NIGERIA MACROECONOMIC & MARKETS REPORT

April 2020

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REPORT SUMMARY

The Macroeconomy

- OPEC+ reach deal to cut 10mbpd.
- Inflation continued its relentless rise.
- CBN participation in I&E FX window dropped to zero.

The Financial Markets

- Fixed income returned to bull territory.
- IMF emergency funds boosted support for the Naira.
- Equity markets observed its strongest month yet.

Our Expectation for the Coming Months

- Oil prices to rise as demand returns.
- Inflation to maintain its upward trajectory particularly as lockdown effects kick in.
- Naira to improve supported by IMF emergency relief and CBN intervention.
- Manufacturing PMI to drop below 50 for the first time in 36 months.

A WORLD ON LOCKDOWN AND IMF RELIEF

The unthinkable happened as certain major cities and some countries placed majority of their citizens under lockdown

The novel coronavirus continued its devastating rampage across the world as a sizable portion of the globe remained quarantined. In the U.S., total unemployment rose to 4.4% in March 2020 and is expected to rise significantly higher to double digits in April. However, this number does not paint the full story. The unemployment figures for March were calculated in the four-week period from mid-February to mid-March. Nearly 10 million jobs were lost in the first two weeks of April as a result of the pandemic which points to a significantly higher unemployment rate by the time the April numbers are released. Certain sectors were particularly affected as demand for most goods such as travel and leisure were hard hit, almost dropping to zero in some cases. U.S. gross domestic product fell by 4.8% in the first quarter of 2020, the first negative result since the 1.1% decline in the first quarter of 2014 and the lowest since the negative 8.4% recorded in the fourth quarter of 2008. Consumer spending, non-residential fixed investment, and exports were gravely affected; federal spending, however, was up by 1.7%. It is important to note that while the first quarter only had two weeks of shutdown, it had an outsized impact on the performance of the economy. This points to a potentially worse impact in the second quarter even if the quarantine is lifted shortly.

The financial implication of Covid-19 has started rolling in though the effects are still muted

Although the world's second largest economy, China, has restarted after an unprecedented shutdown, there are signs that the economy is struggling to attain pre-Covid-19 levels. Factories are at less than full capacity and tens of millions of workers are out of work. In addition, the Chinese are discovering that overseas demand has slumped considerably. China's first quarter GDP contracted by 6.8%, the first contraction since 1992. Retail sales fell 19% in the first quarter, sales of consumer goods fell 15.8% in March, while online sales of physical goods bucked the trend and rose by 5.9%. While all major industrial enterprises have resumed work and smaller businesses are at 80% capacity, business activity has not yet fully returned to normal due to the dramatic drop in exports.

So far, the IMF has responded to emergency financing requests from various countries. The facility now exceeds USD 15 billion and covers over 50 countries in April, especially in Africa with the largest beneficiaries being Nigeria, Pakistan, South Africa and Egypt. For Nigeria, the IMF approved a $3.4 billion emergency financial assistance package under the Rapid Financing Instrument. The IMF financial support will help limit the decline in foreign reserves and provide financing to the budget for targeted and temporary spending increases aimed at containing and mitigating the economic impact

The Federal Government adjusts its fiscal position

of the pandemic and of the sharp fall in international oil prices. The IMF facility would be of immense help as foreign investors who sold their securities in the past month have been unable to repatriate the proceeds as a result of dollar scarcity.

The Federal Government also cut down the budget by N317.5 billion to N10.276 trillion. The crude oil benchmark was also slashed to $30/barrel from $57/barrel, oil production volume was reduced to 1.7mbpd from 2.17mbpd, and the exchange rate was revised to N360/$1 from N305/$1. The Nigerian National Petroleum Corporation (NNPC) also announced the end of the era of petrol subsidy. According to the NNPC, with the current fluctuations in global crude oil prices, the cost of refined products would be determined by market forces going forward.

In addition, the country began the gradual easing of the lockdown imposed in Lagos, Abuja and Ogun effective May 4th citing the heavy economic costs of the 5-week lockdown. As part of the easing process, authorities will enforce an overnight curfew from 8 p.m. to 6 a.m. and will require individuals who are out during the day to wear a face mask. There is also a ban on non-essential interstate movements.

