

Weekly Economic and Financial Commentary

Global Economy

Japan Q2 2020 GDP released last week showed persistent contraction in economic activities after the economy entered its first recession since 2015 in Q1 2020. Q2 2020 annualized GDP contracted by 27.8% YoY (-7.8% QoQ) after recording similar contraction of 2.2% YoY (-0.6% QoQ) in Q1 2020. Despite the less severe lockdown implemented in Japan, the slowdown in global factory activities had material impact on the economy, with export of goods and services contracting at an annualised rate of 56% YoY compared to decline in imports of goods and services of 2.1% YoY. Also, domestic demand fell 23.5% YoY, with breakdown revealing private consumption and business capital spending fell by 28.9% and 5.8% respectively. While the increased stimulus implemented by the government lessened the rate of contraction in public spending, it still fell by 0.1% YoY. Still showing weakness in the economy, the August Composite PMI remained flat at 44.9, while the manufacturing and services PMI only showed marginal improvements to 44.7 and 45.0 from July levels of 43.9 and 45.5 respectively.

U.S and Eurozone flash PMI data published last week by HIS Markit revealed a slight divergence in the scale of growth. The Eurozone composite PMI slowed to 51.6 compared to 54.9 in July, following modest growth in both business activity and new orders at slower rates than in July. The overall slower rate of expansion emanated from weakness in the service sector (50.1 in August compared to 54.7 in July) as growth of manufacturing production (51.7 in August compared to 51.8 in July) remained resolute. In the US, further improvement was noticed in both manufacturing and the services PMI, supporting expansion in composite PMI to 54.7 in August compared to 50.3 in July. Both manufacturing and services PMI rose 53.6 and 54.8 in August compared to 51.7 and 50.0 in July respectively.

Data released by Eurostat last week showed the inflation rate rose to 0.4% YoY in the Euro area in July compared to 0.3% YoY in June. The increase in July emanated from increases in prices of food, alcohol & tobacco (+2.0% YoY), non-energy industrial goods (+1.6% YoY) and services (+0.9% YoY), all of which more than outweighed moderation in the energy sub index which declined 8.4% YoY. Breakdown by country revealed increase in inflation rate in some heavyweight countries and smaller economies. Specifically, prices increased in France (+0.9% YoY vs. +0.2% YoY in June), Italy (+0.8% YoY vs.

Sections

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

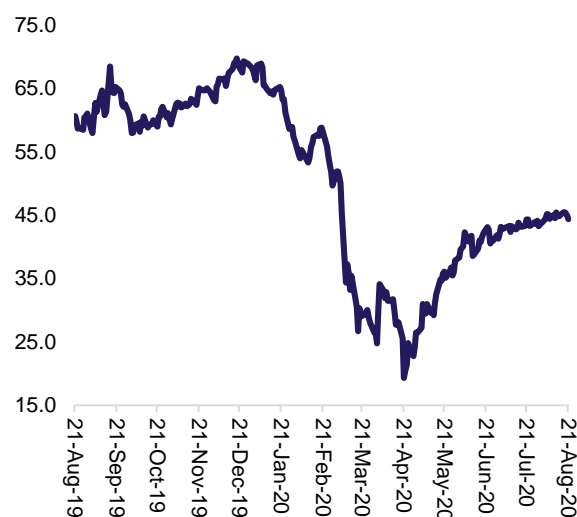
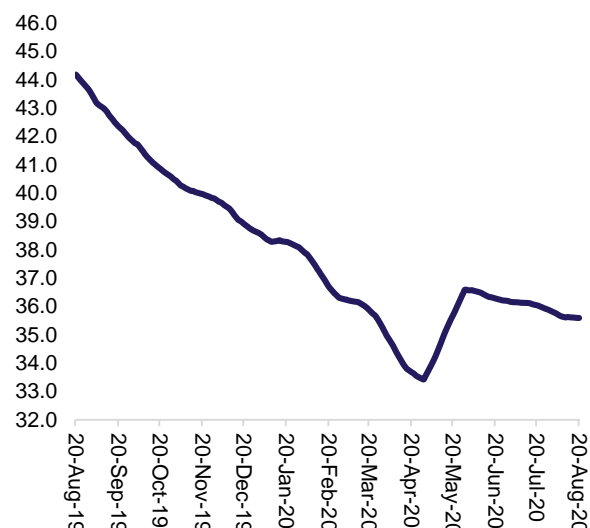


Figure 2: Movement in Gross Reserve (\$Bn)



-0.4% YoY in June) and UK (+1.0% YoY vs. +0.6% YoY in June).

