

Weekly Economic and Financial Commentary

Global Economy

Reflecting the first direct effects of COVID-19, and the government measures taken to reduce transmission of the virus, UK GDP contracted by 20.4% YoY Q2 2020 (representing the deepest decline in economic activity ever recorded), marking the second consecutive YoY decline after a 2.2% YoY contraction in Q1 2020. Over Q2, both services output and Household consumption fell by a record 19.9% and 23.1%. There were significant contractions in production, construction, gross fixed capital formation and government consumption. Separate data showed 1.34 million people were unemployed in Q2 2020, which is 9,000 more than a year earlier but 10,000 fewer than Q1 2020 with unemployment rate unchanged from the previous quarter at 3.9%.

In the US, data released last week showed consumer prices rose 1.0% YoY (from 0.6% YoY in June) and rose 0.6% MoM (same as June). Increases in food prices accounted for half of the expansion in July, with the food index rising 4.1% YoY (down -0.4% MoM) to offset decline in the energy index of 11.2% YoY (+2.5% MoM). Separate data showed that U.S export and import prices both expanded by 0.7% MoM and 0.8% MoM in July from 1.4% MoM and 1.2% MoM in June respectively. Elsewhere, following the ongoing re-opening across most states in the US, retail sales data for the month of July rose 1.2% MoM (slower than 8.4% MoM increase in June), while industrial output rose by 3% MoM (slower than 5.7% MoM in June). While retail sales are now above pre-covid levels, industrial output is still below its pre-coronavirus levels.

Also, China inflation figure released last week showed CPI went up by 2.7% YoY and 0.6% MoM. Food prices went up by 13.2% and non-food prices was unchanged. In July, prices of food, tobacco and liquor expanded by 10.2% YoY to increase the headline figure by 3.07%. The headline growth was moderated by declines in the prices for transport and communication (-4.4% YoY) housing (-0.7% YoY) and clothing (-0.5% YoY). Elsewhere, Producer Price Index for manufactured goods dropped by 2.4% YoY and rose 0.4% MoM.

Domestic Economy

The National Bureau of Statistics (NBS) published the long awaited Nigerian Labour Market Statistics last week. The data showed overall employment declined 11.1 million between Q2 20 and Q3 18 to 58.5 million. Interestingly, the labour force population declined over the same period by 10.1 million to

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

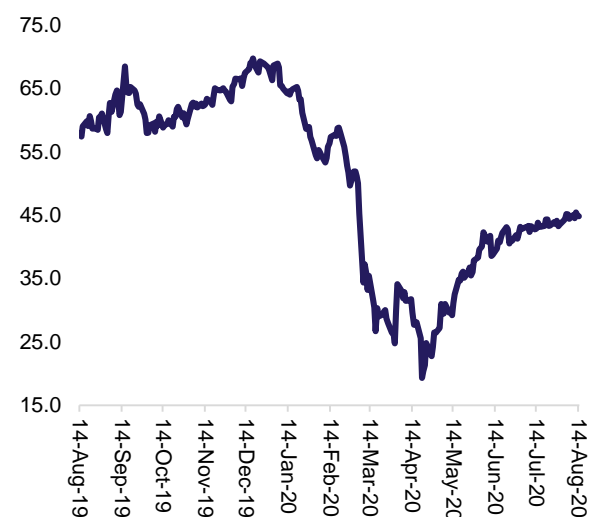
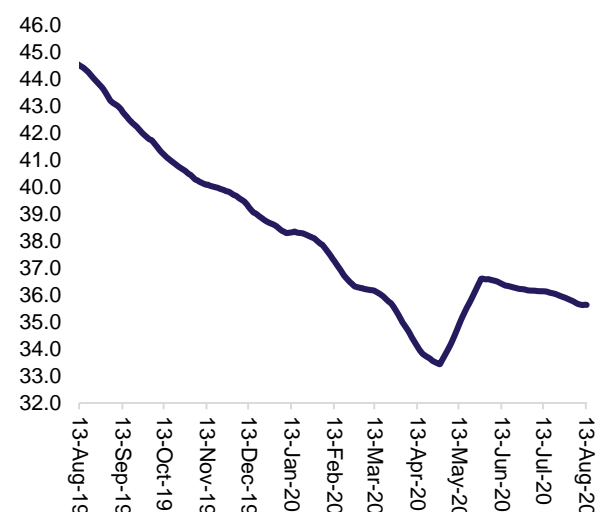


