

Weekly Economic and Financial Commentary

Global Economy

Canada Q2 2020 GDP released last week showed GDP dropped at an annualized rate of 38.7%, after 8.2% contraction in Q1 following reflected sharp decreases in household spending, business investment, and international trade owing to widespread shutdowns of non-essential businesses, border closures and restrictions on travel and tourism in response to the COVID-19 pandemic. The decline was dominated by a fall in consumer spending and business investment by 43% and 57% respectively. Following series of government policy to support households, disposable incomes actually rose almost 11% (savings rate up 28.2% over the period) in Q2 despite a massive downturn in labour markets. Government transfers to households surged by a whopping \$56 billion in Q2 versus a \$23 billion decline in earned wages & salaries.

Fed Chair Jerome Powell last week announced an historic policy shift towards average inflation targeting at his address to the virtual Jackson Hole symposium on Thursday. The decision largely anchors the fact that inflation has consistently fallen short of the Fed's 2% target despite massive stimulus since the Global Financial Crisis and keeping rates close to historically low levels. The change in approach from the Fed suggests that interest rates in the US will remain lower for longer. According to the statement, inflation of 'moderately' higher than 2% will now be tolerated for extended periods if following periods when price growth has undershot the target. The FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its "assessments of the shortfalls of employment from its maximum level." The original document referred to "deviations from its maximum level."

Domestic Economy

The Q2 2020 GDP figures showed the impact of the Covid-19 associated disruption in economic activities. Overall GDP in Q2 2020 contracted by 6.10% YoY and contracted 5.04% QoQ following falls in both oil and non-oil sectors. The oil sector contracted by 6.6% in Q2 20, largely reflecting lower crude oil production of 1.81mbpd over Q2, relative to average production of 2.02mbpd in Q2 19. The non-oil sector contracted by 6.1% YoY following cuts across most constituents. On an attribution basis, Wholesale and retail trades contributed 2.67% to overall decline in Q2, followed by construction (1.41%),

Sections

- [Global Economy](#)
- [Domestic Economy](#)
- [Crude Oil](#)
- [Foreign Exchange and Reserves](#)
- [Fixed Income](#)
- [Equities](#)

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

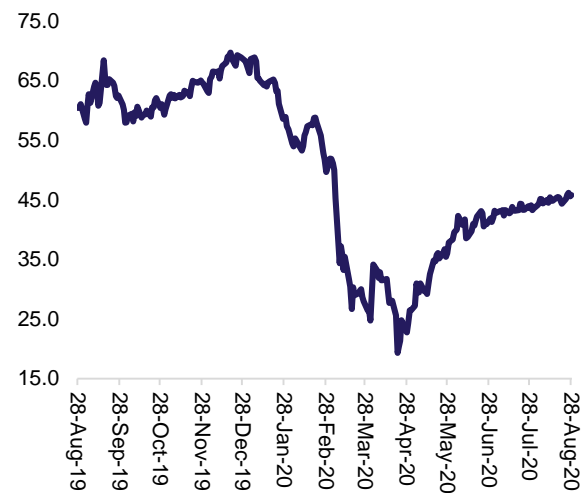
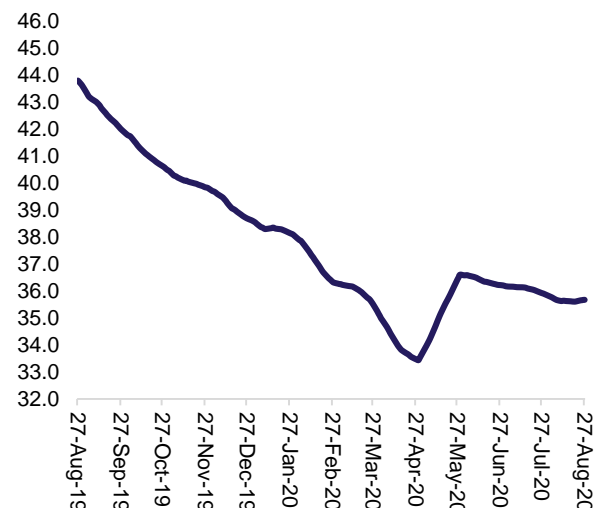


Figure 2: Movement in Gross Reserve (\$Bn)



services (0.99%), manufacturing (0.80%) and crude oil (0.60%). On balance, Nigeria posted 2.18% YoY GDP contraction in H1 2020 compared to 2.11% growth in H1 19. Services and agriculture composition to GDP improved to 38.7% and 23.2% from 37.7% and 22.3% in H1 2019 respectively.

