

Weekly Economic and Financial Commentary

Global Economy

The European Commission (EC) last week published its revised economic forecasts for EU states, with a downgrade compared to the previous forecast across the region. According to the commission, while economic activity is expected to pick up in the second half of the year, it will remain incomplete and uneven on the back of social-distancing measures. The commission now expects GDP in the EU 27 as a bloc to contract by 8.3% YoY (compared to prior forecast of 7.4% contraction) with a rebound in 2021 by 5.8%. France, Italy, Spain and the UK are forecast to contract by 10.6%, 10.9%, 11.2% and 9.8% respectively in 2020, while Germany's GDP is now expected to contract by 6.3% compared to prior estimate of 6.5%.

Following recent efforts by the Chinese authorities to boost credit and stimulate economic activity, data released by the People's Bank of China (PBOC) last week showed new bank lending rose 22.3% MoM in June. Total lending by Chinese banks was CNY1.81 trillion in June, up from CNY1.48 trillion in May. Accordingly, total bank lending in the first half of 2020 settled at CNY12.09 trillion, higher than CNY9.67 trillion in the first half of 2019. The record lending largely stemmed from series of policies rolled out by the PBOC to restore economic activities and the recent CNY3.6 trillion yuan (\$506 billion) in fiscal stimulus unveiled by the Chinese government. Elsewhere, China inflation figure for the month of June released last week showed CPI went up by 2.5% YoY (+2.4% YoY in May), while the producer price index remained deflationary at 3.0% YoY (3.7% YoY in May).

African Development Bank last week released a supplemental report to its 2020 African Economic Outlook. AfDB expects real GDP in Africa to contract by 1.7% YoY in 2020 if the virus has a substantial impact but of short duration. However, if the pandemic continues beyond the first half of 2020, there would be a deeper GDP contraction of 3.4% YoY in 2020. With the projected contraction of growth, Africa could suffer GDP losses in 2020 between \$145.5 billion (baseline) and \$189.7 billion (worst case), from the pre-COVID-19 estimated GDP of \$2.59 trillion for 2020. For 2021, the projected GDP losses could be from \$27.6 billion (baseline) up to \$47 billion (worst case) from the potential GDP of \$2.76 trillion without the pandemic. The most affected economies are those with poor healthcare systems, rely heavily on tourism, international trade, and commodity exports, with high debt burdens and high

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

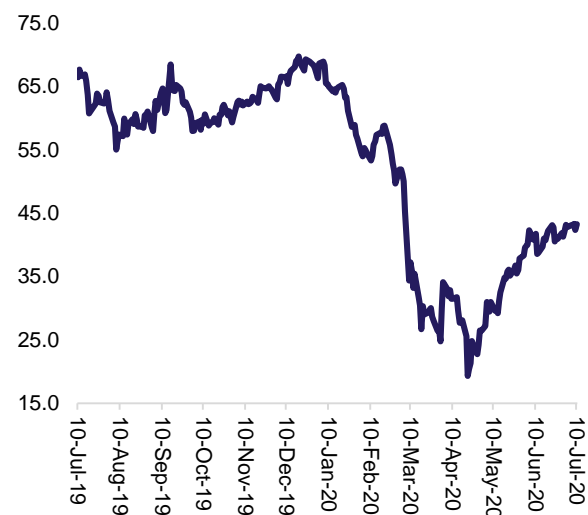
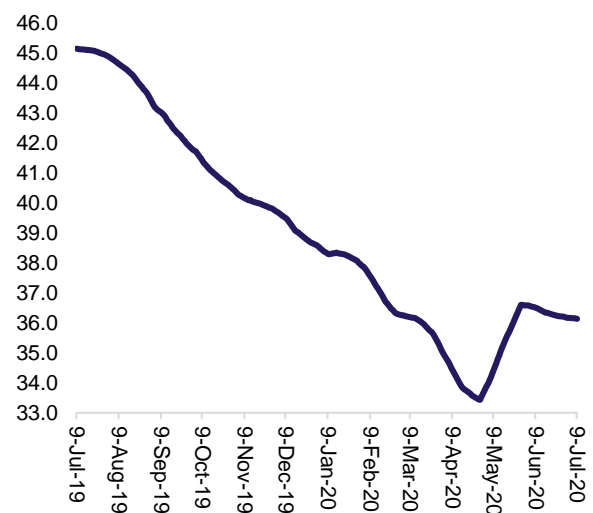


