

Weekly Economic and Financial Commentary

Global Economy

The J.P.Morgan Global Composite Output Index rose to 52.4 in August (from 51.0 in July), its highest level since March 2019. The global manufacturing PMI improved to 51.8 in August, (from 50.6 in July) and above the neutral 50.0 mark for the second successive month. Also, the Global Services Business Activity Index posted 51.9 in August (from 50.6 in July) following growth of new business. China, the US, Germany, the UK, India and Brazil were some of the larger industrial nations to register expansions of output during August. Mexico, the Philippines, Vietnam and Japan saw the steepest rates of contraction. Particularly in China, exports benefitted from the gradual re-opening of economies around the world, but employment still remained at historic lows. China’s official manufacturing PMI rose to 51.0 in August (from 51.1 in July) with the production index, new orders index, and supplier distribution time index all above the threshold, while main raw materials inventory index and employment index stayed below the threshold.

Data released last week showed U.S Nonfarm employment increased by 1.4 million (from 1.8 million in July) in August. Retail trade, professional and business services, leisure and hospitality, and education and health services recorded notable job gains. Excluding government employment related to education and temporary hiring for the 2020 Census, payrolls rose just 1.5 million. The unemployment rate moderated to 8.4% (from 10.2% in July) from a pandemic-peak of 14.7% in April as overall employment has risen 10.6 million between May through August, gaining almost 50% of the job losses over March and April. Specifically, the number of unemployed persons fell by 2.8 million to 13.6 million in August. The broader measures of labour market under-utilization, which is underemployment, fell to 14.2% in August from 16.5% in July.

Recent publication by the Organisation for Economic Co-operation and Development (OECD) showed real gross domestic product in the area fell by 9.8% in Q2 2020 (the largest drop ever recorded for the OECD area) significantly larger than the 2.3% contraction recorded in Q1 2009, at the height of the financial crisis. Year-on-Year GDP for the OECD area contracted 10.9% in the Q2 2020, following contraction of 0.9% in the previous quarter. Among the Major Seven economies, the U.S recorded contraction of 9.5%, while the United Kingdom recorded the sharpest annual fall of 21.7%.

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

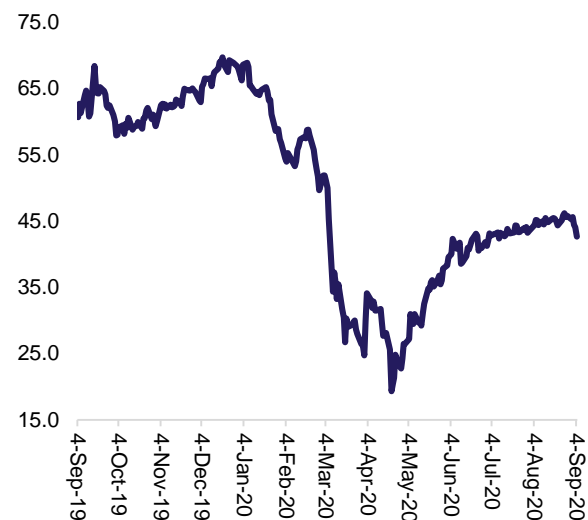
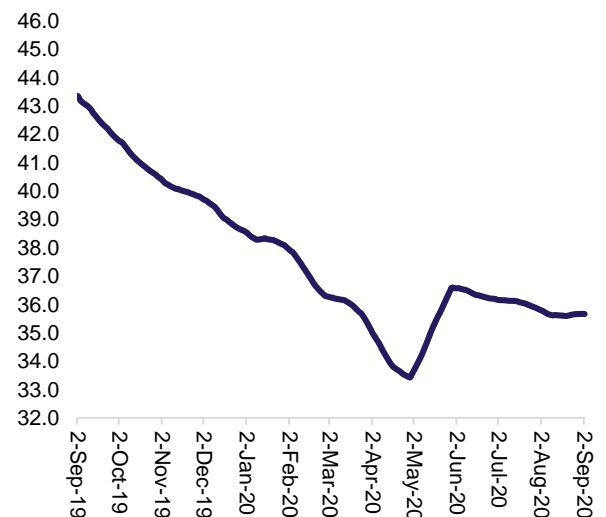


Figure 2: Movement in Gross Reserve (\$Bn)



