction at both ends of the curve. Bond yields moderated by 35bps WoW to 9.71% following interest in March-2035 (-165bps) and the April-2037 (-87bps) bonds. Also, average NTB yields declined 1bp WoW to 2.7% following moderation in the mid-tenor bills.

Equities

The Nigerian equities market closed last week higher by 2.45% WoW, rounding off at 23,021.01 points with market capitalization at N11.7 trillion. As a result, the month to date return was positive at 8.1%, and year to date loss moderated to 14.2%. The gains last week were driven by the Banking (+3.8%), Oil & Gas (+1.7%) and Insurance (+1.3%) indices, all of which outweighed losses recorded in the Consumer Goods (-1.4%) and Industrial Goods (-0.5%) indices.

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

Foreign Exchange rates	23-Apr-20	24-Apr-20	27-Apr-20	28-Apr-20	29-Apr-20	30-Apr-20	WoW % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	361.00	0.00%
NAFEX	383.00	383.00	386.25	386.25	386.45	387.30	-1.11%
BDC	375.00	375.00	440.00	446.00	446.00	440.00	-14.77%
Parallel	425.00	439.00	440.00	450.00	450.00	442.50	-0.79%
Money Market rates %	23-Apr-20	24-Apr-20	27-Apr-20	28-Apr-20	29-Apr-20	30-Apr-20	WoW Change (bps)
Open Buy Back (OBB)	1.88	20.33	14.75	10.83	2.70	2.25	-1808.33
Overnight (O/N)	2.00	21.08	15.50	12.08	3.40	2.75	-1833.33
FGN Bonds %	23-Apr-20	24-Apr-20	27-Apr-20	28-Apr-20	29-Apr-20	30-Apr-20	WoW Change (bps)
Jul-21	5.12	5.16	4.75	4.73	4.71	4.69	-46.91
Jan-22	6.44	6.42	6.38	5.88	5.85	5.82	-60.05
Apr-23	8.57	8.76	8.75	8.58	8.53	8.49	-27.37
Mar-24	8.08	8.08	8.07	8.06	8.57	8.56	48.77
Mar-25	9.67	9.66	9.66	8.64	8.43	8.01	-165.85
Jan-26	9.36	9.36	9.40	9.21	9.23	9.15	-20.54
Mar-27	11.54	11.61	11.20	11.02	11.06	11.01	-59.49
Feb-28	12.01	11.15	11.16	11.16	11.16	11.16	0.38
Jul-30	11.77	11.38	11.38	11.38	11.38	11.29	-9.28
Jul-34	11.68	11.68	11.68	11.68	11.68	11.30	-37.95
Mar-36	12.25	12.29	12.28	11.37	11.31	11.42	-86.50
Apr-37	12.10	11.70	11.70	11.35	11.35	11.30	-39.70
Apr-49	12.47	12.60	12.60	12.33	12.41	12.41	-19.44
Mar-50	12.50	12.67	12.67	12.40	12.49	12.49	-17.89
T-Bills	23-Apr-20	24-Apr-20	27-Apr-20	28-Apr-20	29-Apr-20	30-Apr-20	WoW Change (bps)
NGOMOB 05/28/20	8.11	8.11	8.11	8.10	8.10	8.05	-6.14
NGOMOB 06/18/20	9.59	8.33	8.32	8.33	8.20	9.11	77.95
NGOMOB 07/16/20	10.07	8.63	8.62	8.62	8.36	8.36	-26.80
NGOMOB 08/27/20	10.55	10.55	10.54	8.99	8.64	8.64	-191.12
NGOMOB 09/24/20	9.44	9.44	9.43	9.43	9.00	8.91	-52.66
NGOMOB 10/22/20	9.42	9.42	9.41	9.41	9.41	9.18	-23.99
NGOMOB 11/17/20	9.93	9.93	9.92	9.92	10.63	9.67	-25.86
NGOMOB 12/29/20	10.74	10.27	9.81	9.69	10.12	10.12	-15.77
NGOMOB 01/19/21	11.07	10.62	10.61	10.61	10.61	11.34	71.93
NGOMOB 02/23/21	11.78	11.51	11.50	11.50	11.35	11.35	-16.27
NIGTB 07/02/20	2.37	2.37	2.37	2.37	2.37	2.36	-0.09
NIGTB 10/01/20	2.78	2.73	2.73	2.73	2.73	2.73	-0.12
NIGTB 11/26/20	2.64	2.54	2.54	2.54	2.54	2.54	-0.11
NIGTB 01/14/21	2.97	2.95	2.95	2.95	2.95	2.95	-0.14

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