

Weekly Economic and Financial Commentary

Global Economy

Data released last week showed U.S Nonfarm employment increased by 661,000 (from 1.4 million in August) in September. Leisure & hospitality, retail trade, health care & social assistance, and professional & business services recorded notable job gains. However, the September number is the smallest monthly increase since business started to resume post Covid-19 relaxations. Employment in government sector declined by 216,000 over the month following departure of temporary workers hired for the census and a shift to online learning in schools resulted in layoffs at state and local government education departments. The unemployment rate moderated to 7.9% (from 8.4% in August) from a pandemic-peak of 14.7% in April as overall employment has risen 11.26 million between May through September, gaining almost 50% of the job losses over March and April. Specifically, the number of unemployed persons fell by 1.0 million to 12.6 million in September. The broader measures of labour market under-utilization, which is underemployment, fell to 12.8% in September from 14.2% in August.

Flash estimate released by Eurostat last week showed inflation rate in the Euro area fell 0.3% YoY in September compared to 0.2% YoY fall in August. The decline emanated from fall in prices of energy (-8.2% YoY vs. 7.8% YoY in August) and non-energy industrial goods (-0.3% YoY vs. 0.1% YoY in August), both of which more than neutered the increase in prices of food, alcohol & tobacco (+1.8% YoY vs. 1.7% YoY in August) and reducing prices of services (+0.5% YoY vs. +0.5% YoY in August). Excluding energy, the inflation rate would have increased by 0.6% YoY compared to August level of 0.7% YoY. Country breakdown revealed disinflation in some heavyweight and smaller economies. Specifically, prices fell in Germany (-0.4% YoY vs. -0.1% YoY in August), France (0.0% YoY vs. +0.2% YoY in August), Italy (-0.9% YoY vs. -0.5% YoY in August), Spain (-0.6% YoY vs. -0.6% YoY in August) and Ireland (-1.1% YoY vs. -1.1% YoY in August).

Domestic Economy

The Federal Executive Council (FEC) last week approved the budget estimate of N13.08 trillion for the 2021 fiscal year, representing a 24.6% increase from the 2020 revised budget. The budget has a projected revenue of N8.60 trillion, translating to a planned deficit of N4.48 trillion. Key assumptions of the budget are: Oil Benchmark Price - US\$40/barrel, Oil Production - 1.86mbpd (incl.

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

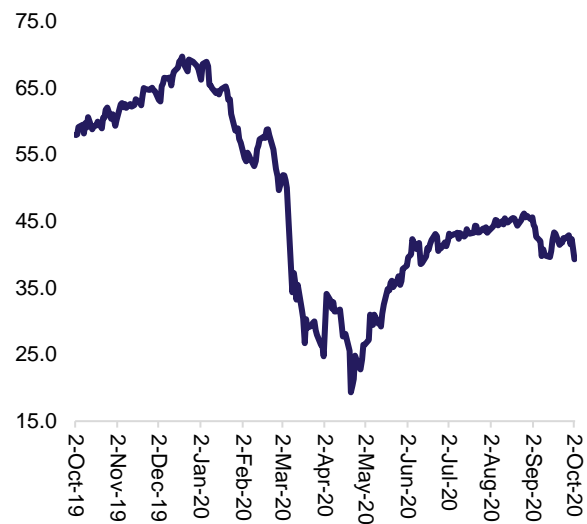
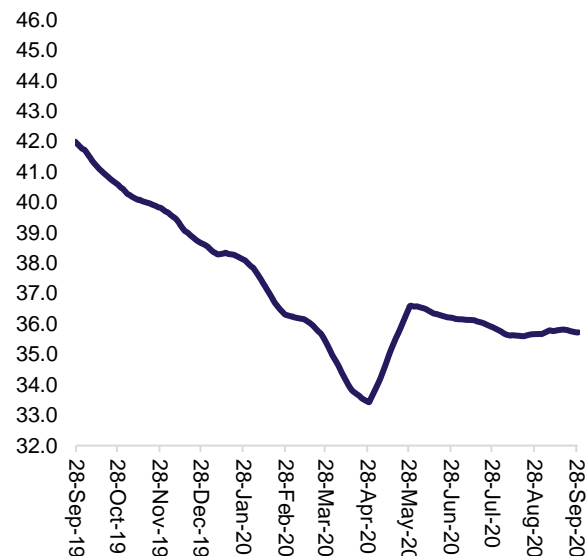


Figure 2: Movement in Gross Reserve (\$Bn)



400kbpd condensates), Exchange Rate - N379/US\$, GDP Growth - 3% and Inflation target - 11.95%. According to the Minister of Finance, Budget and National Planning, 29% of the budget would be spent on Capital expenditure. The approved budget is expected to be submitted to the National assembly in the coming weeks.

Last week, Fitch Ratings revised the outlook on Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to stable from negative and affirmed the IDR at 'B'. According to the commentary, the revision reflects a decrease in the level of uncertainty surrounding the impact of the global pandemic shock on the Nigerian economy. Fitch cited the stability in oil prices, easing global funding conditions and relaxation of domestic restrictions on movement. Also, the partial exchange rate adjustment combined with de facto capital flow management measures, foreign-currency restrictions and disbursement of external official loans have supported the level of international reserves. The 'B' rating reflects weak fiscal revenues, comparatively low governance and development indicators, high dependence on hydrocarbons, external vulnerability from currency overvaluation and a possibly large FX demand backlog, and a track record of subdued growth and high inflation.

