

Weekly Economic and Financial Commentary

Global Economy

Data released by the UK Office for National Statistics (ONS) last week showed the inflation rate increased to a six-month high of 1.8% in January (from 1.3% YoY in December) following a surge in petrol prices and an increase in the cost of gas and electricity compared to the same period in the prior year. Accordingly, the inflation rate is now closer to the Bank of England’s target of 2%. Fuel prices in January rose 4.7% YoY, marking the biggest rise since November 2018. Also, separate data released by the ONS showed that the headline rate of output inflation for goods leaving the factory gate was up 1.1% YoY in January from 0.9% YoY in December 2019. The growth rate of prices for materials and fuels used in the manufacturing process was 2.1% YoY, up from 0.9% YoY in December.

Domestic Economy

The World Bank last week Wednesday approved funding of six projects worth \$2.12 billion in Nigeria. The approved program of support in fiscal year 2020 comprises the following projects: 1) Immunization Plus & Malaria Progress by Accelerating Coverage and Transforming Services (IMPACT) Project; 2) Nigeria Rural Access and Agricultural Marketing Project; 3) Nigeria Digital Identification for Development Project; 4) Ogun State Economic Transformation Project; 5) Innovation Development and Effectiveness in the Acquisition of Skills Project; and 6) Sustainable Procurement, Environmental and Social Standards Enhancement Project. The projects are co-financed under concessional terms by International Development Association (IDA), French Development Agency, European Investment Bank and Government of Nigeria to tune of \$1.58 billion, \$330 million, \$215 million and \$65 million respectively.

In a related development, the Debt Management Office last week provided clarification on a proposed \$3.3 billion external capital raising plan for the year 2020. According to the press release, the \$2.786 billion (equivalent to about N850 billion at the Budget Exchange Rate of USD/N305) is in line with the 2020 Appropriation Act to part finance the budget deficit of N2.175 trillion. In addition, given Nigeria has a \$500 million Eurobond due to mature on January 28, 2021 (6.75% USD500 million 2021), the DMO intends to refinance it through the issuance of a Eurobond in 2020. The DMO stated that the proceeds of the \$2.786 billion will be used to finance capital projects in priority areas such as

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Figure 1: UK Inflation Rate (% YoY)

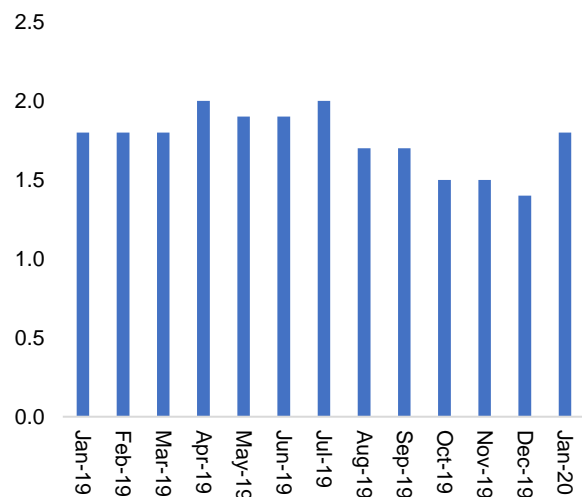
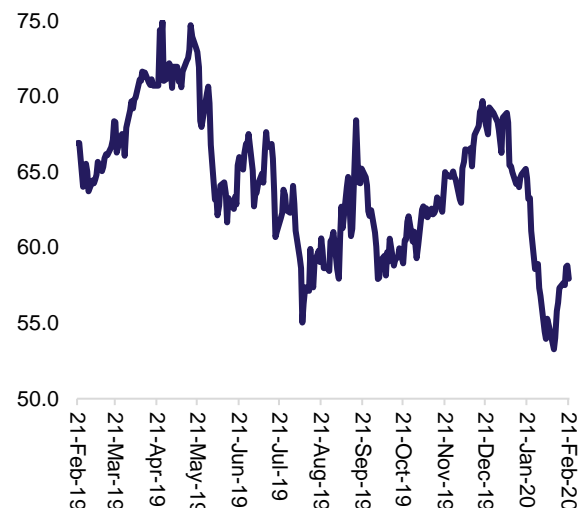


Figure 2: Brent Crude Price Trend (\$/bbl)



power, transport, works, housing, aviation, health, education, agriculture and rural development. The financing of the \$2.780 billion will be from relatively cheaper concessional and semi-concessional external sources where available, and the balance, if any, from the International Capital Market (ICM) through the issuance of Eurobonds. However, it is unclear if the recently approved loan of \$2.12 billion is in any way related to the planned part financing of the budget deficit of \$2,780.

