

Weekly Economic and Financial Commentary

Global Economy

Following better-than anticipated second quarter GDP outturns, mostly in advanced economies, where activity began to improve sooner than expected after lockdowns were scaled back in May and June, as well as indicators of a stronger recovery in the third quarter, the IMF in its October World Economic Outlook revised expected 2020 global GCP contraction lower. The IMF now forecast 2020 global GDP to contract by 4.4% YoY compared to the estimate of 4.95% contraction earlier in June. The revision emanated from now expected lower contractions in advanced (-5.8% YoY vs. -8.0% YoY in June), while contraction in emerging markets & developing economies is expected to be deeper than earlier estimate (-3.3% YoY vs. -3.0% YoY in June), unlike the 2008-09 financial crisis when emerging markets still managed to record some growth. Among major economies the IMF expects the U.S economy to contract by 4.3% YoY (June: -8.0% YoY), the Euro area by 8.3% YoY (June: -10.2% YoY), the UK by 9.8% YoY (June: -10.2% YoY), Japan by 5.3% YoY (June: -5.8% YoY), while China is expected to record negligible growth of 1.9% YoY vs. June estimate of 1.0% growth. For Sub-Saharan Africa, the IMF forecasts contraction of by 3.0% YoY (vs. June of 3.3% YoY). The Fund now expects Nigeria and South Africa to contract by 4.3% YoY and 8.0% YoY (vs. -5.4% YoY and -8.0% YoY in June) respectively. Over in 2021, the IMF expects improvement in global growth of 5.2% YoY, exceeding the pre-coronavirus growth trajectories of major economies.

Data released last week by the U.S Bureau of Labour Statistics showed consumer prices rose 1.4% YoY (from 1.3% YoY in August) and rose 0.2% MoM (from 0.4% MoM in August). 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 Energy and all items less food and energy (Core index). The jump in the core index (+1.7% YoY and +0.2% MoM), was dominated by a sharp rise in the used cars and trucks index (+10.3% YoY and +6.7% MoM). The energy index on the other hand declined 7.7% YoY (+0.8% MoM). Separate data showed real average hourly earnings for all employees declined 0.1% from in September, following increase of 0.1% in average hourly earnings which was offset by an increase of 0.2% in the consumer price index. However, real average hourly earnings expanded 3.3% YoY in September compared to 3.2% YoY in August.

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

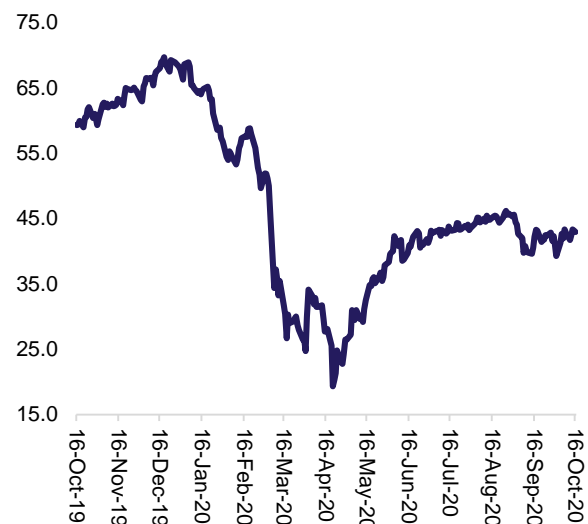
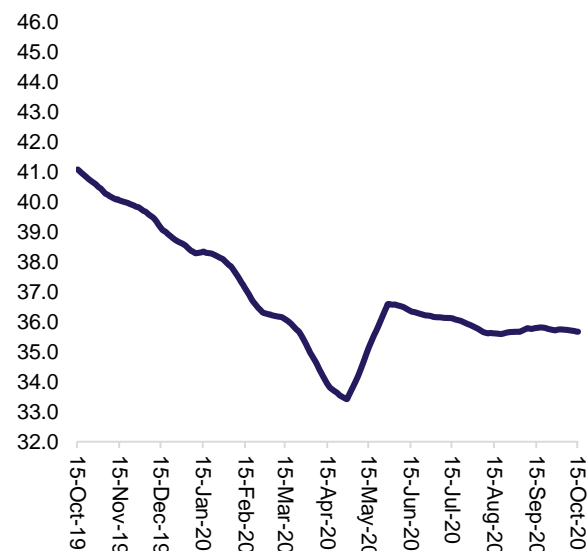


Figure 2: Movement in Gross Reserve (\$Bn)



Domestic Economy

The headline inflation index expanded by 1.48% MoM in September, above 1.34% MoM in August and below our estimate of 1.60% MoM (our estimate modelled impact of the increase in electricity tariffs, before the eventual reversal). The increase still reflects the impact of food shortages, which more than outweighed the decline in core inflation during the month of September. The headline index excluding farm produce contracted 11bps to 0.94% MoM and when further adjusted for energy related cost, the headline index fell 15bps relative to the prior month. Reflecting the MoM jump, the headline inflation expanded by 13.71%, coming ahead of August level of 13.22% YoY and below our estimate of 13.82%. Both the food and core index expanded 66bps and 6bps to 16.7% YoY and 10.58% YoY. Most constituents of the core index contributed to the rise in the month of August – HWEFG (+16bps to 8.30% YoY), Transport (+45bps to 11.65% YoY), Health (+49bps to 12.58% YoY), Communication (+18bps to 9.19% YoY), clothing (+21bps to 11.02% YoY), amongst others. Relative to the same period in the prior year, the food index is 315bps higher than the September 2019 level of 13.51% YoY while the core index increased by 164bps from 8.94% YoY in September 2019.