Domestic Economy

The National Bureau of Statistics (NBS) published the Consumer Price Index data for the month of July last week. Food inflation expanded month-on-month by 1.54% - the highest MoM increase since June 2018. Largely, most of the increase in the food index emanated from higher prices of farm produce. For context, while the headline index expanded 1bps to 1.23% MoM in July, the headline index excluding farm produce contracted 11bps to 0.75% MoM and when further adjusted for energy related cost, the headline index fell 12bps in July. Surprisingly, while imported food increased by 2bps to 1.29% MoM, processed food prices contracted during the month. Perusing the numbers relative to the same period in the prior year, headline inflation expanded by 12.81%, coming ahead of May level of 12.57% YoY and our estimate of 12.75%. The expansion emanated from a much faster increase in the food index, which largely outweighed moderation in the core index. The food index surged 32bps to 15.49% YoY, dominated by increases in prices of farm produce and staple food prices.

The Central Bank of Nigeria (CBN) last week received the presidential approval to set up a N15 trillion (\$39.4 billion) infrastructure development company with the sovereign wealth fund to invest in the country's transport network. The sum is projected to cover an initial five-year period, will be co-owned by the CBN, African Finance Corporation (AFC), and Nigerian Sovereign Wealth Investment Authority (NSIA), but exclusively managed by an independent infrastructure fund manager.

Crude Oil

At the end of the Joint Technical Committee (JTC) meeting of OPEC last week, OPEC-plus states that failed to meet their production targets in under the Phase One agreement were asked to submit their plans for implementation of the required compensation for the overproduced volumes to the OPEC Secretariat by 28 August 2020. The overproduction totalled 2.3mbpd which is expected to be compensated for in August and September. According to OPEC, the biggest overproducers in May-July were Iraq (851,000bpd), Nigeria (315,000bpd), Russia (283,000bpd) and Kazakhstan (189,000bpd). Iraq pledged 400,000bpd cuts in August to fully comply, while Nigeria promised catch-up cuts of 114,000bpd in both August and September. The EIA's weekly US Petroleum Report released last week estimates that crude oil in commercial storage decreased by around 1.6 million barrels to 512 million barrels (which is still about 15% above the five-year average). Oil prices declined last week by 1.00% to \$44.35/barrel. The price at the end of last week increased the year to date decline to 34.6% and is 58.4% above the Federal Government of Nigeria

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

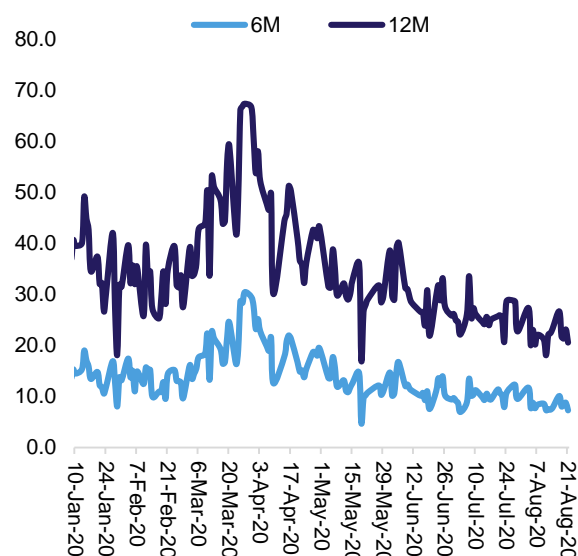
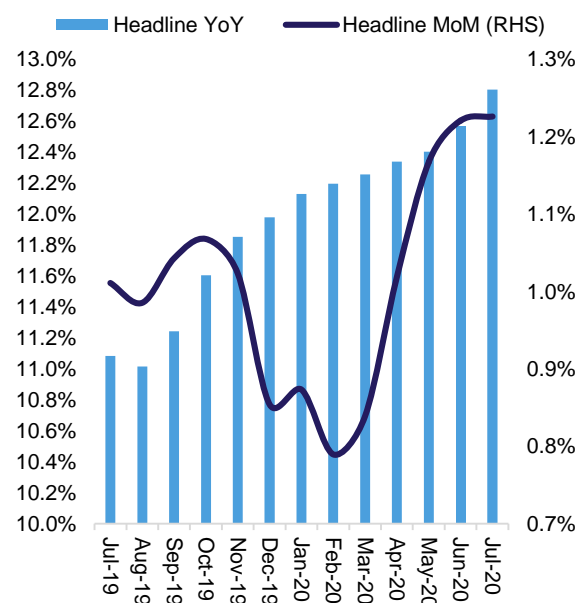