Domestic Economy

Foreign Trade in Goods Statistics (Q2 2020) released by the NBS last week showed Nigeria recorded a trade deficit of N1.8 trillion in Q2 2020 compared to a deficit of N139.9 billion in Q1 2020 following a sharp fall in exports by 51.7% YoY (-45.6% QoQ) to N2.2 trillion. The decline in total exports emanated from decline in crude oil exports by 60.5% YoY (-47.2% QoQ) to N1.55 trillion following crunch in average Brent oil price to \$32.30/barrel (vs. \$52.50/barrel in Q1 20) and lower production of 1.81mbpd in Q2 compared to 2.07mbpd in Q1 20. Exports of other oil products and manufactured goods declined by 28.0% YoY and 139.6% YoY respectively. Elsewhere, imports grew 0.4% YoY and fell 10.7% QoQ. The QoQ moderation in imports was driven by decline in import of mineral fuel (82.4% QoQ) which outweighed increases recorded in the importation of raw materials, solid mineral and energy goods. The modest increase YoY stemmed from 129.8% YoY growth in the importation of energy goods. Overall, total value of Nigeria's merchandise trade fell by 37.6% QoQ and 27.5% YoY to N6.2 trillion (the lowest value since Q4:2017).

Last week, the increase in electricity tariff took effect and the prices of PMS was adjusted higher by the Petroleum Products Marketing Company. On the electricity tariff, recall the implementation of the ~58% increase in February 2016 reverberated across industrial and consumer prices. By our estimate, the increase in electricity tariff effective September will result in ~89% increase, as such, we see every room for the impact to more than supersede that of 2016. On PMS, compared to average PMS price of N148.2/litre in August, PMS price is expected to increase to N151.6/litre in September with further adjustment over the rest of the year as global oil prices adjust. Interestingly, the upward adjustment to PMS is still below our estimate of N160.8/litre and N165.9/litre using exchange rate of N361/\$ and N379/\$ respectively and average oil price of \$44.5/barrel.

Crude Oil

The EIA's weekly US Petroleum Report released last week estimates that crude oil in commercial storage decreased by 9.4 million barrels (compared to prior week decline of 4.7 million barrels) to 498.4 million barrels (which is about 14% above the five-year average). With market sentiment weighed down by the risk of rising global supply amid a muted demand outlook, oil prices slumped last week by 6.9% to \$42.66/barrel. The price at the end of last week increased the year to date decline to 37.1% and is 52.4% above the Federal Government of Nigeria 2020 revised budget benchmark of \$28/barrel. Saudi Arabia official oil pricing template for October, offered Arab light delivery to Asia at a discount of \$0.50/ barrel (compared to premium of \$0.90/barrel premium in September) to the Oman/Dubai average, U.S delivery premium is lowered to \$1.05/barrel

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

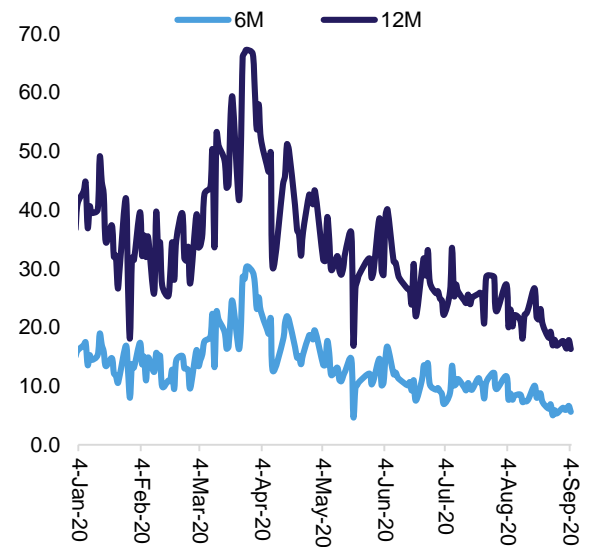
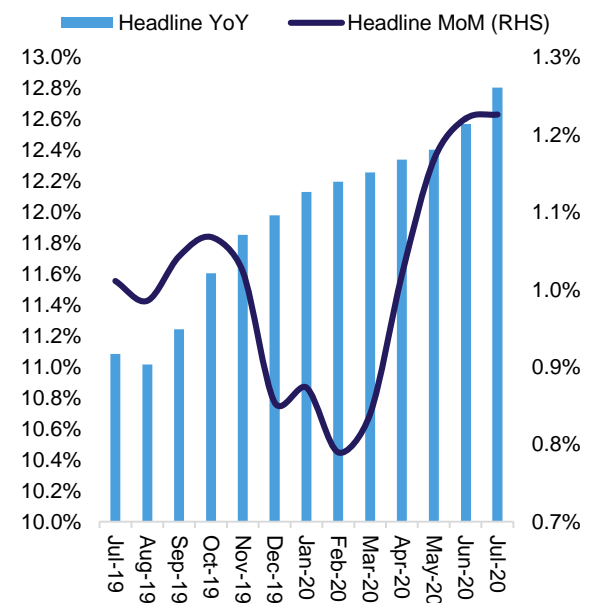


Figure 4: Nigeria YoY and MoM Inflation Trend



(compared to \$1.65/barrel in September) versus ASCI and a discount of \$2.00/barrel (discount of \$1.80/barrel in September) to ICE Brent for delivery to Northwestern Europe.