Figure 2: Movement in Gross Reserve (\$Bn)



dependence on volatile international financial flows.

Domestic Economy

President Muhammadu Buhari last week signed the revised 2020 budget. The revised budget was increased from the proposed sum N10.509 trillion submitted by the President to N10.805 trillion, making a N296 billion difference. Based on the revised appropriation act, statutory transfers were increased from N398 billion proposed to N422 billion. In the approved budget, N2.95 trillion was allocated for debt service, out of which domestic debt service amounts to N1.873 trillion, foreign debts of N805.5 billion and sinking fund to retire maturing loans is allocated N272.9 billion. The sum of N4.94 trillion is allocated for recurrent (non-debt) expenditure while the sum of N2.49 trillion is for contribution to the Development Fund for capital expenditure.

Crude Oil

The U.S Energy Information Administration (EIA) released its July Short Term Energy Outlook (STEO) which showed the global crude oil market switched to a deficit of 1.9mbpd in June compared to a surplus of 5,1mbpd in May due to a combination of voluntary and involuntary cuts, amidst a rebound in demand. While demand jumped 6.2% MoM to 89.5mbpd, supply contracted by 1.9% MoM to 87.6mbpd in June. With the improving industrial activities and reopening of most economies, the EIA now expects global oil consumption to increase by 6.1mbpd over H2 2020 to 96mbpd compared to the level over H1 2020 of 89.8mbpd. As such, the global crude oil market is forecast to remain in a deficit for the rest of the year. However, given the high inventory build-up occasioned by the cumulative market surplus of 40.2mbpd over H1 2020, crude oil prices are forecast to be range bound at \$41.5/barrel over H2 compared to average of \$39.9/barrel and Q2 low of \$29.3/barrel. Brent crude prices gained 1.03% last week to settle at \$43.4/barrel with a month to date gain of 4.8%. The close price last week reduced the year to date decline to 36.2% and is 54.4% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel.

Foreign Exchange and Reserve

In a step towards the unification of the several exchange rates in Nigeria, the CBN based on data from FMDQ depreciated the official rate (which is used for budget benchmark and imports of petroleum products) by 5.3% to NGN381.00/USD. Also, rates at the secondary market intervention Sales (SMIS) window were depreciated to N380/\$. As at Thursday (July. 09, 2020), the gross external reserve depleted by \$28 million to \$36.13 billion when compared to \$36.16 billion as of July 2. The naira depreciated at the IEW, Parallel and BDC market last week by 0.26%, 1.08% and 1.62% to N387/\$, N462.5/\$ and N462.5/\$ respectively. The 6-months and 12-months forward