Elsewhere, data released last week showed that inflation rate in January expanded by 12.13%, coming ahead of the level in December 2019 of 11.98%. Much of the YoY expansion emanated from faster increase in the food index (+18bps to 14.85% YoY) which more than outweighed moderate growth in the core index (+2bps to 9.35% YoY). The YoY expansion in the food index relative to the modest MoM growth largely reflects the low base of the prior year, which was further espoused by the feedthrough of the land border closure on food prices. Relative to the same period in the prior year, the food index is 134bps higher than January 2019 level of 13.51% YoY while the growth in the core index moderated by 56bps from 9.91% YoY in January 2019. At the end of the International Monetary Fund (IMF) annual Article IV Consultation discussions on Nigeria's economy, Nigeria's growth forecast for 2020 was revised down to 2% to reflect the impact of lower international oil prices.

Crude Oil

Crude oil prices gained 1% WoW to \$57.94/bbl following improved market sentiment as factories in China started to reopen. However, the Brent crude price had traded at \$58.80/bbl but declined Friday following reports of a sharp uptick in the number of coronavirus cases outside of China. In South Korea, the number of confirmed cases doubled to 204 in just 24 hours. The close price is now higher than the Federal Government of Nigeria 2020 budget benchmark of \$57/barrel.

Foreign Exchange and Reserve

As at Thursday (Feb. 20, 2020), the gross external reserve depleted by \$535.96 million to \$36.69 billion when compared to \$37.23 billion as at Feb. 13, 2020. Year to date, the reserve is down \$1.89 billion. The naira depreciated at both the I&E window and BDC by 14bps WoW each to close at N364.26/\$ and N358.50/\$ respectively, while it remained flat at the parallel market at N359.00/\$. The 6-months and 12-months forwards increased by N4.42 and N7.55 to N378.64/\$ and N399.01/\$ respectively.

Figure 3: Movement in Gross Reserve (\$Bn)

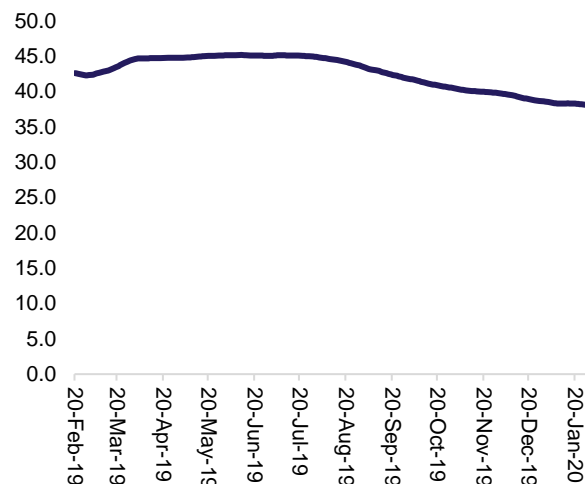


Figure 4: Movement in Forward Points (N/\$)

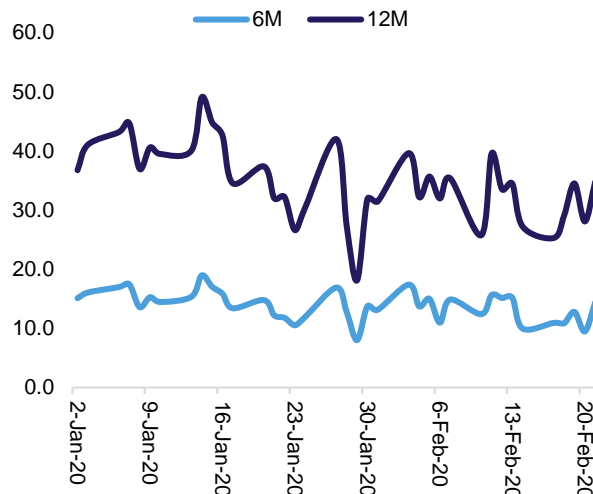
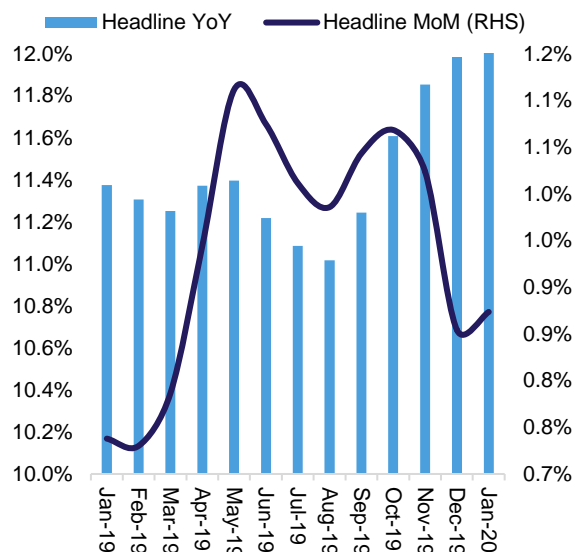


Figure 5: Nigeria YoY and MoM Inflation Trend



Fixed Income

The Debt Management Office (DMO) and CBN held both Bond and OMO auctions last week. At the Bond auction, the DMO offered securities worth N140 billion, with subscription coming as high as N398.2 billion. Irrespective, the DMO only allotted N100 billion via competitive bids and N60 billion via non-competitive bids, with average stop rate declining by 65bps to 10.53% when compared to the January auction. At the OMO auction, compared to the N300 billion offering by the CBN, subscription was high at N335.29 billion and the apex bank sold the exact amount offered. The 1yr stop rate declined further by 2bps lower at 13.02%. At the secondary market, average bond yields contracted 34bps WoW to 9.74% driven by demand for the Apr-2023 (-103bps) bond. However, NTB yields increased 5bps to 3.87% following expansion in long-tenor bills (+83bps).