Figure 2: Movement in Gross Reserve (\$Bn)



80.3 million people (indicating a decline in labour force participation rate by 6.89% to 71.4%), with the unemployment rate over the same period rising by 837,000 to 21.8 million people. Unemployment rate rose 398bps to 27.1% in Q2 2020 compared to 23.1% in Q3 2018 and the underemployment rate also expanded by 844bps to 28.6% when compared to the Q3 18 number of 20.1%. Further breakdown revealed an increase in Urban unemployment by 1.6 million to 7.3 million people. While Rural unemployment, which is largely agrarian, was less affected by the associated lockdown of economic activities as seen in the urban areas. However, we note the impact conflicts and the restriction of supplies of essential commodities could have had on herding/pastoral activities. Rural unemployment fell by 805,474 to 14.5 million people. Elsewhere, youth unemployment rose to the highest level, increasing 841,259 to 13.97 million people, with underemployment within the same group as high 11.3 million people (a decline of 85,885 compared to Q3 18).

Last week, the Nigerian National Petroleum Corporation (NNPC) declared open the bidding process for the rehabilitation of the crude oil and petroleum product pipelines as well as the upgrade of the depots serving the Group's oil refineries through a Build, Operate and Transfer (BOT) model. The pipeline network, built in the 1970s, plays a critical role in bringing crude oil to the country's 3 refinery complexes located in Port Harcourt, Kaduna and Warri, in addition to the subsequent movement of the finished petroleum products to the consumers.

Crude Oil

OPEC Monthly Oil Market Report for the month of August showed production by 10 OPEC members in the accord increased by 0.979mbpd in July to 20.8mbpd compared to 19.8mbpd in June. As a result, compared to the resounding compliance rate of the cartel in June of 112%, compliance in July loosened to 96%. For the OPEC+ allies, Russia (the key partner), achieved average compliance rate of 95% in July. Mexico, Kazakhstan, Oman and Bahrain exceeded the agreed cut, achieving compliance rates of 114%, 102%, 105% and 117% respectively. In all, OPEC+ achieved compliance rate of 95% in July compared to 104% in June. Crude oil prices traded higher last week by 0.90% to \$44.8/barrel. The price at the end of last week reduced the year to date decline to 33.9% and is 60.0% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel. In its August Short-Term Energy Outlook (STEO), the EIA raised its forecast for crude oil consumption in 2020 to 93.1mbpd (still below 2019 average of 100.7mbpd) from July estimate of 92.9mbpd. Global production is estimated to increase by 2.5mbpd in August, with crude oil production among non-OPEC members rising by 1.74mbpd in August. Overall, total world supply is expected to average 92.88mbpd (2020 average of 94.24mbpd relative to 100.6mbpd in 2019) over the rest of the year.

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

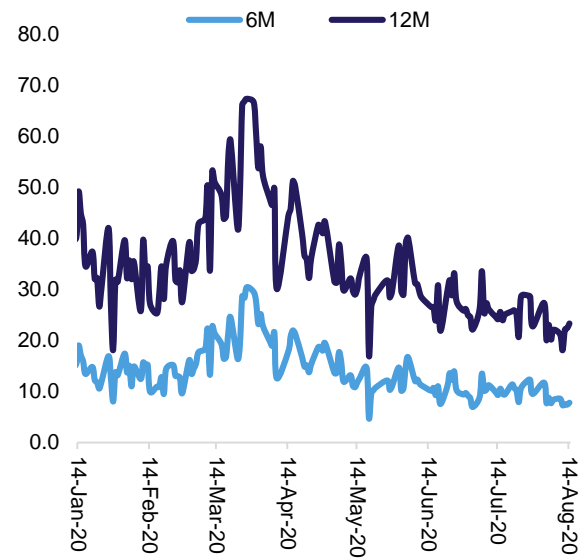
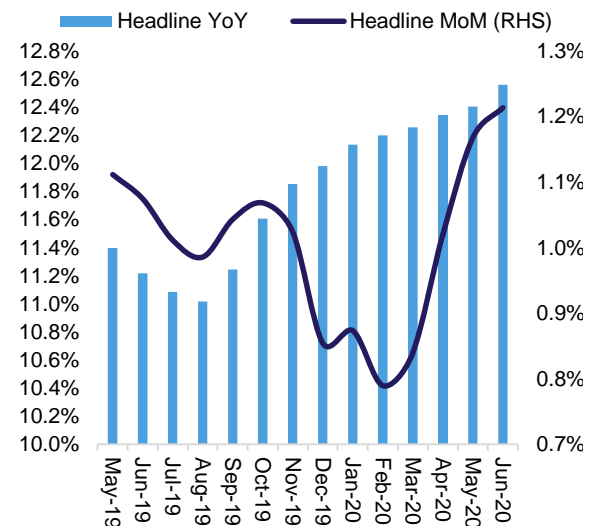


