

Weekly Economic and Financial Commentary

Global Economy

The US economy registered the sharpest drop in over 74 years in which quarterly GDP data has been available. The economy contracted 32.9% YoY (deeper than 5% YoY contraction in Q1) following measures implemented to curb the spread of the coronavirus. For context, household disposable incomes expanded 42 % YoY in Q2, and the savings rate rose by 25.7% YoY on average due to government income support to offset wage losses. The contraction in GDP was widespread with personal consumption expenditure dropping 34.6% YoY, private sector investment fell sharply by 49% YoY, net trade contributed negatively to top-line GDP in Q2 following a faster decline in exports by 64% YoY compared to decline in imports by 53% YoY. The FOMC at its meeting last week left benchmark rate unchanged at 0.0%-0.25%, and signaled preparedness to step up purchases of treasury securities and agency residential and commercial mortgage-backed securities more rapidly should it deem it necessary.

Still reflecting on the damage inflicted by COVID-19, the Euro area GDP contracted by 15% YoY in Q2 (deeper than 3.1% YoY contraction in Q1), according to a flash estimate published by Eurostat. The contraction largely reflects falls across large economies. French GDP tumbled 19% YoY, Italian GDP plunged 17.3% YoY, Germany GDP plummeted 11.7% YoY and Spanish GDP fell 22.1% YoY. Separate data revealed unemployment rate rose to 7.8% at the end of June compared to 7.2% at the end of Q1 20 following rising unemployment rate in Germany (4.2% from 3.8% in March), Spain (15.6% from 14.5% in March), Italy (8.8% from 8.4% in March), Netherlands (4.3% from 2.9% in March) and France (7.7% from 7.6% in March).

Domestic Economy

Purchasing Managers' Index Report for July 2020 released by the Central Bank of Nigeria last week showed improvement in business activity but still in the declining region. Manufacturing PMI printed at 44.9 (compared to 41.1 in June) following slower rate of decline in production level (44.7 in July vs 36.4 in June), new orders (43.1 in July vs 36.4 in June), inventory (43.2 in July vs 41 in June) and employment level (40 in July vs 38 in June). Elsewhere, non-manufacturing PMI improved to 43.3 from June level of 35.7 as the rate of contraction slowed in business activity (46.1 in July vs 34.3 in June), new orders (43.4 in July vs June level of 32.5), employment level (41.1 in July vs 37.4 in June) and

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

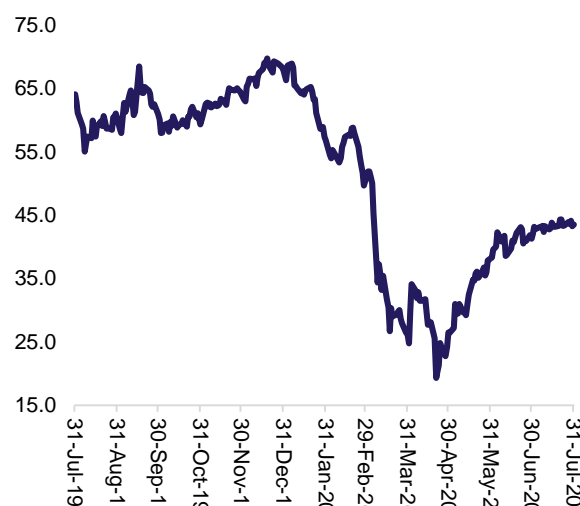
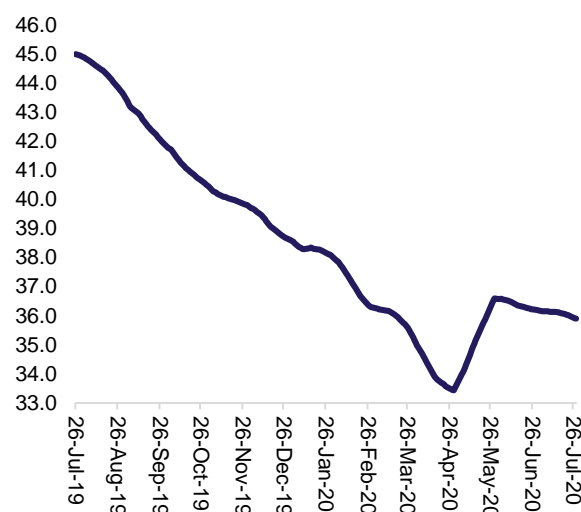


Figure 2: Movement in Gross Reserve (\$Bn)



inventory (42.7 in July vs June level of 38.5).

Value Added Tax collection data for H1 2020 released last week by the National Bureau of Statistics, showed increase in collection by 8.5% YoY to N651.8bn reflecting largely the increase in VAT rate from 5.0% to 7.5% earlier in 2020. Professional Services generated the highest amount of VAT with N95.92 billion (representing 11.7% of total VAT collected) generated, followed closely by Other Manufacturing generating N67.63 billion (representing 10.4% of total collection). Out of the total amounted generated in H1 2020, N335.82 billion was generated as Non-Import VAT locally, N161.74 billion was generated as Non-Import VAT for foreign and N154.21bn was generated as NCS-Import VAT.

