

Weekly Economic and Financial Commentary

Global Economy

The European Commission last week agreed to the planned EUR750 billion stimulus package which was unveiled in April. The emergency fund will give out EUR390 billion of grants to economies hard hit by the pandemic, with the excess of EUR360 billion in the form of low-interest loans. The ECB at its meeting last week kept its policy unchanged, with the deposit rates at -0.5% and committed to continue with the EUR1.35trn Pandemic Emergency Purchase Programme.

U.S and Eurozone flash PMI data published last week by HIS Markit revealed improvement in both manufacturing and the services Purchasing Managers' Index (PMI) in both economies. With the strong recovery occasioned by the reopening of economic activities, the Eurozone and US composite PMI improved to 54.8 (48.5 in June) and 50.0 (47.9 in June) respectively. Both the Eurozone and US services PMI rose to 55.1 (48.3 in June) and 49.6 (47.9 in June). Also reflecting the large scale resumption of industrial activities, the manufacturing PMI in the Eurozone and US also improved to 51.1 (47.4 in June) and 51.3 (49.8 in June) in July respectively. The outcome in both economies indicated stabilisation of business activity at the start of the third quarter, with the contraction in service sector output slowing further and manufacturers signalling a modest upturn in production. However, a sharp recovery is still impeded by an increased rate of decline of new orders, linked in part to renewed COVID-19 containment measures, especially in the US.

Domestic Economy

Given the broad expectation for a rebound in economic activities in 2021, with the IMF projecting a growth of 2.6% in 2021 from a forecast contraction of 5.4% in 2020 (we estimate a contraction of 2.9% YoY), the FGN is also adopting more prudent measures to increase its revenue. Largely, the effort as outlined in the 2021-2023 fiscal strategy paper focus on reducing the costs lines across revenue segments in a bid to increase actual retained revenue. With the pressure occasioned by the decline in oil prices on actual retained oil revenue, the FGN is now adopting measures to reduce the cost of crude oil production. From current average oil production cost of \$23/barrel, the FGN cost optimization measures which includes lowering of logistics, security, and transportation costs, is expected to lower the cost of production to \$10/barrel in 2021. Also, with adoption of a market reflective PMS price, the cost of

Sections

- [Global Economy](#)
- [Domestic Economy](#)
- [Crude Oil](#)
- [Foreign Exchange and Reserves](#)
- [Fixed Income](#)
- [Equities](#)

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

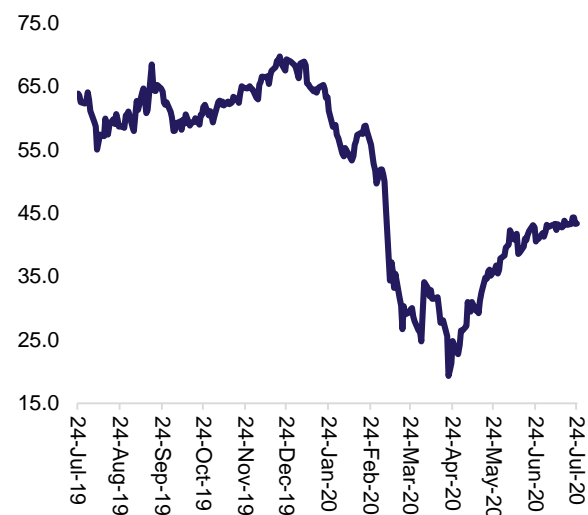
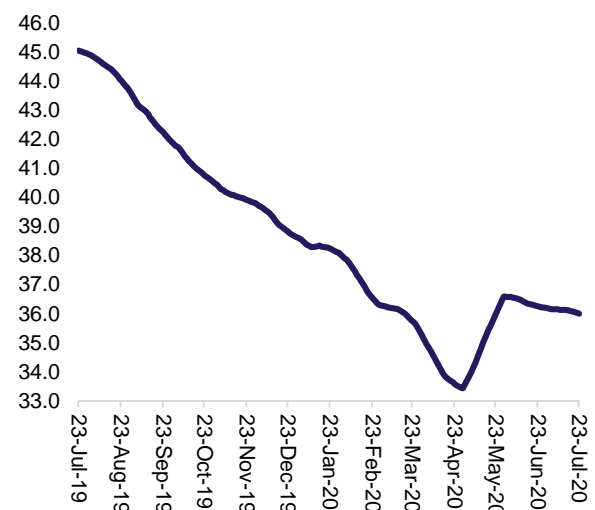