Figure 4: Nigeria YoY and MoM Inflation Trend



Foreign Exchange and Reserve

As at Thursday (Aug. 13, 2020), the gross external reserves depleted by \$155 million to \$35.62 billion when compared to \$35.68 billion as of Aug. 06. The naira depreciated at the BDC market last week by 0.32% to N472.5/\$, and remained flat at both the parallel market and IEW at N472.5/\$ and N386.0/\$ respectively. The 6-months forward points traded lower by N0.56 to N393.79/\$, while the 12-months forward points traded higher by N1.24 to N409.32/\$. Activity slowed at the OTC futures market last week, with the sum of transaction of \$53.6 million compared to \$236.6 million in the prior week.

Fixed Income

The apex bank held both NTB and OMO auctions last week. At the NTB auction, compared to offered amount of N56.8 billion to liquidate maturing instruments, total subscription totalled N118.2 billion. With the apex bank rolling over only the maturing instruments, the average stop rate at the auction declined by 10bps to 1.93%. At the OMO auction last week, compared to offered amount of N50 billion, subscription came in at N94.4 billion with the apex bank allotting just N45.4 billion. Average stop rate fell 4bps to 7.2%. Average fixed income yields in the secondary market expanded by 2bps WoW to 4.48% as profit taking resurfaced on the long end of the curve. Average bond yields rose by 18bps WoW to 7.38% following profit taking in the Jan-2022 (+206bps), April-2023 (+169bps) and the March-2024 (+144bps) bonds. Average NTB yields fell 14bps WoW to 1.57% with the biggest contraction in the 182-day (-19bps). Elsewhere, average FGN Eurobond yields fell by 35bps to 6.58%, following contraction across the curve, with the largest contraction in the Feb-2030 (-49bps), Nov-2027 (-47bps), Feb-2032 (-46bps), Feb-2038 (-38bps) and Nov-2047 (-31bps).

Equities

The Nigerian equities market closed higher last week by 0.63% WoW, rounding off at 25,199.84 points with market capitalization at N13.1 trillion following gains in the Oil & Gas (+5.9%), Consumer Goods (+2.2%), Telecoms (3.68%) and Insurance (+1.1%) indices. Best performing stocks last week were SEPLAT (+10%), NB (+12.5%), GUINNESS (+9.22%), UNILEVER (+11.61%), AIRTEL (+7.29%), STANBIC (+2.73%) and GUARANTY (+2.26%).