Crude Oil

OPEC Monthly Oil Market Report for the month of October showed production by 10 OPEC members in the accord declined by 0.155mbpd in September to 21.6mbpd compared to 21.8mbpd in August. Compared to the Phase 2 production cap of 21.8mbpd, the group achieved compliance rate of 101%. However, adjusting the production in August for expected compensatory cuts by members who overproduced during Phase 1, the group's production should have totalled 20.24mbps in August. The EIA's weekly US Petroleum Report released last week estimates crude oil in commercial storage decreased by 3.8 million barrels (compared to increase of 0.5 million barrels in the prior week) to 489.1 million barrels (which is about 11% above the five-year average). Crude oil prices traded higher last week by 0.19% to \$42.93/barrel. The price at the end of last week reduced the year to date decline to 36.8% and is 54.0% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

Foreign Exchange and Reserve

As of Thursday (Oct. 15, 2020), the gross external reserves depleted by \$53 million to \$35.67 billion when compared to \$35.73 billion as of Oct. 08. The Naira appreciated at the BDC and parallel market last week by 0.22% and 0.87% to N455.5/\$ and N458.5/\$ respectively, while the IEW rate remained flat at N385.83/\$. The 6-months and 12-months forward points traded lower by N1.40 and N2.86 to respective rates of N 391.30/\$ and N400.25/\$. Activity

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

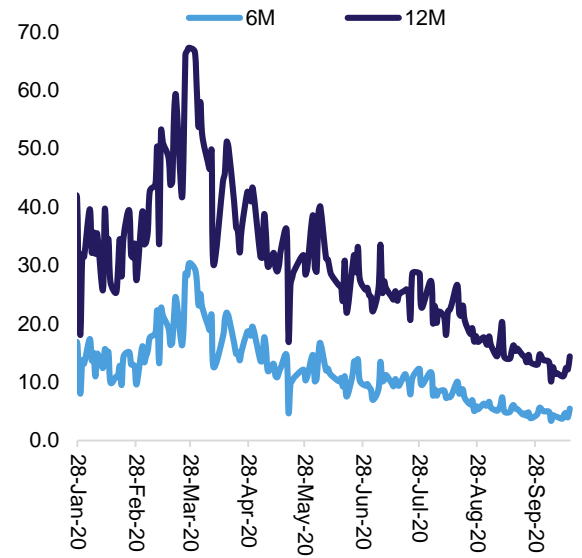
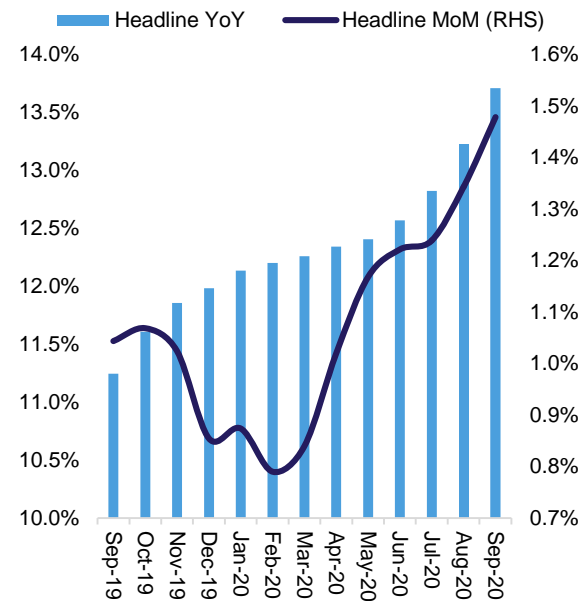


Figure 4: Nigeria YoY and MoM Inflation Trend



slowed at the OTC futures market last week, with the sum of transaction of \$24.50 million compared to \$66.40 million in the prior week.

Fixed Income

At last week's NTB auction, compared to amount offered and sold by the DMO of N124.88 billion, total subscription came in at N618.09 billion to exceed maturing instruments of N124.9 billion. The average stop rate at the auction declined by 46bps to 1.33%, following contraction across instruments – 91-day (to 1.00% from 1.10%), 182-day (to 1.00% from 1.55%) and 364-day (to 2.00% from 3.05%). Average fixed income yields in the secondary market fell by 67bps to 2.85% following decline at both ends of the curve. Average bond yields dropped by 103bps WoW to 4.59%, following contraction across the curve with notable falls in the JAN-2022 (-56bps), JUL-2030 (-199bps) and JUL-2034 (-220bps) bonds. Average NTB yields contracted by 32bps to 1.12%. The DMO in the October Bond Auction offer plans to issue instruments worth N30 billion compared to monthly average of N140 billion over Q3. Elsewhere, average FGN Eurobond yields expanded by 26bps to 6.89%, following sell-off across the curve except for the Jan-2021 (-6bps).