Equities

The Nigerian equities market closed the week lower by 1.32% WoW to close at 27,388.62 points with market capitalisation declining by N188 billion. Losses were recorded across most sectors, led by Consumer Goods (-6.8%), Banking (-2.6%), Insurance (-2.1%) and Oil & Gas (-1.28%). The Industrial Goods (+1.0%) index was the sole gainer.

Figure 6: Daily Money Market, FX and Fixed Income Rates

Foreign Exchange rates	14-Feb-20	17-Feb-20	18-Feb-20	19-Feb-20	20-Feb-20	21-Feb-20	WoW % Change
CBN Official	306.95	306.95	306.95	307.00	307.00	307.00	-0.02%
NAFEX	364.76	364.95	364.95	364.91	364.38	364.26	0.14%
BDC	359.00	359.00	359.00	358.50	358.50	358.50	0.14%
Parallel	359.00	359.00	359.00	359.00	359.00	359.00	0.00%
Money Market rates %	14-Feb-20	17-Feb-20	18-Feb-20	19-Feb-20	20-Feb-20	21-Feb-20	WoW Change (bps)
Open Buy Back (OBB)	15.33	2.92	3.42	3.20	3.33	3.00	-1233.00
Overnight (O/N)	16.00	3.50	4.17	4.10	4.08	3.83	-1217.00
FGN Bonds %	14-Feb-20	17-Feb-20	18-Feb-20	19-Feb-20	20-Feb-20	21-Feb-20	WoW Change (bps)
Jul-21	7.31	6.82	7.86	7.26	7.47	6.86	-44.84
Jan-22	6.84	7.48	7.60	7.59	7.57	7.56	72.54
Apr-23	9.07	9.04	9.05	9.05	9.05	8.03	-104.66
Mar-24	9.50	9.14	9.14	9.13	9.05	8.68	-82.71
Mar-25	9.88	9.98	9.98	9.98	9.98	9.52	-36.15
Jan-26	9.88	9.98	9.98	9.98	9.98	9.52	-36.15
Mar-27	10.39	10.35	10.35	10.35	10.35	10.22	-16.94
Feb-28	10.82	10.76	10.76	10.63	10.51	10.65	-16.92
Jul-30	10.95	10.88	10.88	10.79	10.66	10.71	-24.16
Jul-34	11.14	11.27	11.27	11.27	10.95	10.89	-24.81
Mar-36	11.25	11.15	11.15	11.15	11.01	10.84	-41.10
Apr-37	11.06	11.03	11.03	11.03	11.01	11.01	-4.95
Apr-49	12.33	12.34	12.37	12.33	12.03	12.08	-24.93
T-Bills	14-Feb-20	17-Feb-20	18-Feb-20	19-Feb-20	20-Feb-20	21-Feb-20	WoW Change (bps)
NGOMOB 02/27/20	13.97		13.15	12.80	13.06	10.72	-324.83
NGOMOB 03/26/20	13.21	12.50	12.33	12.38	11.87	11.87	-134.19
NGOMOB 04/23/20	12.74	12.26	12.36	11.36	11.26	11.26	-148.03
NGOMOB 05/28/20	12.89	11.27	10.64	10.19	9.01	9.01	-388.04
NGOMOB 06/18/20	12.91	11.89	11.80	11.27	10.50	10.49	-241.93
NGOMOB 07/16/20	13.15	10.00	10.00	12.15	11.48	11.48	-167.55
NGOMOB 08/27/20	13.28	12.87	12.94	12.83	12.82	11.90	-137.35
NGOMOB 09/24/20	13.69	13.42	13.37	13.22	12.23	11.96	-172.89
NGOMOB 10/22/20	13.94	13.59	13.52	13.43	12.16	12.18	-175.31
NGOMOB 11/17/20	13.99	13.78	13.48	13.43	12.68	12.35	-164.94
NGOMOB 12/29/20	14.17	14.29	13.96	13.95	13.94	12.80	-136.37
NGOMOB 01/19/21	14.13	14.08	14.11	13.90	13.89	13.89	-23.89
NIGTB 04/02/20	3.42	3.98	3.98	3.98	3.98	3.98	56.37
NIGTB 07/02/20	3.41	3.03	3.03	3.03	3.03	3.03	-37.35
NIGTB 10/01/20	4.21	4.20	4.36	4.36	4.36	4.10	-10.51
NIGTB 11/26/20	4.93	4.19	5.19	5.19	5.19	4.75	-17.52
NIGTB 01/21/21	4.31	4.31	5.96	5.95	5.95	5.34	103.06

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