

Weekly Economic and Financial Commentary

Global Economy

With improving industrial activities following the reopening of some parts of the economy across advanced and developing economies, the rate of global manufacturing contraction slowed in June, albeit still in the contractionary region. The J.P.Morgan Global Composite Manufacturing PMI Index improved 5.4 points to 47.8 in June from 42.4 in May. Among the largest industrial nations, growth was registered in China, France, Italy, the UK and Brazil, while downturns eased in the US, Japan, Germany, South Korea and India. Particularly in China, exports benefitted from the gradual re-opening of economies around the world, but employment still remained at historic lows. The China's official manufacturing PMI and non-manufacturing PMI rose to 50.9 and 54.4 in June from 50.6 and 53.6 in May respectively.

Data released last week showed U.S Nonfarm employment increased by 4.8 million in June from 2.7 million in May. Employment rose sharply in leisure and hospitality, with notable job gains also recorded in retail trade, education and health services, other services, manufacturing, and professional & business services. The unemployment rate moderated by 220bps to 11.1% in June from 13.3% in May, as the number of unemployed persons fell by 3.2 million to 17.8 million in June. Reflecting the effects of the coronavirus pandemic and efforts to contain it, the unemployment rate and the number of unemployed persons are up by 7.6% and 12.0 million respectively since February. The broader measures of labour market under-utilization, which is underemployment, fell to 18% in June from 21.2% in May.

Domestic Economy

Last week, the Petroleum Product Pricing Regulatory Agency (PPPRA) released the monthly petroleum Motor Spirit price guide for the month of July. The PPPRA revised the PMS pump price higher by 16.3% MoM to N143/litre from N123.5/litre for the month of June. By our estimate, with oil prices averaging \$40.98/barrel in June, we estimate the effective PMS price could be as high as N152/litre, indicating a potential subsidy/under-recovery of N9/litre. Elsewhere, the planned implementation of an increase in electricity in July 1st, was postponed until Q1 2021 last week by the National Assembly, citing the already weak household income occasioned by the Covid-19 pandemic.

Elsewhere, Nigeria's total public debt stock declined from \$84.1 billion in FY 19 to \$79.3 billion at the end of Q1 2020. The decline emanated from both external

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

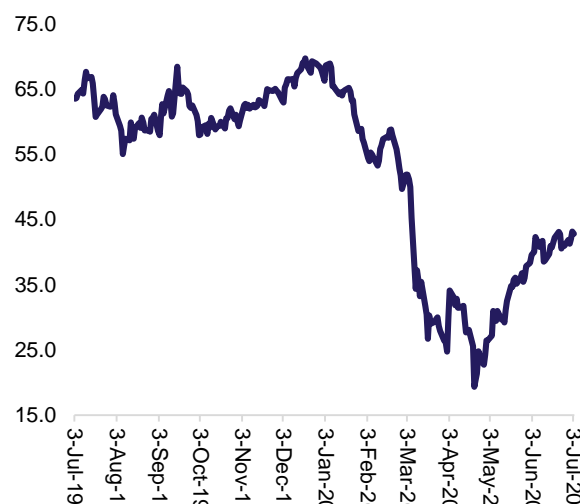
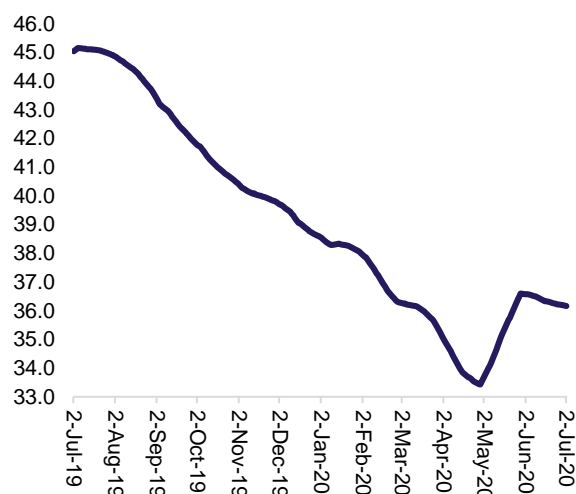


Figure 2: Movement in Gross Reserve (\$Bn)



and domestic debt. Domestic debt declined by 8.4% to \$51.6 billion, while external debt moderated by 0.04% to \$27.7 billion. The composition of external debt increased by 196bps to 34.9%, which is still far below the optimal debt composition of 60:40 for domestic and external debt as outlined in the 2016-2019 debt management strategy. However, when compared to 2015 (84:16) wherein the strategy was initiated, the strategy recorded significant progress. Notwithstanding the decline in domestic debt stock, domestic debt service only declined by 0.19% YoY to N609 billion in Q1 2020. External debt service on the other hand increased by 32.3% YoY in Q1 2020 to \$472 million.