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

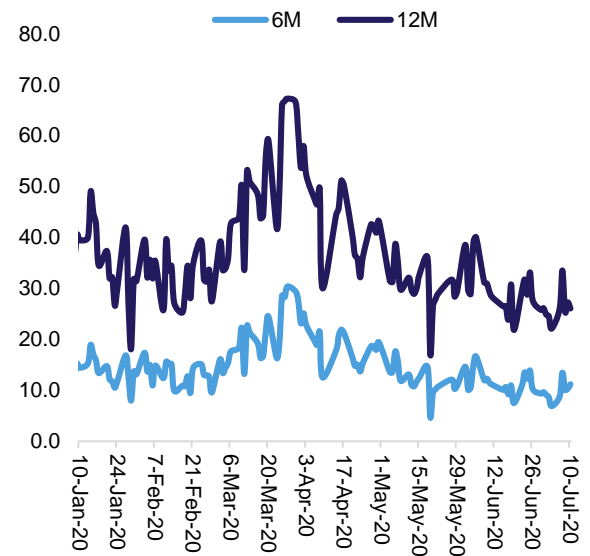
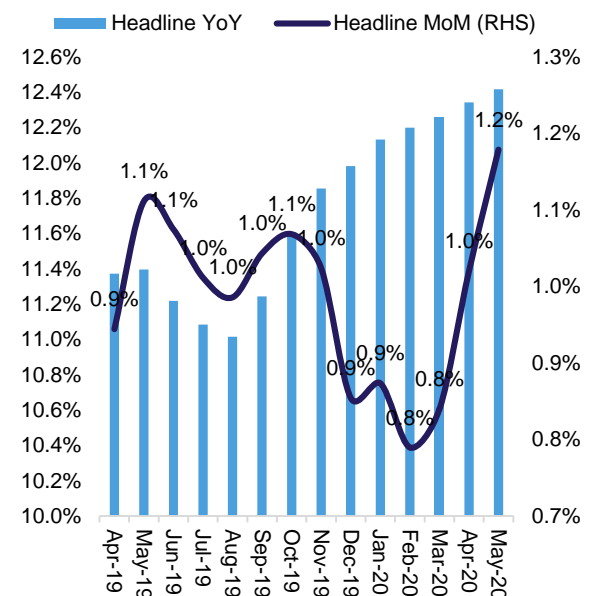


Figure 4: Nigeria YoY and MoM Inflation Trend



points increased by N4.28 and N3.97 to N398.2/\$ and N413.10/\$ respectively. Activity improved at the OTC futures market last week with the sum transaction of \$234.8 million compared to \$143.9 million in the prior week.

Fixed Income

With the absence of primary market auctions last week, average fixed income yields in the secondary market contracted by 12bps to 4.76% largely due to moderation at the long end of the curve. Average bond yields fell further by 26bps to 7.41% following demand for the April-2023 (-135bps), July-2021 (-111bps) and March-2024 (-84bps) bonds. Average NTB yield on the other hand expanded by 2bps to 2.11% dominated by the 182-day's paper. Elsewhere, average FGN Eurobond yields expanded by 28bps to 8.25%, dominated by expansion in the Nov-2027 (-19bps), and Feb-2032 (-10bps) bonds.

Equities

The Nigerian equities market closed lower last week by 0.12%, rounding off at 24,306.36 points with the market capitalization at N12.68 trillion following losses recorded in the Consumer Goods (-4.0%), Industrial Goods (-2.1%), Insurance (-0.7%) and Oil & Gas (-0.7%) indices, all of which outweighed the gain in the Banking (+5.8%) index. Worst performing stocks last week were UNILEVER (-9.78%), NESTLE (-6.51%), INTBREW (-2.53%), BUACEMENT (-2.50%) and DANGCEM (-0.79%).