Data released last week by the National Bureau of Statistics (NBS) showed that total capital imported into Nigeria contracted 78.6% YoY and 77.9% QoQ to \$1.3 billion in Q2 2020. Breakdown revealed Other Investment including loans, trade credits and currency deposits was the largest source of capital import at \$761.0 million (down 48.6% YoY) in Q2 2020. Foreign Portfolio Investment (FPI) declined 91.1% YoY to \$385.3 million – FPI flows into money market instruments contracted 90.6% YoY to \$332.1 million, flows to equities moderated 89.3% YoY to \$53.3 million in Q2. Foreign Direct Investment (FDI) fell 33.4% YoY to \$148.6 million, the lowest since Q3 2017.

Crude Oil

The EIA's weekly US Petroleum Report released last week estimates that crude oil in commercial storage decreased by around 4.7 million barrels (compared to prior week decline of 1.6 million barrels) to 507.8 million barrels (which is still about 15% above the five-year average). Oil prices jumped last week by 3.3% to \$45.81/barrel. The price at the end of last week reduced the year to date decline to 32.4% and is 63.6% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel. Data from US Bureau of Safety and Environmental Enforcement last week showed that about 1.558 mbpd of oil or 84.3% of offshore production were shut by operators due to the back-to-back tropical storms Marco and Laura. Due to the storm, approximately 1.8mbpd in US oil refining capacity or nearly 18% of total US Gulf Coast refinery capacity is expected to be offline.

Foreign Exchange and Reserve

As at Thursday (Aug. 27, 2020), the gross external reserves increased by \$65 million to \$35.66 billion when compared to \$35.60 billion as of Aug. 20. The naira depreciated at the BDC segment by 0.11% to N473.5/\$, appreciated at the IEW by 0.09% to N385.7/\$ and closed flat at the parallel market at N474.5/\$. The 6-months and 12-months forward points traded lower by N1.94 and N3.68 to N391.00/\$ and N402.55/\$ respectively. Activity improved at the OTC futures market last week, with the sum of transaction of \$926.0 million compared to \$75.1 million in the prior week. Last week, the CBN announced it would resume FX sale to the BDC segment on September 7th, 2020, almost 6 months after suspended sales due to restriction of international travel. The CBN pegged sales to BDC operators at N384/\$, with eventual sales to end users at N386/\$. Also, the apex bank directed International Money Transfer Operators to sell FX to Banks and the CBN at N382/\$ and N383/\$ respectively. However, the

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

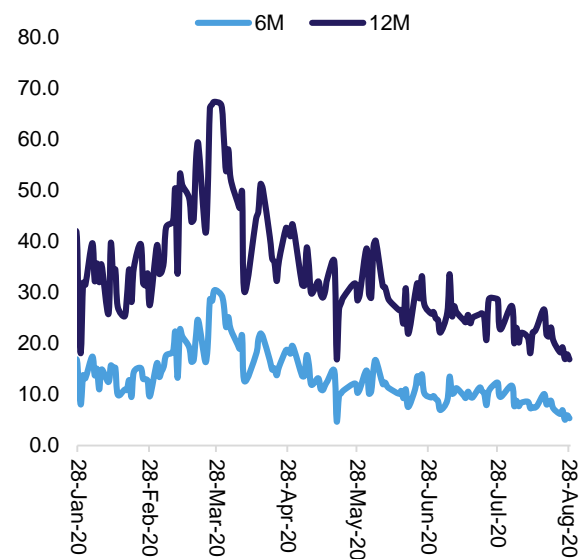
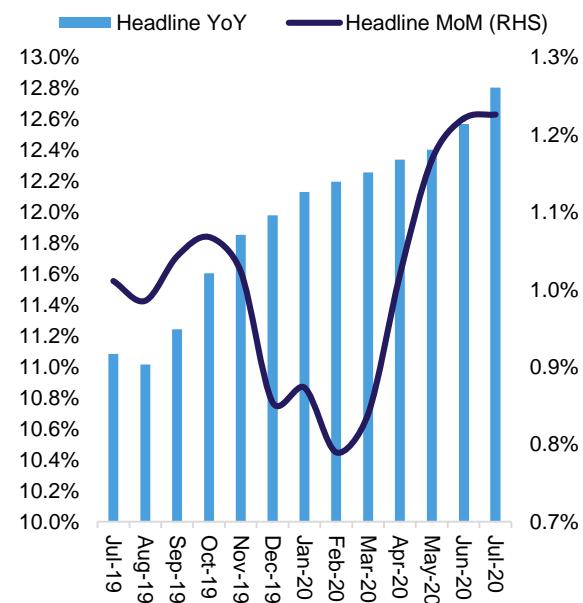