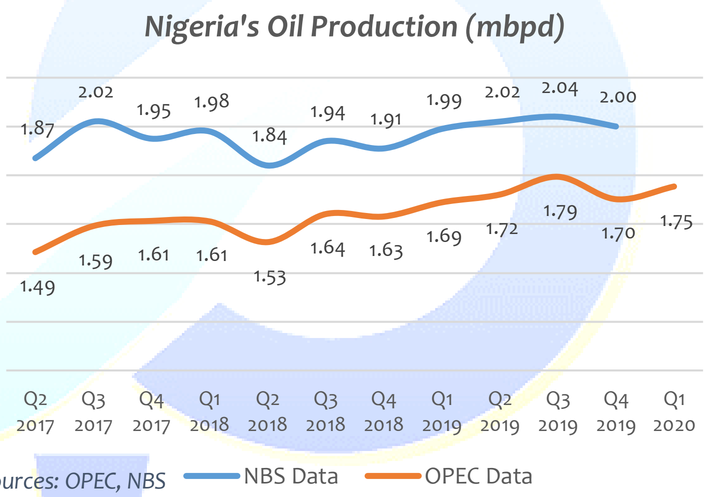
Cooler heads seemed to have prevailed as the OPEC+ bloc reached a consensus on crude oil cuts

THE MACRO ECONOMY

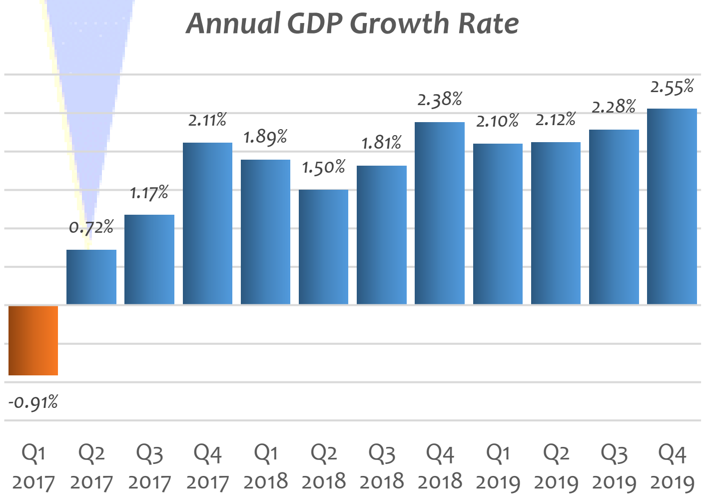
GDP Growth & Oil Production

Nigeria's crude oil production increased for the third consecutive month by 2.2% to 1.78 mbpd in March 2020 from 1.742 mbpd. Quarter-on-quarter, the country's crude oil production increased by 3.1% from 1.702 mbpd in Q4 2019 to 1.754 mbpd in Q1 2020. The increase can be attributed to the deadlock within the OPEC+ bloc as many member countries, Nigeria inclusive, pumped more oil in order to gain market share.

However, in response to the coronavirus pandemic is the renewed commitment by OPEC+ and other oil producers outside the alliance, to cut output. The OPEC+ alliance agreed to cut oil production for at least 2 months effective May 1st with some members kicking off the production cut in April due to the continued decline in crude oil prices. The member countries are looking to take out around 10% of the world's supply – or around 10 mbpd. Nigeria is expected to fulfill its part of the quota by cutting production by 22% to c. 1.4 mbpd.



Sources: OPEC, NBS



Source: NBS

There appears to be no ceiling to the rise in inflation

While the Nation's reserves appeared to have no floor

In terms of oil price action during the month, Brent Futures reached a peak of $35/bbl during the month and a trough of $19/bl. However, on a month-on-month basis, Brent Futures gained 2% as the lockdown recedes globally and investors become optimistic that the worst of the demand slump is behind.

Inflation

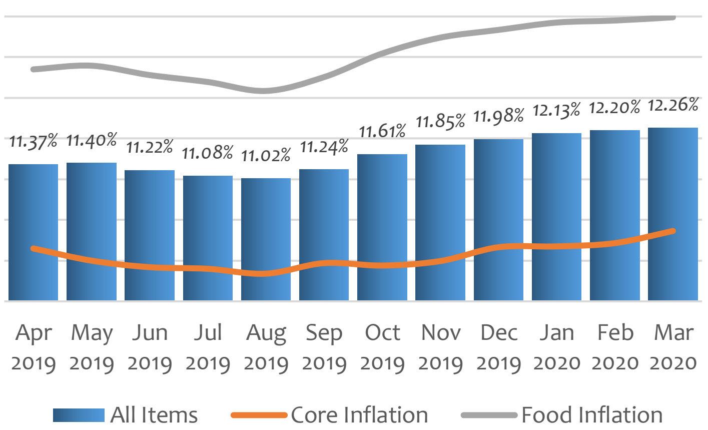
Headline inflation maintained its upward trend in March, inching up by 6 bps as the borders remain closed. The Consumer Price Index (CPI) which measures inflation rose by 12.26% YoY, from 12.20% in February, settling significantly higher than the 6% to 9% target set by the CBN. On a month-on-month basis, the Headline index was up by 0.84%, 5 bps higher than the rate of increase in February (0.79%).

