

Weekly Economic and Financial Commentary

Global Economy

Data released last week by the U.S Bureau of Labour Statistics showed consumer prices rose 1.3% YoY (from 1.0% YoY in July) and rose 0.4% MoM (from 0.5% MoM in July). Increases in food prices accounted for half of the expansion in the YoY number while the MoM movement was dominated by increases in prices of all items except food and energy (Core index). While the increases in the food (+4.1% YoY and +0.1% MoM) was triggered by both food at home (+4.6% YoY and -0.1% MoM) and food away from home (+3.5% YoY and +0.3% MoM), the jump in the core index (+1.7% YoY and +0.4% MoM), was dominated by a sharp rise in the used cars and trucks index (+4.0% YoY and +5.4% MoM). The energy index on the other hand declined 9.0% YoY (+0.9% MoM). Separate data showed real average hourly earnings for all employees were unchanged from July to August, following increase of 0.4% in average hourly earnings which was offset by an increase of 0.4% in the consumer price index. However, real average hourly earnings expanded 3.3% YoY compared to 3.7% YoY in July.

In the China, data released last week showed consumer prices rose at a much slower rate by 2.4% YoY (from 2.7% YoY in July) and 0.4% MoM (From 0.6% MoM in July). The slower increase emanated from moderating increases in food prices to 11.2% YoY and 1.4% MoM (July: 13.2% YoY and 2.8% MoM). Non-food prices rose modestly YoY and MoM by 0.1%. In August, prices of food, tobacco and liquor went up by 8.8% YoY to increase the headline figure by 2.71%. The headline growth was moderated by declines in the prices for transport and communication (-3.9% YoY) housing (-0.7% YoY) and clothing (-0.5% YoY). Elsewhere, Producer Price Index for manufactured goods dropped by 2.0% YoY and rose 0.3% MoM.

Domestic Economy

Data published by the Debt Management Office (DMO) last week showed Nigeria's total public debt stock rose to \$85.9 billion in Q2 2020 from \$79.3 billion at the end of Q1 2020. Compared to the level at the end of 2019 of \$84.1 billion, the debt stock rose 2.2% year to date. The increase from Q1 to Q2 emanated from both external and domestic debt. External and domestic debt rose by \$3.8 billion and \$2.8 billion to \$31.5 billion and \$54.4 billion respectively. With the DMO adopting same exchange rate of N361/\$1 in Q1 and Q2, we note that the increase in the debt stock largely reflects actual

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

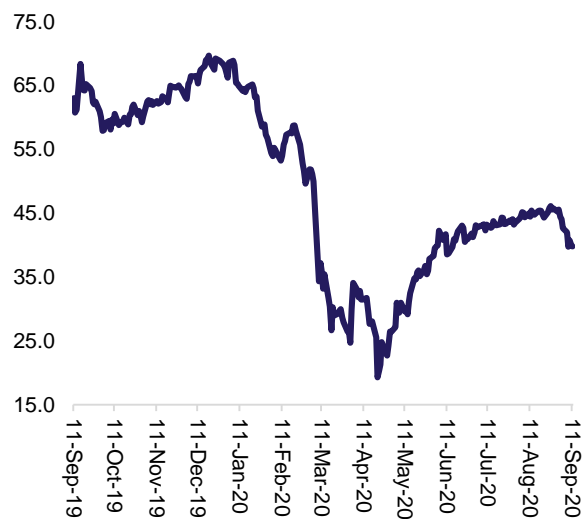
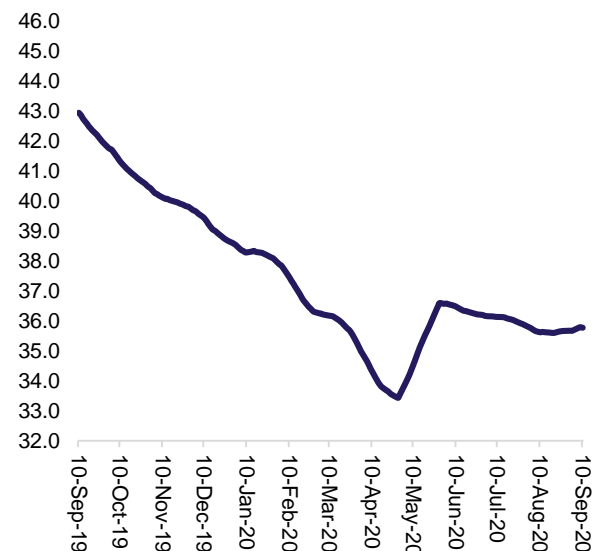