Figure 2: Movement in Gross Reserve (\$Bn)



subsidy/under-recovery borne by NNPC is expected to unlock additional revenue for the federation account. Other measures targeted at increasing oil revenue include accelerating licensing of Marginal Oil Fields and renewals of existing licenses as well as ramping up production from previously shut-down oil wells. Intuitively, the gradual convergence of the official rate towards the NAFEX rate could also increase the naira translation of oil proceeds, even in 2020.

The Monetary Policy Committee of the CBN at the end of its meeting on Monday noted that given the plethora of monetary and fiscal measures recently deployed to address the impending economic crisis, following the COVID-19 outbreak, it would be a relatively cautious option to leave policy parameters unchanged in order to evaluate the effectiveness of these tools at addressing the current challenges, particularly with the mounting uncertainties within the domestic economy, as well as the external vulnerabilities. Accordingly, the MPC voted to retain all policy parameters, noting the earlier downward adjustment of the MPR by 100bps to 12.5% to signal the loosening monetary policy stance is yielding positive impact as credit growth increased significantly in the economy.

Crude Oil

The EIA's weekly US Petroleum Report released last week showed commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 4.9 million barrels from the previous week to 536.6 million barrels, which is about 19% above the five-year average for this time of year. Irrespective, oil prices increased last week by 0.46% to \$43.34/barrel. The price at the end of last week reduced the year to date decline to 36.1% and is 54.8% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel. Data released yesterday by General Administration of Customs showed China's total crude oil imports surged 34.4% YoY in June to record high of 12.99mbpd in June. Over January-June, China's crude imports from OPEC+ suppliers rose 7.5% YoY to 8.71mbpd as members competed to secure outlets in China during the COVID-19 pandemic.

Foreign Exchange and Reserve

As at Thursday (July. 24, 2020), the gross external reserves depleted by \$105 million to \$36.0 billion when compared to \$36.10 billion as of June 16. The naira depreciated at the IEW, Parallel and BDC market last week by 0.26%, 0.64% and 0.75% to N389.5/\$, N469/\$ and N468.5/\$ respectively. The 6-months and 12-months forward points increased by N1.23 and N3.57 to N400.14/\$ and N418.10/\$ respectively. Activity slowed at the OTC futures market last week, with the sum transaction of \$30.2 million compared to \$90.7 million in the prior week.

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

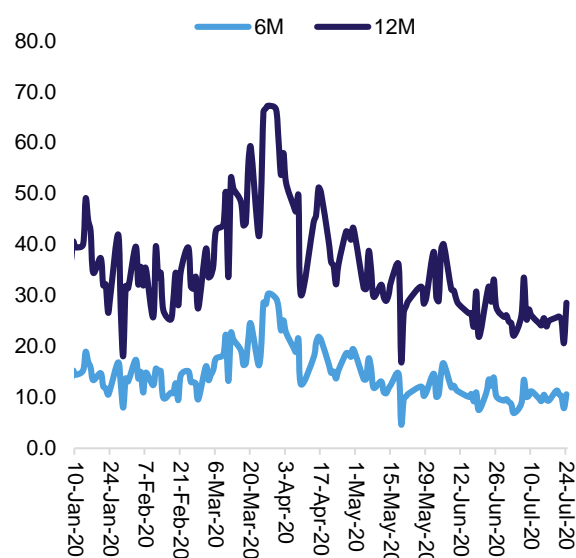
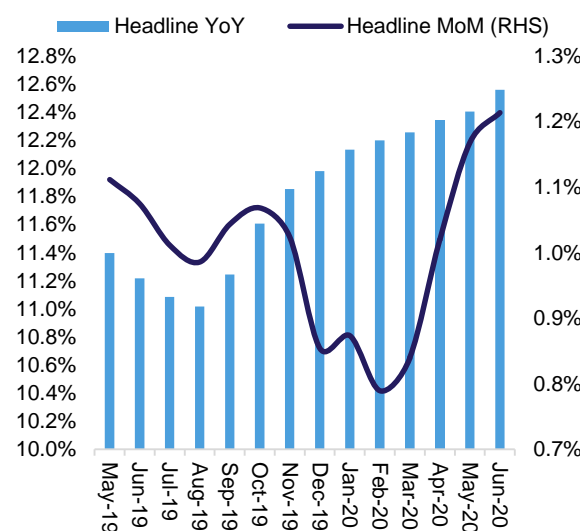