Crude Oil

Crude oil prices increased last week by 4.6% to \$42.8/barrel and rose 9% MoM in the month of June compared to \$37.84/barrel at the end of May. Notwithstanding the increase last week, rising cases of coronavirus in the US, which has resulted in the re-imposition of movement restrictions in some states, continued to dampen the demand outlook. The EIA's weekly US Petroleum Report released last week estimates crude oil in commercial storage decreased by 7.2 million barrels to 533.5 million barrels, which is still about 15% above the five-year average. The close price last week reduced the year to date decline to 36.9% and is 53% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

Foreign Exchange and Reserve

As at Thursday (July. 02, 2020), the gross external reserve depleted by \$58 million to \$36.16 billion when compared to \$36.22 billion as of June 25. The naira depreciated at both the Parallel and BDC market last week by 0.33% and 0.55% to N457.5/\$ and \$455/\$ respectively, while it appreciated at the IEW by 0.09% to N386.0/\$. The 6-months and 12-months forward points declined by N3.33 and N5.56 to N392.9/\$ and N408.13/\$ respectively. Activity moderated at the OTC futures market last week, with the sum transaction of \$143.9 million compared to \$605.5 million in the prior week.

Fixed Income

Both OMO and NTB auctions were conducted last week. At the OMO auction, subscription stood at N177 billion compared to N100 billion (lower than maturing bills of N157 billion) offered by the CBN, with the apex bank allotting the offered amount. The average stop rate remained unchanged at 7.24%. At the NTB auction, total subscription was N330.69 billion compared to N88.86 billion that was offered, with sales same as offered amount. Average stop rate declined 17bps to 2.36%. In the secondary market, average fixed income yields declined 42bps WoW to 4.88% last week. Average bond yields declined by 68bps to 7.67% following demand for the Jan-2026 (-133bps) and Jan-2022 (-91bps) bonds. Average NTB yield contracted by 15bps WoW to 2.09%.

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

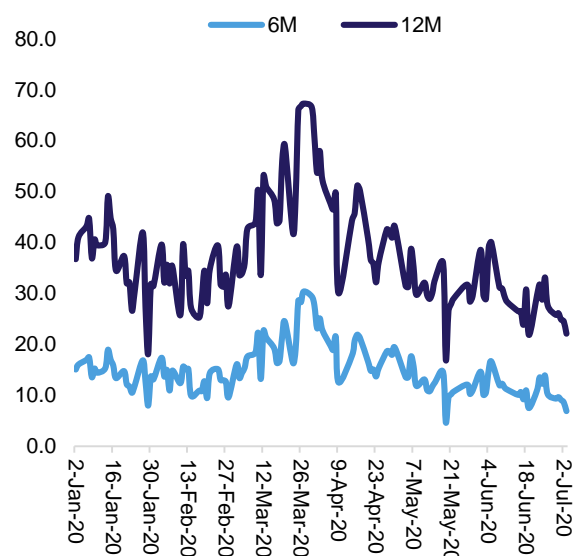
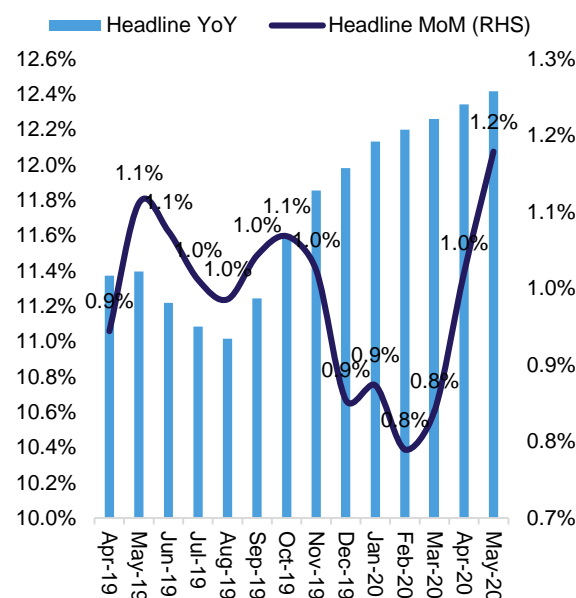


Figure 4: Nigeria YoY and MoM Inflation Trend



Elsewhere, average FGN Eurobond yields fell by 9bps to 7.97%, dominated by declines in the Jul-2023 (-19bps), and Nov-2025 (-10bps)

Equities

The Nigerian equities market closed lower last week by 1.99%, rounding off at 24,336.12 points with the market capitalization at N12.6 trillion following losses recorded in the Banking (-7.5%), Industrial Goods (-6.4%), Insurance (-2.2%), Oil & Gas (-1.2%) and Consumer Goods (-0.5%) indices. Worst performing stocks last week were MTNN (-1.28%), BUACEMENT (-2.33%), GUARANTY (-8.37%), DANGCEM (-0.78%) and UNILEVER (-18.8%).