Figure 2: Movement in Gross Reserve (\$Bn)



external and domestic borrowings in a bid to augment the large fiscal deficit occasioned by the Covid-19 disruption to main revenue sources. The composition of external debt increased by 176bps to 36.7%, 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. In terms of debt servicing, total domestic debt service rose 46% YoY to N312.8 billion, while external debt service increased 14% YoY to \$287 million. Commercial loans (Eurobonds and Diaspora bonds) accounted for 55% of the external debt service, followed by multilateral loans at 33%, Oil Warrant at 7% and bilateral loan at 5%.

Crude Oil

In its September Short-Term Energy Outlook (STEO), the EIA lowered its forecast for crude oil consumption in Q3 and Q4 by 0.240mbpd to 94.72mbpd and 97.50mbpd, with full year 2020 consumption now revised lower by 0.070mbpd to 93.07mbpd (below 2019 average of 100.7mbpd). Global production is estimated to increase by 0.288mbpd in September to average 91.03mbpd and 94.35mbpd in Q3 and Q4 respectively, with full year 2020 average supply of 94.62mbpd (compared to 100.6mbpd in 2019). The EIA's weekly US Petroleum Report released last week estimates that crude oil in commercial storage increased by 2.0 million barrels (compared to a decreased of 9.4 million barrels in the prior week) to 500.4 million barrels (which is about 14% above the five-year average). With market sentiment weighed down by the risk of rising global supply amid a muted demand outlook, oil prices slumped last week by 6.6% to \$39.83/barrel. The price at the end of last week increased the year to date decline to 41.2% and is 42.3% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

Foreign Exchange and Reserve

As at Thursday (Sept. 10, 2020), the gross external reserves increased by \$67 million to \$35.77 billion when compared to \$35.70 billion as of Sep. 04. The Naira weakened at the BDC and parallel market last week by 1.5% and 2.8% to N441.5/\$ and N447.5/\$. The naira appreciated at the IEW by 0.03% to N386.0/\$. The 6-months and 12-months forward points traded lower by N0.60 and N1.93 to respective rates of N 391.02/\$ and N400.38/\$. Activity slowed at the OTC futures market last week, with the sum of transaction of \$62.90 million compared to \$117.23 million in the prior week.

Fixed Income

At last week's NTB auction, while the DMO offered and allotted bills worth N128.06 billion (less than maturing bills of N148.06 billion, implying the first net