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

Foreign Exchange rates	03-Jul-20	06-Jul-20	07-Jul-20	08-Jul-20	09-Jul-20	10-Jul-20	WoW % Change
CBN Official	361.00	361.00	381.00	381.00	381.00	381.00	-5.25%
NAFEX	386.00	386.50	386.50	387.32	386.50	387.00	-0.26%
BDC	455.00	457.00	457.00	457.00	457.50	462.50	-1.62%
Parallel	457.50	458.00	458.00	458.00	459.00	462.50	-1.08%
Money Market rates %	03-Jul-20	06-Jul-20	07-Jul-20	08-Jul-20	09-Jul-20	10-Jul-20	WoW Change (bps)
Open Buy Back (OBB)	21.50	19.60	19.75	20.00	15.20	13.80	-770.00
Overnight (O/N)	23.50	21.00	21.50	21.00	16.10	14.10	-940.00
FGN Bonds %	03-Jul-20	06-Jul-20	07-Jul-20	08-Jul-20	09-Jul-20	10-Jul-20	WoW Change (bps)
Jul-21	4.48	4.41	4.38	3.42	3.40	3.37	-111.06
Jan-22	4.00	3.69	3.67	3.37	3.35	3.33	-67.16
Apr-23	5.46	5.44	4.13	4.12	4.11	4.11	-135.64
Mar-24	5.37	5.30	4.65	4.40	4.53	4.53	-83.60
Mar-25	6.31	6.27	5.98	5.87	5.93	5.92	-38.12
Jan-26	7.04	7.04	7.02	7.01	7.01	7.01	-2.83
Mar-27	8.12	8.11	8.11	8.12	8.12	8.12	0.06
Feb-28	8.17	8.17	8.17	8.17	8.17	8.37	20.12
Jul-30	8.94	8.93	8.93	8.93	9.02	9.05	10.96
Jul-34	9.77	9.77	9.77	9.76	10.15	10.15	38.53
Mar-36	10.14	9.90	10.05	10.05	10.05	10.05	-8.90
Apr-37	10.04	9.99	10.13	10.11	10.12	10.06	1.89
Apr-49	10.80	10.97	10.97	10.78	10.90	10.90	9.95
Mar-50	10.86	11.05	11.04	10.83	10.96	10.96	10.57
T-Bills	03-Jul-20	06-Jul-20	07-Jul-20	08-Jul-20	09-Jul-20	10-Jul-20	WoW Change (bps)
NGOMOB 08/27/20	4.06	4.06	4.06	4.12	4.12	4.12	5.75
NGOMOB 09/24/20	4.53	4.58	5.00	5.00	5.00	5.00	47.56
NGOMOB 10/22/20	5.71	5.71	5.71	5.71	5.71	5.71	-0.63
NGOMOB 11/17/20	5.10	5.09	5.09	5.09	5.87	5.87	77.31
NGOMOB 12/29/20	5.81	5.81	5.91	5.91	6.37	6.36	54.91
NGOMOB 01/19/21	5.67	5.65	6.20	6.20	6.20	6.20	52.57
NGOMOB 02/23/21	5.66	5.65	5.65	6.13	6.13	6.13	46.90
NGOMOB 03/30/21	6.01	5.82	5.82	5.82	5.83	5.74	-27.00
NIGTB 07/30/20	2.07	2.07	2.07	2.07	2.07	2.07	-0.08
NIGTB 10/01/20	1.66	1.71	1.71	1.71	1.71	1.71	4.16
NIGTB 11/26/20	1.83	1.83	1.98	1.51	1.51	1.51	-32.56
NIGTB 01/14/21	2.11	2.11	2.22	2.22	2.22	2.49	37.70
FBN Eurobonds	03-Jul-20	06-Jul-20	07-Jul-20	08-Jul-20	09-Jul-20	10-Jul-20	WoW Change (bps)
\$500M JUL 2023	5.67	5.60	5.68	5.68	5.66	5.79	12.00
\$1.118B NOV 2025	7.06	7.06	7.14	7.21	7.17	7.33	27.00
\$1.5BN NOV 2027	7.39	7.37	7.49	7.56	7.57	7.81	42.00
\$1.25B FEB 2030	8.11	8.09	8.17	8.23	8.21	8.36	25.00
\$1.0B JAN 2031	8.66	8.63	8.72	8.78	8.77	8.95	29.00
\$1.5B FEB 2032	8.58	8.58	8.67	8.72	8.72	8.90	32.00
\$1.25BN FEB 2038	8.63	8.62	8.70	8.75	8.74	8.90	27.00
\$1.5BN NOV 2047	8.57	8.57	8.65	8.69	8.68	8.86	29.00
\$750M JAN 2049	9.06	9.06	9.14	9.18	9.17	9.35	29.00

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