Figure 4: Nigeria YoY and MoM Inflation Trend



2020 revised budget benchmark of \$28/barrel.

Foreign Exchange and Reserve

As at Thursday (Aug. 20, 2020), the gross external reserves depleted by \$26 million to \$35.60 billion when compared to \$35.62 billion as of Aug. 13. The naira depreciated at the BDC and parallel markets last week by 0.11% and 0.42% to N473.0/\$ and N474.5/\$ respectively and remained flat at the IEW at N386.0/\$. The 6-months and 12-months forward points traded lower by N0.52 and N2.76 to N393.27/\$ and N406.56/\$ respectively. Activity improved modestly at the OTC futures market last week, with the sum of transaction of \$75.1 million compared to \$53.6 million in the prior week.

Fixed Income

At last week's bond auction, compared to offered amount of N150 billion, subscription totalled N241.8 billion. Despite the DMO only allotting N126.2 billion and N9.5 billion via non-competitive bids, the average stop rate increased for the first time since March 2020 at the auction by 11bps to 8.93%. At the OMO auction last week, the CBN offered N80 billion worth of bills compared to maturing instruments of N181.4 billion. Irrespective, the apex bank only allotted N72.5 billion worth of instruments, with average stop rate declining to 7.18% from 7.20% at the last auction. As a result, of the lower sales at the OMO auction relative to maturing instruments, money market rates declined at the end of the week to average 2.31% compared to average of 16.95% at the start of the week. In the secondary market, average fixed income yields rose 2bps WoW to 4.51% following sell pressure at the long end of the curve. Average bond yields rose 10bps WoW to 7.48%, while average NTB yields fell 3bps WoW to 1.54%. Elsewhere, average FGN Eurobond yields expanded by 31bps to 6.89%, following increases across the curve, with the largest expansion in the Jan-202 (+89bps), Nov-2027 (+32bps) and Feb-2032 (+28bps).

Equities

The Nigerian equities market closed higher last week by 0.09% WoW, rounding off at 25,221.87 points with market capitalization at N13.1 trillion following gains in the Insurance (+4.4%), Consumer Goods (+1.9%), and Banking (+0.8%), which more than offset losses in the Oil & Gas (-0.9%) and Industrial Goods (-0.4%). Best performing stocks last week were INTBREW (+26.32%), UNILEVER (+11.6%), JBERGER (+9.63%), MANSARD (+7.55%) and DANGSUGA (+5.04%) WoW.