Equities

The Nigerian equities market closed higher last week by 0.86% WoW, rounding off 28,415.31 points with market capitalisation at N14.98 trillion. The positive performance emanated from gains in the Banking (+2.9%), Oil & Gas (+2.4%), Consumer Goods (+1.9%) and Industrial Goods (+0.2%) indices, while the Insurance (-0.7%) index was negative. Best performing stocks last week were ETERNA (+34.99%), INTBREW (+12.92%), GUINNESS (+12.33%), WAPCO (+10.88%) and TOTAL (+10.00%), ZENITHBANK (+7.8%) and UBA (+5.9%). While MANSARD (-5.67%), BUACEMENT (-1.45%), GLAXOSMITH (-3.45%) and GUARANTY (-0.16%) recorded declines last week. **Our top stocks for the week are GUARANTY, ZENITH BANK, DANGCEM, TOTAL and UBA.**

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

Foreign Exchange rates	09-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20
CBN Official	379.00	379.00	379.00	379.00	379.00	379.00
NAFEX	385.83	386.00	386.00	385.83	385.67	385.83
BDC	454.50	454.50	455.50	455.50	455.50	455.50
Parallel	454.50	457.50	458.00	458.50	458.50	458.50
Money Market rates %	09-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20
Open Buy Back (OBB)	4.00	2.50	2.33	1.75	1.33	1.17
Overnight (O/N)	4.88	3.50	3.67	2.63	2.17	2.00
FGN Bonds %	09-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20
Jul-21	1.82	1.76	1.76	1.86	1.55	1.55
Jan-22	3.01	3.20	3.21	2.82	2.46	2.44
Apr-23	3.10	3.17	3.17	3.00	2.99	2.98
Mar-24	3.17	3.15	3.14	3.13	3.37	3.36
Mar-25	3.94	3.93	3.92	4.00	3.81	3.81
Jan-26	4.65	4.72	4.71	4.71	4.17	4.17
Mar-27	5.64	5.74	5.80	5.79	4.76	4.76
Feb-28	5.76	5.75	5.81	5.81	5.02	5.02
Jul-30	7.23	6.37	6.36	6.31	5.59	5.24
Jul-34	8.10	8.09	8.05	8.05	7.38	5.90
Mar-36	8.14	8.11	8.04	8.04	7.44	6.32
Apr-37	8.17	8.09	8.09	8.01	8.01	6.31
Apr-49	8.95	8.95	8.54	8.54	8.15	7.36
Mar-50	9.01	9.02	8.57	8.59	8.16	7.44
T-Bills	09-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20
NGOMOB 10/27/20	0.80	0.78	0.78	0.78	0.50	0.50
NGOMOB 11/24/20	1.00	0.76	0.76	0.76	0.63	0.63
NGOMOB 12/29/20	1.25	1.12	1.12	1.12	1.12	0.86
NGOMOB 01/26/21	1.14	1.14	1.14	1.14	1.14	1.14
NGOMOB 02/23/21	2.00	1.43	1.41	1.41	1.21	1.00
NGOMOB 03/30/21	1.51	1.51	1.66	1.66	1.66	1.66
NGOMOB 05/25/21	1.83	1.83	2.08	2.08	2.08	2.08
NIGTB 11/26/20	1.05	1.00	1.00	1.00	0.66	0.66
NIGTB 01/28/21	1.12	1.00	1.00	1.00	0.59	0.59
NIGTB 04/29/21	1.33	1.33	1.33	1.65	1.09	1.09
NIGTB 07/29/21	1.83	1.83	1.83	1.83	1.67	1.67
FBN Eurobonds	09-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20
\$500M JUL 2023	4.86	4.82	4.83	4.88	5.01	4.93
\$1.118B NOV 2025	6.08	6.04	6.06	6.17	6.37	6.28
\$1.5BN NOV 2027	6.58	6.54	6.58	6.75	6.99	6.91
\$1.25B FEB 2030	7.13	7.10	7.15	7.34	7.53	7.43
\$1.0B JAN 2031	7.60	7.57	7.61	7.81	8.00	7.95
\$1.5B FEB 2032	7.63	7.61	7.66	7.86	8.09	8.03
\$1.25BN FEB 2038	8.03	8.02	8.06	8.25	8.46	8.39
\$1.5BN NOV 2047	7.99	7.98	8.02	8.19	8.39	8.32
\$750M JAN 2049	8.68	8.64	8.69	8.85	9.04	8.97

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