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

Foreign Exchange rates	26-Jun-20	29-Jun-20	30-Jun-20	01-Jul-20	02-Jul-20	03-Jul-20	WoW % Change
CBN Official	361.00	361.00	361.00	361.00	361.00	361.00	0.00%
NAFEX	386.33	386.00	386.50	386.50	386.00	386.00	0.09%
BDC	452.50	455.00	455.00	455.00	455.00	455.00	-0.55%
Parallel	456.00	455.00	456.00	458.50	457.50	457.50	-0.33%
Money Market rates %	26-Jun-20	29-Jun-20	30-Jun-20	01-Jul-20	02-Jul-20	03-Jul-20	WoW Change (bps)
Open Buy Back (OBB)	15.20	14.92	15.00	11.80	2.80	21.50	630.00
Overnight (O/N)	16.10	15.67	16.00	12.90	3.60	23.50	740.00
FGN Bonds %	26-Jun-20	29-Jun-20	30-Jun-20	01-Jul-20	02-Jul-20	03-Jul-20	WoW Change (bps)
Jul-21	4.16	4.32	4.55	4.53	4.50	4.48	31.93
Jan-22	4.91	4.86	4.84	4.82	4.02	4.00	-90.56
Apr-23	6.01	5.99	5.64	5.81	5.19	5.46	-54.66
Mar-24	6.20	6.19	6.19	6.18	5.37	5.37	-83.94
Mar-25	7.14	7.13	7.13	7.13	6.46	6.31	-83.64
Jan-26	8.31	8.30	7.37	7.36	7.31	7.04	-127.03
Mar-27	8.76	8.35	8.35	8.35	8.12	8.12	-64.32
Feb-28	9.41	8.52	8.45	8.45	8.17	8.17	-123.43
Jul-30	10.97	10.97	10.97	10.97	8.94	8.94	-203.55
Jul-34	10.30	10.30	10.30	10.30	9.79	9.77	-53.50
Mar-36	10.14	10.14	10.14	10.14	10.14	10.14	-0.09
Apr-37	10.05	10.05	10.05	10.05	10.05	10.04	-0.22
Apr-49	11.26	11.01	11.01	11.01	11.01	10.80	-46.27
Mar-50	11.36	11.09	11.09	11.09	11.09	10.86	-49.81
T-Bills	26-Jun-20	29-Jun-20	30-Jun-20	01-Jul-20	02-Jul-20	03-Jul-20	WoW Change (bps)
NGOMOB 07/16/20	3.76	3.76	3.76	3.76	3.76	3.76	-0.27
NGOMOB 08/27/20	3.86	3.85	3.85	4.07	4.07	4.06	20.97
NGOMOB 09/24/20	4.50	4.57	4.53	4.53	4.53	4.53	2.66
NGOMOB 10/22/20	4.60	4.60	4.60	5.43	5.42	5.71	111.52
NGOMOB 11/17/20	5.29	5.29	5.29	5.10	5.10	5.10	-19.59
NGOMOB 12/29/20	5.62	5.61	5.61	5.61	5.81	5.81	19.47
NGOMOB 01/19/21	5.86	5.86	5.85	5.85	5.85	5.67	-18.75
NGOMOB 02/23/21	5.49	5.49	5.49	5.49	5.70	5.66	16.38
NGOMOB 03/30/21	6.01	6.01	6.01	6.01	6.01	6.01	-0.69
NIGTB 07/02/20	2.07	2.07	2.07	2.07	2.07	2.07	-0.08
NIGTB 10/01/20	2.01	2.01	2.01	1.67	1.67	1.66	-34.57
NIGTB 11/26/20	1.81	1.81	1.81	1.81	1.81	1.83	1.79
NIGTB 01/14/21	2.71	2.71	2.09	2.09	2.09	2.11	-60.20
FBN Eurobonds	26-Jun-20	29-Jun-20	30-Jun-20	01-Jul-20	02-Jul-20	03-Jul-20	WoW Change (bps)
\$500M JUL 2023	5.86	5.86	5.85	5.77	5.70	5.67	-19.00
\$1.118B NOV 2025	7.16	7.23	7.20	7.13	7.08	7.06	-10.00
\$1.5BN NOV 2027	7.43	7.49	7.44	7.38	7.35	7.39	-4.00
\$1.25B FEB 2030	8.16	8.24	8.21	8.15	8.12	8.11	-5.00
\$1.0B JAN 2031	8.74	8.82	8.79	8.70	8.66	8.66	-8.00
\$1.5B FEB 2032	8.66	8.75	8.71	8.64	8.59	8.58	-8.00
\$1.25BN FEB 2038	8.67	8.75	8.71	8.66	8.64	8.63	-4.00
\$1.5BN NOV 2047	8.68	8.73	8.69	8.63	8.58	8.57	-11.00
\$750M JAN 2049	9.14	9.22	9.17	9.12	9.08	9.06	-8.00

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