Foreign Exchange and Reserve

As at Wednesday (Sept. 02, 2020), the gross external reserves increased by \$60,000 to \$35.67 billion when compared to \$35.66 billion as of Aug. 26. With the sales at the SMIS, SME and other segments compared to the level of inflow, the gross external reserves depleted by \$215 million (July depletion \$321 million) in the month of August to adjusted level of \$35.24 billion. Following planned resumption of FX sales to BDCs today, rates at both the BDC and parallel market appreciated last week by 8.9% and 9.1% to N435.0/\$, while it depreciated at the IEW by 0.12% to N386.13/\$. The 6-months forward points traded higher by N0.29, while the 12-months forward points traded lower by N0.57 to respective rates of 391.75/\$ and N402.44/\$. Activity slowed at the OTC futures market last week, with the sum of transaction of \$117.23 million compared to \$926.0 million in the prior week.

Fixed Income

At the OMO auction last week, compared to offered and allotted amount of N100 billion, subscription came in at N144.7 billion. Despite the sales coming below maturing bills of N321.48 billion, average stop rate was largely unchanged at 7.16%. The higher liquidity in the system resulted in contraction of average money market rates by 213bps WoW at 1.94%. Average fixed income yields in the secondary market was flat at 4.73%. Average NTB yields fell 10bps WoW to 1.92% led by a 60bps decline in the 182-day bill. Average bond yields rose 9bps WoW to 7.54% dominated by the March-2036 (+98bps) and July-2034 (+33bps). The CBN/DMO released the NTB auction calendar for the 3 months ending in November last week. The calendar showed planned total bill offer of N914.85 billion, which is below maturing bills of N1.06 trillion maturing over the same period. Elsewhere, average FGN Eurobond yields fell by 30bps to 6.47%, following contraction across the curve, with the largest contraction in the Nov-2027 (-53bps), Nov-2025 (-51bps), Jan-2031 (-35bps), Jul-2023 (-27bps) and Feb-2038 (-23bps).

Equities

The Nigerian equities market closed higher last week by 1.17% WoW, rounding off at 25,605.64 points with market capitalization at N13.4 trillion following gains in the Oil & Gas (+3.7%), Banking (+2.8%), Insurance (+2.0%), Consumer Goods (+1.5%), and Industrial Goods (+0.4%). Best performing stocks last week were NB (+8.11%), INTBREW (+2.12%), ZENITH (+3.26%), GUARANTY (+4.53%), STANBIC (+5.41%), ARDOVA (+10.0%), MOBIL (+10.0%), ETERNA (+9.47%) and SEPLAT (+3.9%).