Following pushback by the organized labour union last week against the combined increase on electricity and PMS prices, the Federal Government directed the Nigerian Electricity Regulatory Commission to suspend the hike in electricity tariff which kicked-in on the 1st of September 2020 for 14 days to allow room for consultation and allow the Government provide necessary palliatives to reduce the impact of the combined increase in energy prices.

Crude Oil

The EIA's weekly US Petroleum Report released last week estimates crude oil in commercial storage decreased by 2.0 million barrels (compared to decrease of 1.64 million barrels in the prior week) to 492.4 million barrels (which is about 13% above the five-year average). Market sentiment remained bearish last week due to the prospects of fresh lockdown restrictions in Europe following resurgence of the coronavirus pandemic and rising trade tensions between U.S and China. On the supply side, following the lifting of blockade on oil exports by the Libyan National Army, oil exports from Libya almost tripled from 90,000bpd to 250,000bpd. Overall, crude oil prices traded lower last week by 7.40% to \$39.27/barrel. The price at the end of last week increased the year to date decline to 42.05% and is 40.25% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

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

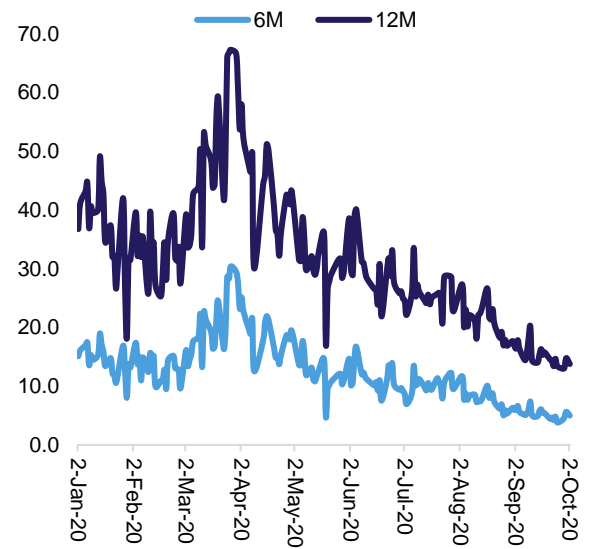
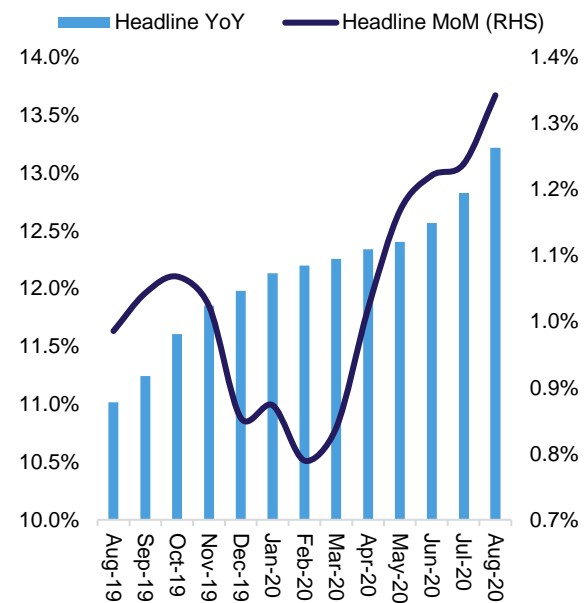


Figure 4: Nigeria YoY and MoM Inflation Trend



Foreign Exchange and Reserve

As of Wednesday (Sept. 29, 2020), the gross external reserves depleted by \$44 million to \$35.72 billion when compared to \$35.77 billion as of Sep. 23. Notwithstanding the sales at the SMIS, IEW, BDCs, SME and other segments, the gross external reserves accrued \$61 million (August depletion \$215 million) in the month of September to adjusted level of \$35.30 billion following official FX inflows. The Naira appreciated at the BDC, parallel market and IEW last week by 0.55%, 0.22% and 0.05% to N457.5/\$, N462.5/\$ and N385.8/\$ respectively. The 6-months and 12-months forward points traded higher by N1.18 and N0.34 to respective rates of N 390.80/\$ and N399.58/\$. Activity improved at the OTC futures market last week, with the sum transaction of \$145.92 million compared to \$31.50 million in the prior week.

Fixed Income

At last week's NTB auction, the CBN (on behalf of DMO) offered N113.97 billion and allotted N133.97 billion (to clear the entire maturing bills) worth of bills. Subscription at the auction came in at N348.26 billion, with the average stop rate declining 9bps to 1.79% relative to the last auction. At the secondary market, average fixed income yields fell by 3bps to 4.02% following decline at the long end of the curve. Average bond yields dropped by 26bps WoW to 6.19% emanating from the Jan-2022 (-132bps) and July-2030 (-114bps), while average NTB yields expanded 20bps WoW to 1.85%. The apex bank released the fourth quarter NTB auction calendar last week which showed its plan to issue bills worth N918 billion compared to maturing bills worth N1.06 trillion. Elsewhere, average FGN Eurobond yields expanded by 4bps to 7.50%, following expansion in the Jan-2021 (24bps), Nov-2027 (6bps), Feb-2030 (7bps) and Nov-2032 (4bps).