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

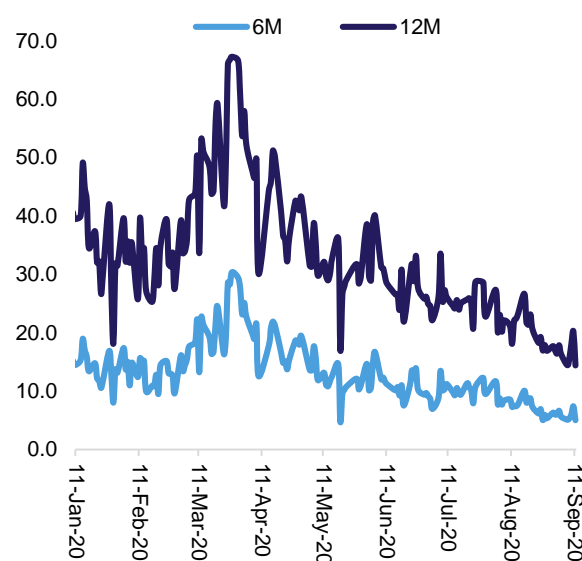
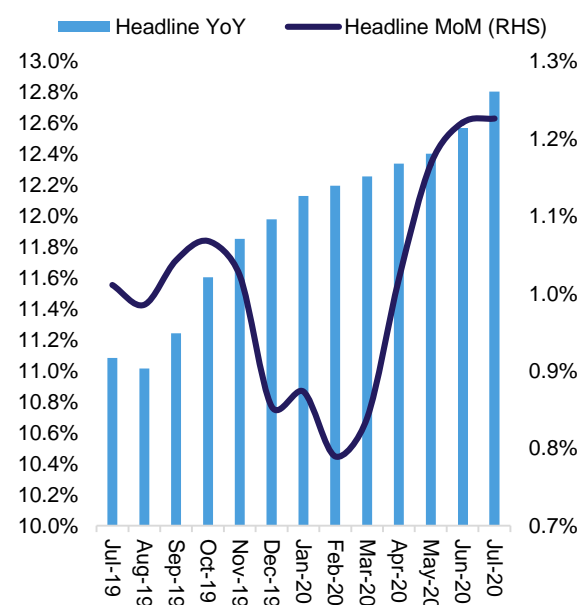


Figure 4: Nigeria YoY and MoM Inflation Trend



repayment since the beginning of the year), subscription came in at N262.40 billion), with average stop rate declining 20bps to 1.90%. At the OMO auction, compared to offered and allotted amount of N70 billion, subscription came in at N144.7 billion. With sales coming below maturing bills of N250 billion, the 1-year stop rate fell by 4bps to 8.90%, while the average stop rate fell by 1bps to 7.15% compared to the prior auction. The higher liquidity in the system occasioned by the lower sale at the auctions relative to maturing bills resulted in demand pressure at the secondary market with average fixed income yields dropping by 38bps to 4.35% following decline at both the long and short end of the curve. Average NTB yields fell 23bps WoW to 1.69%, while average bond yields dropped by 53bps WoW to 7.01% dominated by the Mar-2024 (-185bps), Apr-2023 (-163bps), Jan-2022 (-119bps), Mar-2027 (-37bps) and Mar-2036 (-39bps) bonds. Elsewhere, average FGN Eurobond yields expanded by 21bps to 6.69%, following expansion across the curve, with the largest increase in the Nov-2027 (30bps), Jan-2047 (30bps), Jan-2038 (29bps), Jul-2049 (28bps) and Feb-2032 (27bps).

Equities

The Nigerian equities market closed lower last week by 0.05% WoW, rounding off at 25,591.95 points with market capitalization at N13.35 trillion following losses in the Banking (-2.7%), Oil & Gas (-1.3%), Insurance (-0.7%), and Consumer Goods (-0.3%) indices. Worst performing stocks last week were GUARANTY (-5.84%), UBA (-3.88%), ZENITH (-1.15%), UNILEVER (-4.00%) and SEPLAT (-2.50%).