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

| Foreign Exchange rates | 28-Aug-20 | 31-Aug-20 | 01-Sep-20 | 02-Sep-20 | 03-Sep-20 | 04-Sep-20 | WoW % Change |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| CBN Official | 379.00 | 379.00 | 379.00 | 379.00 | 379.00 | 379.00 | 0.00% |
| NAFEX | 385.67 | 385.67 | 386.00 | 386.00 | 386.25 | 386.13 | -0.12% |
| BDC | 473.50 | 460.00 | 437.50 | 430.00 | 427.50 | 435.00 | 8.85% |
| Parallel | 474.50 | 460.00 | 435.00 | 430.00 | 432.50 | 435.00 | 9.08% |
| Money Market rates % | 28-Aug-20 | 31-Aug-20 | 01-Sep-20 | 02-Sep-20 | 03-Sep-20 | 04-Sep-20 | WoW Change (bps) |
| Open Buy Back (OBB) | 13.90 | 9.10 | 5.75 | 4.67 | 2.50 | 1.63 | -1227.50 |
| Overnight (O/N) | 14.90 | 9.60 | 6.38 | 5.33 | 3.25 | 2.25 | -1265.00 |
| FGN Bonds % | 28-Aug-20 | 31-Aug-20 | 01-Sep-20 | 02-Sep-20 | 03-Sep-20 | 04-Sep-20 | WoW Change (bps) |
| Jul-21 | 2.99 | 3.00 | 3.02 | 3.00 | 3.01 | 2.81 | -18.01 |
| Jan-22 | 4.68 | 4.54 | 5.16 | 5.34 | 5.33 | 4.95 | 27.41 |
| Apr-23 | 5.29 | 5.27 | 5.63 | 5.65 | 5.65 | 5.49 | 19.43 |
| Mar-24 | 5.73 | 5.79 | 5.97 | 5.88 | 5.87 | 5.87 | 13.81 |
| Mar-25 | 6.23 | 6.39 | 6.36 | 6.32 | 6.30 | 5.91 | -31.96 |
| Jan-26 | 6.64 | 6.88 | 6.68 | 6.67 | 6.67 | 6.67 | 2.41 |
| Mar-27 | 8.11 | 8.10 | 8.04 | 8.09 | 8.09 | 8.09 | -2.16 |
| Feb-28 | 8.39 | 8.38 | 8.38 | 8.38 | 8.15 | 8.15 | -23.58 |
| Jul-30 | 9.00 | 9.00 | 8.90 | 8.90 | 8.90 | 8.90 | -9.98 |
| Jul-34 | 9.66 | 9.75 | 9.99 | 9.99 | 9.99 | 9.99 | 32.78 |
| Mar-36 | 9.05 | 9.91 | 9.91 | 9.90 | 10.06 | 10.03 | 97.63 |
| Apr-37 | 10.07 | 10.07 | 10.07 | 10.08 | 10.04 | 10.04 | -3.68 |
| Apr-49 | 10.05 | 10.05 | 9.84 | 9.84 | 10.06 | 10.07 | 1.94 |
| Mar-50 | 10.05 | 10.05 | 9.82 | 9.82 | 10.06 | 10.07 | 2.38 |
| T-Bills | 28-Aug-20 | 31-Aug-20 | 01-Sep-20 | 02-Sep-20 | 03-Sep-20 | 04-Sep-20 | WoW Change (bps) |
| NGOMOB 09/24/20 | 3.11 | 3.11 | 3.11 | 2.99 | 2.05 | 2.05 | -105.48 |
| NGOMOB 10/22/20 | 2.91 | 2.90 | 2.61 | 2.47 | 2.47 | 2.63 | -27.37 |
| NGOMOB 11/17/20 | 2.59 | 2.59 | 2.59 | 2.59 | 2.59 | 3.34 | 74.14 |
| NGOMOB 12/29/20 | 2.89 | 2.89 | 2.52 | 2.52 | 2.52 | 2.29 | -59.88 |
| NGOMOB 01/19/21 | 2.87 | 2.91 | 3.10 | 3.10 | 3.10 | 2.63 | -24.66 |
| NGOMOB 02/23/21 | 3.10 | 3.10 | 3.10 | 3.10 | 3.09 | 3.12 | 2.39 |
| NGOMOB 03/30/21 | 3.39 | 3.39 | 3.23 | 3.00 | 3.05 | 3.05 | -34.23 |
| NGOMOB 05/25/21 | 3.49 | 3.49 | 3.35 | 3.31 | 3.32 | 3.32 | -17.03 |
| NIGTB 10/01/20 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | -0.03 |
| NIGTB 11/26/20 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | -0.17 |
| NIGTB 01/14/21 | 2.04 | 1.72 | 1.72 | 1.72 | 1.51 | 1.51 | -53.26 |
| NIGTB 04/29/21 | 1.97 | 2.94 | 2.94 | 2.94 | 2.94 | 2.24 | 27.20 |
| FBN Eurobonds | 28-Aug-20 | 31-Aug-20 | 01-Sep-20 | 02-Sep-20 | 03-Sep-20 | 04-Sep-20 | WoW Change (bps) |
| \$500M JUL 2023 | 5.04 | 5.07 | 4.91 | 4.74 | 4.76 | 4.77 | -27.00 |
| \$1.118B NOV 2025 | 6.29 | 6.16 | 6.11 | 5.95 | 5.90 | 5.78 | -51.00 |
| \$1.5BN NOV 2027 | 6.70 | 6.50 | 6.37 | 6.20 | 6.17 | 6.17 | -53.00 |
| \$1.25B FEB 2030 | 7.12 | 7.04 | 6.94 | 6.77 | 6.76 | 6.78 | -34.00 |
| \$1.0B JAN 2031 | 7.70 | 7.68 | 7.54 | 7.35 | 7.33 | 7.35 | -35.00 |
| \$1.5B FEB 2032 | 7.73 | 7.69 | 7.60 | 7.42 | 7.43 | 7.48 | -25.00 |
| \$1.25BN FEB 2038 | 8.04 | 7.99 | 7.93 | 7.77 | 7.75 | 7.81 | -23.00 |
| \$1.5BN NOV 2047 | 8.10 | 8.06 | 7.99 | 7.83 | 7.85 | 7.89 | -21.00 |
| \$750M JAN 2049 | 8.61 | 8.57 | 8.50 | 8.37 | 8.37 | 8.42 | -19.00 |

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