Crude Oil

The EIA's weekly US Petroleum Report released last week showed commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 10.6 million barrels from the previous week to 525.9 million barrels, which is about 117% above the five-year average. Beyond the still high inventory level, the growing fears over a resurgence in COVID-19 cases continues to cap recovery in global oil demand. Irrespective, oil prices increased last week by 0.42% to \$43.52/barrel. The price at the end of last week reduced the year to date decline to 35.8% and is 55.4% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel. Global crude oil supply is expected to increase starting August 1 as OPEC+ sticks with its schedule of tapering coordinated production cuts from 9.7mbpd to 7.7mbpd.

Foreign Exchange and Reserve

As at Tuesday (July. 28, 2020), the gross external reserves depleted by \$136 million to \$35.9 billion when compared to \$36.04 billion as of July 21. The naira depreciated at the Parallel and BDC market last week by 0.53% and 0.43% to N471.5/\$ and N470.5/\$ respectively, and appreciated at the IEW by 6bps to N389.3/\$. The 6-months and 12-months forward points traded lower by N1.15 and N5.87 to N398.74/\$ and N411.98/\$ respectively. Activity improved at the OTC futures market last week, with the sum transaction of \$460.2 million compared to \$30.2 million in the prior week.

Fixed Income

At the NTB auction held last week, compared to total maturing instruments of N265.9 billion offered, subscription was recorded at N468.3 billion. The CBN completely rolled over the maturing NTB, with the average stop rate declining 12bps to 2.03%. Average fixed income yields in the secondary market contracted by 13bps to 4.13% last week following decline in average bond yields by 26bps to 6.51%, led by the March-2027 (-125bps), Feb-2028 (-68bps)

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

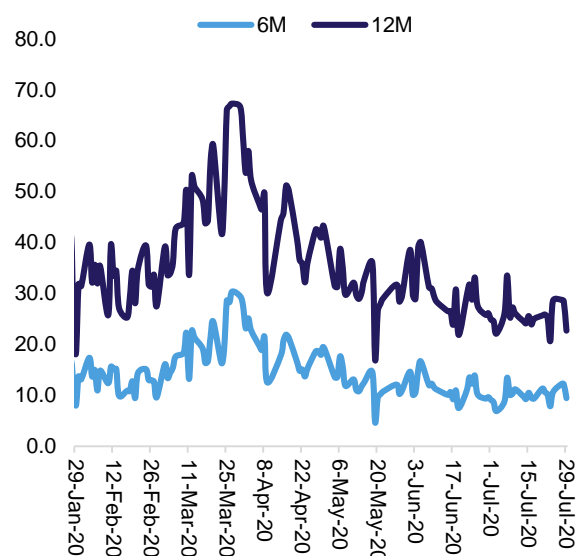
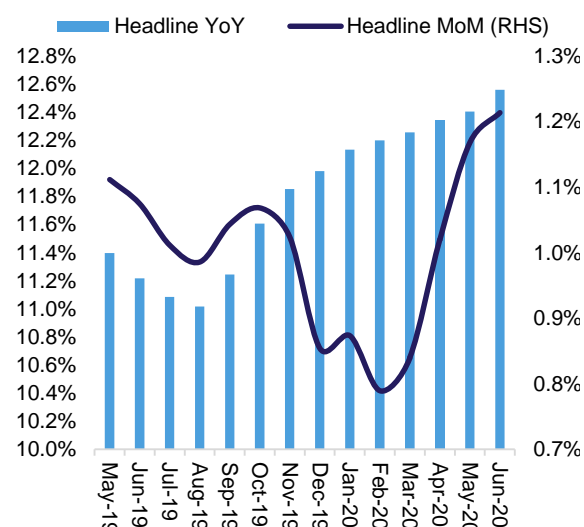


Figure 4: Nigeria YoY and MoM Inflation Trend



and March-2024 (-66bps) bonds. Average NTB yield was unchanged last week at 1.75%. Elsewhere, average FGN Eurobond yields fell by 4bps to 7.28%, following contraction across the curve, with the largest contraction in the Feb-2032 (-9bps).

Equities

The Nigerian equities market closed higher last week by 2.15%, rounding off at 24,693.73 points with the market capitalization at N12.9 trillion following gains in the Industrial Goods (+3.6%) and Banking (+3.0%) indices, both of which offset losses in the Oil & Gas (-6.5%) and Consumer Goods (-0.4%) indices. Best performing stocks last week were DANGCEM (+16.23%), WAPCO (+6.82%), ZENITH (+4.82%), GUARANTY (+4.41%), ACCESS (+2.44%), and AIICO (+4.44%).