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

Foreign Exchange rates	04-Sep-20	07-Sep-20	08-Sep-20	09-Sep-20	10-Sep-20	11-Sep-20	WoW % Change
CBN Official	379.00	379.00	379.00	379.00	379.00	379.00	0.00%
NAFEX	386.13	386.00	386.21	386.00	386.17	386.00	0.03%
BDC	435.00	433.50	432.50	433.50	441.50	441.50	-1.47%
Parallel	435.00	437.50	436.50	439.00	447.50	447.50	-2.79%
Money Market rates %	04-Sep-20	07-Sep-20	08-Sep-20	09-Sep-20	10-Sep-20	11-Sep-20	WoW Change (bps)
Open Buy Back (OBB)	1.63	1.38	1.30	1.50	1.40	14.50	1287.50
Overnight (O/N)	2.25	2.25	2.10	2.38	2.20	16.50	1425.00
FGN Bonds %	04-Sep-20	07-Sep-20	08-Sep-20	09-Sep-20	10-Sep-20	11-Sep-20	WoW Change (bps)
Jul-21	2.81	2.81	2.82	2.86	2.61	2.34	-47.67
Jan-22	4.95	4.65	4.86	4.40	3.79	3.77	-118.54
Apr-23	5.49	5.36	4.85	4.58	3.87	3.86	-162.52
Mar-24	5.87	5.85	4.83	4.70	4.70	4.02	-184.55
Mar-25	5.91	5.78	5.78	5.77	5.20	5.16	-74.90
Jan-26	6.67	6.61	6.61	6.61	6.60	6.62	-4.92
Mar-27	8.09	7.69	8.05	7.94	7.72	7.72	-36.75
Feb-28	8.15	8.15	8.02	8.33	8.33	7.86	-28.81
Jul-30	8.90	8.90	8.90	8.77	9.00	9.00	10.06
Jul-34	9.99	9.99	9.99	9.57	9.69	9.65	-33.83
Mar-36	10.03	9.75	9.75	9.90	9.90	9.64	-38.73
Apr-37	10.04	9.90	9.90	9.90	9.90	9.90	-13.59
Apr-49	10.07	10.05	10.05	10.05	10.05	10.05	-2.06
Mar-50	10.07	10.06	10.06	10.06	10.06	10.06	-1.17
T-Bills	04-Sep-20	07-Sep-20	08-Sep-20	09-Sep-20	10-Sep-20	11-Sep-20	WoW Change (bps)
NGOMOB 09/24/20	2.05	2.30	2.31	2.26	2.26	2.26	20.95
NGOMOB 10/22/20	2.63	2.63	2.00	2.00	2.00	2.00	-62.69
NGOMOB 11/17/20	3.34	3.34	3.20	3.02	3.02	2.76	-57.23
NGOMOB 12/29/20	2.29	2.29	2.30	2.30	2.16	2.16	-12.77
NGOMOB 01/19/21	2.63	2.53	2.13	2.13	2.13	2.13	-49.96
NGOMOB 02/23/21	3.12	2.38	2.43	2.43	2.43	2.43	-69.39
NGOMOB 03/30/21	3.05	3.05	2.52	2.52	2.52	2.52	-52.75
NGOMOB 05/25/21	3.32	3.07	2.96	2.96	2.96	2.60	-72.10
NIGTB 10/01/20	1.30	1.30	1.30	1.30	1.30	1.30	-0.03
NIGTB 11/26/20	1.00	1.59	1.44	1.36	1.36	1.36	36.16
NIGTB 01/14/21	1.51	1.51	1.51	1.31	1.31	1.31	-20.24
NIGTB 04/29/21	2.24	2.24	2.24	2.12	2.01	1.87	-37.29
FBN Eurobonds	04-Sep-20	07-Sep-20	08-Sep-20	09-Sep-20	10-Sep-20	11-Sep-20	WoW Change (bps)
\$500M JUL 2023	4.77	4.79	4.87	4.93	4.88	4.89	12.00
\$1.118B NOV 2025	5.78	5.80	5.93	6.01	5.90	5.90	12.00
\$1.5BN NOV 2027	6.17	6.20	6.41	6.49	6.38	6.47	30.00
\$1.25B FEB 2030	6.78	6.78	6.96	7.03	6.97	7.02	24.00
\$1.0B JAN 2031	7.35	7.37	7.52	7.63	7.55	7.60	25.00
\$1.5B FEB 2032	7.48	7.50	7.65	7.78	7.71	7.75	27.00
\$1.25BN FEB 2038	7.81	7.81	7.96	8.09	8.03	8.10	29.00
\$1.5BN NOV 2047	7.89	7.93	8.10	8.19	8.14	8.19	30.00
\$750M JAN 2049	8.42	8.44	8.64	8.70	8.64	8.70	28.00

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