Figure 4: Nigeria YoY and MoM Inflation Trend



Fixed Income

At the Bond auction held last week, compared to N130 billion offered by the Debt Management Office (DMO) subscription was recorded at N470 billion. The DMO only allotted N177 billion via competitive bids and N1.5 billion via non-competitive allotment, with the marginal stop rate closing at 8.81% compared to 10.38% at June's auction. At the auction, the DMO debuted the 25-year bond (July-2045) and reopened the 10-year bond (Jan-2026). Average fixed income yields in the secondary market contracted by 34bps to 4.26% last week following a decline at both the long and short end of the curve. Average bond yields fell further by 52bps to 6.76% following demand for the Jan-2026 (-112bps), July-2030 (-100bps), July-2034 (-118bps) and April-2049 (-86bps). Average NTB yield also fell by 19bps to 1.75% dominated by the 30-day (-49bps) and 91-day (-50bps) bills. Elsewhere, average FGN Eurobond yields fell by 25bps to 7.32%, following contraction across the curve, with the largest contraction in the Jan-2021 (-47bps).

Equities

The Nigerian equities market closed higher last week by 0.58%, rounding off at 24,427.73 points with the market capitalization at N12.7 trillion following gain in the Industrial Goods (+0.6%) index, which more than offset losses in the Oil & Gas (-4.7%), Insurance (-0.8%), Banking (-0.6%) and Consumer Goods (-0.4%) indices. Best performing stocks last week were DANGCEM (+6.5%), NB (+3.3%), MTNN (+1.7%), GUARANTY (+0.7%) and CUSTODIAN (+14.6%).