Figure 4: Nigeria YoY and MoM Inflation Trend



volume of sale to BDCs is reduced to \$10,000 per BDC with auctions to hold twice a week compared to about \$60,000 prior to the suspension.

Fixed Income

The apex bank held both NTB and OMO auctions last week. At the NTB auction, compared to offered amount of N198 billion to liquidate maturing instruments, subscription totalled N221.9 billion. Despite rolling over only the maturing instruments, the average stop rate at the auction increased by 17bps to 2.10%. At the OMO auction last week, compared to offered amount of N100 billion, subscription came in at N108.8 billion with the apex bank allotting just N97.3 billion. Despite the sales coming below maturing bills of N262.42 billion, average stop rate was largely unchanged from the prior week at 7.2%. In the secondary market, average fixed income yields rose 23bps WoW to 4.73% following sell pressure at the short end of the curve. Average NTB yields rose 48bps WoW to 4.73%, while average bond yields fell rose 3bps WoW to 7.45%. Elsewhere, average FGN Eurobond yields declined by 11bps to 6.78%, following contraction across the curve, with the largest falls in the Nov-2025 (-23bps), Nov-2027 (-23bps) and Feb-2030 (-13bps).

Equities

The Nigerian equities market closed higher last week by 0.35% WoW, rounding off at 25,309.37 points with market capitalization at N13.2 trillion following gains in the Insurance (+2.8%), Consumer Goods (+1.1%), and Industrial Goods (+0.6%) indices, which offset declines in the (-0.2%) index and flat movement in the Oil & Gas index. Best performing stocks last week were INTBREW (+23.33%), NB (+5.71%), UNILEVER (+9.09%), PZ (+9.09%), BUACEMENT (+2.83%), MANSARD (+7.6%), STANBIC (+6.03%) and OANDO (+4.91%).