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

Foreign Exchange	22-Jul-20	23-Jul-20	24-Jul-20	27-Jul-20	28-Jul-20	29-Jul-20	WoW % Change	MoM % Change
CBN Official	381.00	381.00	381.00	381.00	381.00	381.00	0.00%	-5.25%
NAFEX	388.17	388.00	389.50	389.25	389.50	389.25	0.06%	-0.71%
BDC	465.00	468.50	468.50	468.50	469.00	470.50	-0.43%	-3.29%
Parallel	469.00	469.00	469.00	470.50	471.50	471.50	-0.53%	-3.29%
Money Market rates	22-Jul-20	23-Jul-20	24-Jul-20	27-Jul-20	28-Jul-20	29-Jul-20	WoW Change (bps)	MoM Change (bps)
Open Buy Back	1.90	1.88	1.60	1.13	1.33	1.40	-20.00	-1360.00
Overnight	2.50	2.38	2.20	1.88	2.00	2.10	-10.00	-1390.00
FGN Bonds %	22-Jul-20	23-Jul-20	24-Jul-20	27-Jul-20	28-Jul-20	29-Jul-20	WoW Change (bps)	MoM Change (bps)
Jul-21	3.08	3.07	3.06	3.06	2.97	3.03	-3.39	-152.14
Jan-22	3.98	3.96	3.94	3.93	3.48	3.84	-10.44	-100.19
Apr-23	4.37	4.37	4.36	4.34	4.07	3.92	-43.82	-171.79
Mar-24	4.63	4.62	4.64	4.63	4.48	3.98	-66.32	-220.69
Mar-25	4.92	4.92	4.97	4.96	4.96	4.96	-1.50	-217.08
Jan-26	6.95	6.95	5.90	5.35	5.35	5.35	-55.42	-201.61
Mar-27	8.00	8.00	8.00	6.75	6.75	6.75	-124.78	-160.22
Feb-28	7.94	7.94	7.92	7.92	7.92	7.24	-68.32	-120.96
Jul-30	8.71	8.71	7.84	7.70	7.73	8.03	18.67	-294.20
Jul-34	9.24	9.24	8.57	8.57	8.70	8.88	30.58	-142.02
Mar-36	9.86	9.02	9.02	9.01	8.86	8.86	-15.55	-127.96
Apr-37	9.91	9.90	9.14	9.14	9.14	9.20	5.56	-84.57
Apr-49	10.47	9.68	9.69	9.60	9.72	9.72	2.90	-129.44
Mar-50	10.51	9.66	9.73	9.64	9.76	9.76	2.71	-132.86
T-Bills	22-Jul-20	23-Jul-20	24-Jul-20	27-Jul-20	28-Jul-20	29-Jul-20	WoW Change (bps)	MoM Change (bps)
NGOMOB 08/27/20	2.38	2.96	2.61	2.61	2.61	2.61	-0.09	-124.81
NGOMOB 09/24/20	4.78	5.02	5.02	5.02	5.02	4.71	-31.12	18.49
NGOMOB 10/22/20	5.26	4.47	4.47	4.43	4.43	4.43	-4.88	-17.00
NGOMOB 11/17/20	4.88	5.08	3.95	3.90	3.90	3.90	-4.89	-138.85
NGOMOB 12/29/20	5.63	5.63	4.57	3.73	3.73	3.73	-84.09	-188.03
NGOMOB 01/19/21	5.92	5.92	5.92	5.91	5.04	4.34	-157.74	-151.51
NGOMOB 02/23/21	5.40	5.44	5.44	5.44	5.44	5.44	-0.41	-5.04
NGOMOB 03/30/21	5.57	5.57	5.19	5.19	5.19	5.19	-0.37	-81.94
NGOMOB 05/25/21	5.88	5.88	5.87	5.87	5.87	4.72	-115.35	472.14
NIGTB 10/01/20	1.50	1.28	1.28	1.28	1.28	1.31	2.70	-70.51
NIGTB 11/26/20	1.36	1.36	1.35	1.35	1.35	1.35	-0.03	-45.87
NIGTB 01/14/21	1.61	1.61	1.61	1.61	1.61	1.61	-0.04	-48.24
NIGTB 04/29/21	2.74	2.74	2.74	2.74	2.74	2.74	-0.10	274.14
FBN Eurobonds	22-Jul-20	23-Jul-20	24-Jul-20	27-Jul-20	28-Jul-20	29-Jul-20	WoW Change (bps)	MoM % Change
\$500M JUL 2023	5.47	5.37	5.45	5.43	5.42	5.43	-2.00	-42.00
\$1.118B NOV 2025	7.03	6.93	7.05	7.02	7.00	7.00	-5.00	-20.00
\$1.5BN NOV 2027	7.51	7.42	7.57	7.47	7.48	7.49	-8.00	5.00
\$1.25B FEB 2030	7.97	7.86	8.00	7.95	7.92	7.92	-8.00	-29.00
\$1.0B JAN 2031	8.58	8.46	8.59	8.55	8.54	8.55	-4.00	-24.00
\$1.5B FEB 2032	8.50	8.41	8.59	8.52	8.50	8.50	-9.00	-21.00
\$1.25BN FEB 2038	8.52	8.43	8.57	8.54	8.52	8.53	-4.00	-18.00
\$1.5BN NOV 2047	8.44	8.37	8.52	8.49	8.49	8.49	-3.00	-20.00
\$750M JAN 2049	8.96	8.90	9.03	9.00	9.00	9.01	-2.00	-16.00
\$750M JAN 2049	9.27	9.23	8.98	8.96	8.90	9.03	-24.00	-14.00

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