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

Foreign Exchange	14-Aug-20	17-Aug-20	18-Aug-20	19-Aug-20	20-Aug-20	21-Aug-20	WoW % Change	MoM % Change
CBN Official	381.00	381.00	381.00	381.00	381.00	381.00	0.00%	0.00%
NAFEX	386.00	385.78	385.98	386.00	386.00	386.00	0.00%	0.84%
BDC	472.50	473.00	473.50	472.50	473.00	473.00	-0.11%	-0.53%
Parallel	472.50	472.50	476.50	473.50	473.50	474.50	-0.42%	-0.63%
Money Market	14-Aug-20	17-Aug-20	18-Aug-20	19-Aug-20	20-Aug-20	21-Aug-20	WoW Change (bps)	MoM Change (bps)
Open Buy Back (OBB)	17.60	16.40	15.25	13.00	5.60	2.00	-1560.00	60.00
Overnight (O/N)	19.80	17.50	16.00	13.50	6.30	2.63	-1717.50	52.50
FGN Bonds %	14-Aug-20	17-Aug-20	18-Aug-20	19-Aug-20	20-Aug-20	21-Aug-20	WoW Change (bps)	MoM Change (bps)
Jul-21	3.17	2.80	2.80	2.80	2.81	2.85	-31.28	-17.59
Jan-22	5.03	4.98	4.97	4.97	5.01	5.17	13.90	132.54
Apr-23	5.59	5.56	5.55	5.54	5.54	5.63	4.62	171.35
Mar-24	5.98	5.96	5.96	5.95	5.91	5.96	-1.92	198.32
Mar-25	6.44	6.43	6.43	6.43	6.35	6.35	-9.53	138.71
Jan-26	6.61	6.58	6.59	6.59	6.70	6.66	4.34	130.81
Mar-27	7.82	7.75	7.75	7.57	7.81	7.79	-2.95	104.22
Feb-28	8.00	7.96	7.96	7.86	8.14	8.14	13.48	89.52
Jul-30	8.48	8.48	8.48	8.48	8.76	8.76	27.84	72.90
Jul-34	9.30	9.30	9.30	9.30	9.38	9.38	7.54	49.56
Mar-36	9.38	9.38	9.38	9.57	9.63	9.63	25.27	77.34
Apr-37	9.43	9.43	9.43	9.75	9.80	9.80	36.80	60.09
Apr-49	9.89	9.88	9.88	9.90	10.00	10.00	11.43	28.04
Mar-50	9.92	9.92	9.92	9.91	10.02	10.02	9.48	25.57
T-Bills	14-Aug-20	17-Aug-20	18-Aug-20	19-Aug-20	20-Aug-20	21-Aug-20	WoW Change (bps)	MoM Change (bps)
NGOMOB 09/24/20	4.02	4.02	3.66	3.66	3.66	3.66	-35.81	-105.26
NGOMOB 10/22/20	4.16	4.16	4.16	3.82	3.81	3.65	-51.17	-77.50
NGOMOB 11/17/20	4.04	4.04	4.04	3.82	3.81	3.45	-58.98	-45.00
NGOMOB 12/29/20	3.84	3.84	3.84	3.80	3.80	3.12	-72.00	-61.25
NGOMOB 01/19/21	3.88	3.88	3.88	3.76	3.45	3.73	-15.08	-60.95
NGOMOB 02/23/21	4.24	4.24	4.24	4.24	3.67	3.83	-41.31	-160.93
NGOMOB 03/30/21	4.10	4.10	4.10	4.10	3.79	3.78	-32.25	-140.90
NGOMOB 05/25/21	4.25	4.23	4.21	4.21	4.21	4.21	-3.58	-51.14
NIGTB 10/01/20	1.20	1.20	1.20	1.30	1.30	1.30	10.31	-0.51
NIGTB 11/26/20	1.36	1.36	1.22	1.22	1.56	1.56	20.48	20.54
NIGTB 01/14/21	1.29	1.33	1.28	1.28	1.40	1.40	11.31	-21.19
NIGTB 04/29/21	2.74	1.98	1.98	1.98	1.97	1.97	-76.81	-77.14
FBN Eurobonds	14-Aug-20	17-Aug-20	18-Aug-20	19-Aug-20	20-Aug-20	21-Aug-20	WoW Change (bps)	MoM % Change
\$500M JUL 2023	4.89	4.90	4.92	5.10	5.14	5.12	23.00	-31.00
\$1.118B NOV 2025	6.24	6.25	6.31	6.50	6.57	6.52	28.00	-48.00
\$1.5BN NOV 2027	6.61	6.64	6.70	6.90	6.96	6.93	32.00	-56.00
\$1.25B FEB 2030	6.99	7.02	7.06	7.23	7.28	7.25	26.00	-67.00
\$1.0B JAN 2031	7.54	7.55	7.61	7.80	7.87	7.81	27.00	-74.00
\$1.5B FEB 2032	7.56	7.59	7.63	7.82	7.90	7.84	28.00	-66.00
\$1.25BN FEB 2038	7.85	7.88	7.92	8.08	8.16	8.12	27.00	-41.00
\$1.5BN NOV 2047	7.96	7.99	8.03	8.17	8.27	8.20	24.00	-29.00
\$750M JAN 2049	8.49	8.51	8.54	8.67	8.76	8.69	20.00	-32.00
\$750M JAN 2049	8.74	8.74	8.64	8.57	8.51	8.49	-25.00	-16.00

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