Equities

The Nigerian equities market closed higher last week by 2.53% WoW, rounding off 26,985.77 points with market capitalisation at N14.1 trillion. The positive performance emanated from gains in the Banking (+4.2%), Industrial Goods (+3.2%), Oil & Gas (+1.8%) and Insurance (+0.6%) indices. Best performing stocks last week were TOTAL (+21.0%), OANDO (+12.8%), GUARANTY (+7.4%), MTNN (+4.8%), DANGCEM (+3.6%) and BUACEMENT (+3.6%).

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

Foreign Exchange rates	25-Sep-20	28-Sep-20	29-Sep-20	30-Sep-20	02-Oct-20	WoW % Change
CBN Official	379.00	379.00	379.00	379.00	379.00	0.00%
NAFEX	386.00	386.00	385.75	386.00	385.80	0.05%
BDC	460.00	460.00	460.00	460.00	457.50	0.55%
Parallel	463.50	463.50	466.00	462.50	462.50	0.22%
Money Market rates %	25-Sep-20	28-Sep-20	29-Sep-20	30-Sep-20	02-Oct-20	WoW Change (bps)
Open Buy Back (OBB)	10.33	3.00	2.00	1.00	1.00	-933.00
Overnight (O/N)	11.50	4.00	3.13	1.75	1.58	-991.67
FGN Bonds %	25-Sep-20	28-Sep-20	29-Sep-20	30-Sep-20	02-Oct-20	WoW Change (bps)
Jul-21	2.36	2.19	2.06	2.10	2.09	-26.81
Jan-22	3.92	3.89	2.06	2.65	2.60	-131.81
Apr-23	3.93	3.91	3.15	3.14	3.13	-80.84
Mar-24	3.94	3.92	3.92	3.65	3.64	-30.71
Mar-25	4.26	4.25	4.25	4.24	4.23	-3.03
Jan-26	6.00	5.99	5.97	5.97	5.92	-8.26
Mar-27	6.76	6.75	6.75	6.75	6.74	-1.82
Feb-28	6.90	7.33	7.25	7.25	7.25	35.09
Jul-30	9.00	9.00	7.74	7.86	7.86	-114.28
Jul-34	8.35	8.35	8.35	8.87	8.87	51.47
Mar-36	8.71	8.71	8.71	8.71	8.71	-0.23
Apr-37	8.93	8.93	8.80	8.80	8.80	-12.95
Apr-49	9.24	9.00	9.32	9.32	9.32	7.51
Mar-50	9.27	9.01	9.36	9.36	9.36	9.08
T-Bills	25-Sep-20	28-Sep-20	29-Sep-20	30-Sep-20	02-Oct-20	WoW Change (bps)
NGOMOB 10/27/20	1.57	1.57	1.57	1.58	1.58	1.14
NGOMOB 11/24/20	1.54	1.54	1.54	1.62	1.62	7.80
NGOMOB 12/29/20	1.51	1.51	1.58	1.58	1.58	7.51
NGOMOB 01/26/21	2.14	1.70	1.91	1.85	2.08	-6.14
NGOMOB 02/23/21	1.61	1.61	1.61	1.61	2.01	39.51
NGOMOB 03/30/21	2.29	2.29	2.28	1.85	1.85	-44.08
NGOMOB 05/25/21	2.13	2.13	2.13	2.09	2.09	-3.51
NIGTB 11/26/20	1.00	1.00	1.23	1.21	1.21	20.43
NIGTB 01/28/21	1.14	1.21	1.28	1.21	1.21	6.29
NIGTB 04/29/21	2.04	2.08	1.98	1.98	1.98	-6.66
NIGTB 07/29/21	2.59	2.81	2.77	2.77	2.77	18.03
FBN Eurobonds	25-Sep-20	28-Sep-20	29-Sep-20	30-Sep-20	02-Oct-20	WoW Change (bps)
\$500M JUL 2023	5.66	5.58	5.61	5.69	5.57	-9.00
\$1.118B NOV 2025	6.70	6.61	6.57	6.74	6.66	-4.00
\$1.5BN NOV 2027	7.26	7.17	7.25	7.43	7.32	6.00
\$1.25B FEB 2030	7.83	7.76	7.81	8.00	7.90	7.00
\$1.0B JAN 2031	8.38	8.29	8.33	8.49	8.42	4.00
\$1.5B FEB 2032	8.46	8.36	8.39	8.56	8.50	4.00
\$1.25BN FEB 2038	8.77	8.67	8.69	8.86	8.80	3.00
\$1.5BN NOV 2047	8.62	8.53	8.57	8.69	8.65	3.00
\$750M JAN 2049	9.27	9.19	9.23	9.36	9.34	7.00

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