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

Foreign Exchange	21-Aug-20	24-Aug-20	25-Aug-20	26-Aug-20	27-Aug-20	28-Aug-20	WoW % Change	MoM % Change
CBN Official	381.00	379.00	379.00	379.00	379.00	379.00	0.53%	0.53%
NAFEX	386.00	386.00	385.99	386.00	385.75	385.67	0.09%	0.93%
BDC	473.00	473.00	473.00	473.50	473.50	473.50	-0.11%	-0.63%
Parallel	474.50	474.50	474.50	474.50	474.50	474.50	0.00%	-0.63%
Money Market	21-Aug-20	24-Aug-20	25-Aug-20	26-Aug-20	27-Aug-20	28-Aug-20	WoW Change (bps)	MoM Change (bps)
Open Buy Back	2.00	2.00	2.00	1.75	1.50	13.90	1190.00	1250.00
Overnight	2.63	3.00	2.50	2.38	2.00	14.90	1227.50	1280.00
FGN Bonds %	21-Aug-20	24-Aug-20	25-Aug-20	26-Aug-20	27-Aug-20	28-Aug-20	WoW Change (bps)	MoM Change (bps)
Jul-21	2.85	2.85	2.85	2.87	2.87	2.99	13.91	-3.69
Jan-22	5.17	5.14	5.13	5.21	5.21	4.68	-48.90	83.64
Apr-23	5.63	5.62	5.61	5.66	5.66	5.29	-34.05	137.30
Mar-24	5.96	5.95	5.94	5.98	5.98	5.73	-23.58	174.74
Mar-25	6.35	6.34	6.33	6.35	6.35	6.23	-11.40	127.31
Jan-26	6.66	6.65	6.65	6.65	6.65	6.64	-1.53	129.28
Mar-27	7.79	7.79	7.78	7.78	7.78	8.11	31.58	135.81
Feb-28	8.14	8.13	8.13	8.03	8.37	8.39	25.06	114.58
Jul-30	8.76	8.65	8.80	8.80	9.00	9.00	24.12	97.03
Jul-34	9.38	8.93	9.55	9.55	9.66	9.66	28.48	78.04
Mar-36	9.63	9.05	9.05	9.05	9.05	9.05	-58.42	18.92
Apr-37	9.80	9.80	9.80	9.98	9.98	10.07	27.11	87.20
Apr-49	10.00	10.00	10.05	10.12	10.05	10.05	4.96	33.00
Mar-50	10.02	10.02	10.07	10.13	10.06	10.05	3.26	28.83
T-Bills	21-Aug-20	24-Aug-20	25-Aug-20	26-Aug-20	27-Aug-20	28-Aug-20	WoW Change (bps)	MoM Change (bps)
NGOMOB 09/24/20	3.66	3.66	3.66	3.11	3.11	3.11	-55.29	-160.54
NGOMOB 10/22/20	3.65	3.45	3.12	2.93	2.93	2.91	-74.49	-151.99
NGOMOB 11/17/20	3.45	3.09	2.97	2.72	2.60	2.59	-85.51	-130.51
NGOMOB 12/29/20	3.12	3.16	3.24	3.24	2.89	2.89	-22.96	-84.21
NGOMOB 01/19/21	3.73	3.26	3.27	3.26	3.12	2.87	-85.78	-146.73
NGOMOB 02/23/21	3.83	3.83	3.83	3.83	3.10	3.10	-73.37	-234.30
NGOMOB 03/30/21	3.78	3.78	3.78	3.48	3.48	3.39	-38.58	-179.47
NGOMOB 05/25/21	4.21	3.49	3.49	3.49	3.49	3.49	-72.23	-123.37
NIGTB 10/01/20	1.30	1.30	1.30	1.30	1.30	1.30	0.16	-0.35
NIGTB 11/26/20	1.56	1.56	1.56	1.56	1.00	1.00	-55.61	-35.07
NIGTB 01/14/21	1.40	1.40	1.40	1.40	1.20	2.04	64.07	42.88
NIGTB 04/29/21	1.97	1.98	1.97	1.98	1.97	1.97	0.27	-76.87
FBN Eurobonds	21-Aug-20	24-Aug-20	25-Aug-20	26-Aug-20	27-Aug-20	28-Aug-20	WoW Change (bps)	MoM % Change
\$500M JUL 2023	5.12	5.09	5.05	5.05	5.03	5.04	-8.00	-39.00
\$1.118B NOV 2025	6.52	6.49	6.38	6.35	6.27	6.29	-23.00	-71.00
\$1.5BN NOV 2027	6.93	6.88	6.82	6.78	6.69	6.70	-23.00	-79.00
\$1.25B FEB 2030	7.25	7.21	7.16	7.13	7.10	7.12	-13.00	-80.00
\$1.0B JAN 2031	7.81	7.79	7.73	7.72	7.67	7.70	-11.00	-85.00
\$1.5B FEB 2032	7.84	7.80	7.75	7.74	7.72	7.73	-11.00	-77.00
\$1.25BN FEB 2038	8.12	8.09	8.04	8.04	8.03	8.04	-8.00	-49.00
\$1.5BN NOV 2047	8.20	8.15	8.10	8.11	8.09	8.10	-10.00	-39.00
\$750M JAN 2049	8.69	8.66	8.61	8.61	8.59	8.61	-8.00	-40.00

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