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

Foreign Exchange rates	07-Aug-20	10-Aug-20	11-Aug-20	12-Aug-20	13-Aug-20	14-Aug-20	WoW % Change
CBN Official	381.00	381.00	381.00	381.00	381.00	381.00	0.00%
NAFEX	386.00	385.50	385.50	386.00	385.83	386.00	0.00%
BDC	471.50	471.50	472.50	472.50	472.50	472.50	-0.21%
Parallel	472.50	472.50	472.50	472.50	472.50	472.50	0.00%
Money Market rates %	07-Aug-20	10-Aug-20	11-Aug-20	12-Aug-20	13-Aug-20	14-Aug-20	WoW Change (bps)
Open Buy Back (OBB)	6.00	5.25	5.17	4.33	3.00	17.60	1160.00
Overnight (O/N)	6.80	6.13	6.17	5.25	3.79	19.80	1300.00
FGN Bonds %	07-Aug-20	10-Aug-20	11-Aug-20	12-Aug-20	13-Aug-20	14-Aug-20	WoW Change (bps)
Jul-21	2.81	2.81	2.80	3.29	3.17	3.17	36.02
Jan-22	2.97	2.94	2.92	5.04	5.03	5.03	205.24
Apr-23	3.90	3.87	6.06	5.60	5.59	5.59	169.22
Mar-24	4.54	4.53	6.38	5.99	5.99	5.98	143.84
Mar-25	5.96	5.85	6.74	6.45	6.45	6.44	48.24
Jan-26	7.11	6.92	7.04	6.82	6.71	6.61	-49.25
Mar-27	7.91	7.58	7.82	7.71	7.55	7.82	-8.39
Feb-28	7.23	7.85	7.99	7.93	7.85	8.00	77.52
Jul-30	9.08	9.08	9.08	9.08	9.08	8.48	-60.23
Jul-34	10.47	9.87	9.87	9.30	9.30	9.30	-116.89
Mar-36	10.55	10.55	10.55	9.47	9.38	9.38	-116.82
Apr-37	9.84	9.84	9.60	9.58	9.43	9.43	-40.64
Apr-49	10.43	9.95	9.91	9.90	9.91	9.89	-54.85
Mar-50	10.48	9.96	9.93	9.93	9.95	9.92	-55.94
T-Bills	07-Aug-20	10-Aug-20	11-Aug-20	12-Aug-20	13-Aug-20	14-Aug-20	WoW Change (bps)
NGOMOB 08/27/20	3.66	3.66	4.01	4.01	4.01	4.01	34.84
NGOMOB 09/24/20	4.47	4.47	4.02	4.02	4.02	4.02	-45.68
NGOMOB 10/22/20	3.74	3.74	4.18	4.18	4.18	4.16	42.10
NGOMOB 11/17/20	3.18	3.18	4.09	4.10	4.10	4.04	86.18
NGOMOB 12/29/20	3.81	3.80	3.94	3.96	3.96	3.84	3.47
NGOMOB 01/19/21	4.09	4.09	3.83	4.11	3.97	3.88	-20.58
NGOMOB 02/23/21	4.77	4.77	4.77	4.24	4.24	4.24	-52.85
NGOMOB 03/30/21	4.75	4.75	4.75	4.64	4.10	4.10	-65.13
NGOMOB 05/25/21	4.56	4.55	4.55	4.25	4.25	4.25	-31.06
NIGTB 10/01/20	1.35	1.35	1.35	1.35	1.20	1.20	-15.59
NIGTB 11/26/20	1.36	1.36	1.36	1.36	1.36	1.36	-0.04
NIGTB 01/14/21	1.41	1.41	1.41	1.41	1.41	1.29	-12.17
NIGTB 04/29/21	2.74	2.74	2.74	2.74	2.74	2.74	-0.14
FBN Eurobonds	07-Aug-20	10-Aug-20	11-Aug-20	12-Aug-20	13-Aug-20	14-Aug-20	WoW Change (bps)
\$500M JUL 2023	5.15	5.13	5.07	4.95	4.91	4.89	-26.00
\$1.118B NOV 2025	6.53	6.53	6.44	6.29	6.25	6.24	-29.00
\$1.5BN NOV 2027	7.08	7.06	6.91	6.68	6.63	6.61	-47.00
\$1.25B FEB 2030	7.48	7.44	7.31	7.12	7.02	6.99	-49.00
\$1.0B JAN 2031	7.94	7.93	7.81	7.62	7.54	7.54	-40.00
\$1.5B FEB 2032	8.02	8.01	7.87	7.64	7.58	7.56	-46.00
\$1.25BN FEB 2038	8.23	8.20	8.07	7.96	7.89	7.85	-38.00
\$1.5BN NOV 2047	8.27	8.26	8.15	8.07	7.99	7.96	-31.00
\$750M JAN 2049	8.74	8.74	8.64	8.57	8.51	8.49	-25.00

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