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

Foreign Exchange	17-Jul-20	20-Jul-20	21-Jul-20	22-Jul-20	23-Jul-20	24-Jul-20	WoW % Change	MoM % Change
CBN Official	381.00	381.00	381.00	381.00	381.00	381.00	0.00%	-5.25%
NAFEX	388.50	388.50	388.17	388.17	388.00	389.50	-0.26%	-0.77%
BDC	465.00	465.00	465.00	465.00	468.50	468.50	-0.75%	-2.88%
Parallel	466.00	468.50	469.00	469.00	469.00	469.00	-0.64%	-2.77%
Money Market rates	17-Jul-20	20-Jul-20	21-Jul-20	22-Jul-20	23-Jul-20	24-Jul-20	WoW Change (bps)	MoM Change (bps)
Open Buy Back	20.33	9.17	2.10	1.90	1.88	1.60	-1873.33	-1340.00
Overnight	21.75	10.67	2.80	2.50	2.38	2.20	-1955.00	-1380.00
FGN Bonds %	17-Jul-20	20-Jul-20	21-Jul-20	22-Jul-20	23-Jul-20	24-Jul-20	WoW Change (bps)	MoM Change (bps)
Jul-21	3.11	3.09	3.08	3.08	3.07	3.06	-4.59	-148.75
Jan-22	4.08	4.02	4.00	3.98	3.96	3.94	-13.38	-89.75
Apr-23	4.03	4.39	4.38	4.37	4.37	4.36	32.72	-127.98
Mar-24	4.00	3.98	3.97	4.63	4.62	4.64	64.56	-154.37
Mar-25	5.67	5.32	4.93	4.92	4.92	4.97	-69.09	-215.58
Jan-26	6.97	6.95	6.95	6.95	6.95	5.90	-106.92	-146.19
Mar-27	8.18	8.18	7.90	8.00	8.00	8.00	-18.40	-35.44
Feb-28	8.35	8.34	7.94	7.94	7.94	7.92	-42.28	-52.64
Jul-30	8.84	8.89	8.89	8.71	8.71	7.84	-99.40	-312.87
Jul-34	9.75	10.00	10.00	9.24	9.24	8.57	-117.68	-172.60
Mar-36	9.86	9.86	9.86	9.86	9.02	9.02	-84.75	-112.42
Apr-37	9.91	9.91	9.91	9.91	9.90	9.14	-76.22	-90.12
Apr-49	10.55	10.54	10.55	10.47	9.68	9.69	-85.41	-132.33
Mar-50	10.59	10.59	10.60	10.51	9.66	9.73	-86.12	-135.57
T-Bills	17-Jul-20	20-Jul-20	21-Jul-20	22-Jul-20	23-Jul-20	24-Jul-20	WoW Change (bps)	MoM Change (bps)
NGOMOB 08/27/20	4.35	4.35	2.38	2.38	2.96	2.61	-174.82	-124.71
NGOMOB 09/24/20	5.25	5.25	4.78	4.78	5.02	5.02	-22.79	49.61
NGOMOB 10/22/20	5.45	5.42	5.26	5.26	4.47	4.47	-97.91	-12.12
NGOMOB 11/17/20	5.83	5.83	5.83	4.88	5.08	3.95	-188.00	-133.95
NGOMOB 12/29/20	6.70	6.69	5.61	5.63	5.63	4.57	-212.34	-103.94
NGOMOB 01/19/21	5.91	5.92	5.92	5.92	5.92	5.92	1.10	6.22
NGOMOB 02/23/21	5.95	5.94	5.82	5.40	5.44	5.44	-50.33	-4.64
NGOMOB 03/30/21	5.73	6.00	5.93	5.57	5.57	5.19	-53.65	-81.58
NGOMOB 05/25/21	5.80	6.07	5.88	5.88	5.88	5.87	7.33	587.49
NIGTB 07/30/20	2.07	2.07	1.50	1.50	1.50	1.50	-57.11	-57.31
NIGTB 10/01/20	1.50	1.50	1.50	1.50	1.28	1.28	-22.66	-73.22
NIGTB 11/26/20	1.63	1.66	1.36	1.36	1.36	1.35	-27.34	-45.84
NIGTB 01/14/21	1.54	1.61	1.61	1.61	1.61	1.61	7.67	-48.21
NIGTB 04/29/21	2.74	2.74	2.74	2.74	2.74	2.74	-0.14	274.24
FBN Eurobonds	17-Jul-20	20-Jul-20	21-Jul-20	22-Jul-20	23-Jul-20	24-Jul-20	WoW Change (bps)	MoM % Change
\$500M JUL 2023	5.63	5.60	5.48	5.47	5.37	5.45	-18.00	-40.00
\$1.118B NOV 2025	7.23	7.20	7.05	7.03	6.93	7.05	-18.00	-15.00
\$1.5BN NOV 2027	7.77	7.73	7.54	7.51	7.42	7.57	-20.00	13.00
\$1.25B FEB 2030	8.25	8.21	8.02	7.97	7.86	8.00	-25.00	-21.00
\$1.0B JAN 2031	8.86	8.81	8.60	8.58	8.46	8.59	-27.00	-20.00
\$1.5B FEB 2032	8.83	8.78	8.53	8.50	8.41	8.59	-24.00	-12.00
\$1.25BN FEB 2038	8.84	8.78	8.54	8.52	8.43	8.57	-27.00	-14.00
\$1.5BN NOV 2047	8.79	8.73	8.47	8.44	8.37	8.52	-27.00	-17.00
\$750M JAN 2049	9.27	9.23	8.98	8.96	8.90	9.03	-24.00	-14.00

The material contained in this report is the property of NOVA Merchant Bank Limited (NOVAMBL) and may not be reproduced in any way without express authorization. The statements and statistics contained herein have been prepared by NOVAMBL Research based on information from sources considered to be reliable. We make no representation or warranty, as to its accuracy or completeness. Customers relying on this information either in part or in whole to make their business decisions agree to do so at their own risk and shall not hold NOVAMBL liable for any loss or undesirable outcomes incurred therefrom. This publication is for the information of investors and businesspersons and does not constitute an offer to sell or a solicitation to buy securities.