Core Inflation increased marginally by 9.73% YoY, 30 bps higher than 9.43% recorded in February 2020 as continued pressure on the Naira forced the prices of many imported items higher. Similarly, food inflation grew by 14.98% YoY, an 8 bp increase from 14.90% recorded in February 2020. The continued land border closure pushed food inflation higher as local food production remained insufficient to meet local demand. While the government mandated lockdown which affected economic activity in various states including Abuja, Lagos and Ogun States began towards the end of March 2020, its impact on inflation would be more prominent in the April inflation figures.

Capital Importation and Foreign Exchange Reserves

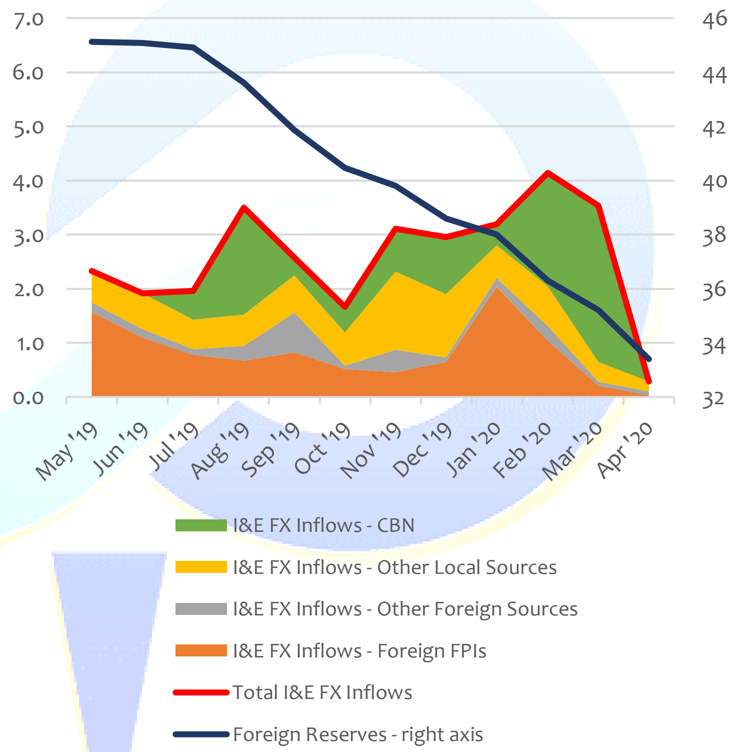
Data available as at print time revealed that the Apex Bank's participation in the I&E FX Window measured by the inflows into the window from the bank declined to zero in the month of April as the CBN suspended FX sale due to the nationwide lockdown. Consequently, total inflows into the

Inflation Rate



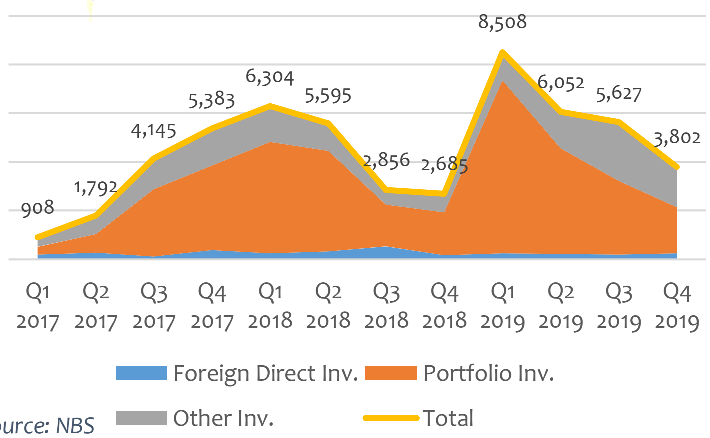
Source: NBS

Gross Reserves & I&E FX Inflows ($'bn)



Sources: CBN, FMDQ

Capital Importation ($'million)



Source: NBS

PMI Index continues to expand – albeit at a slower pace

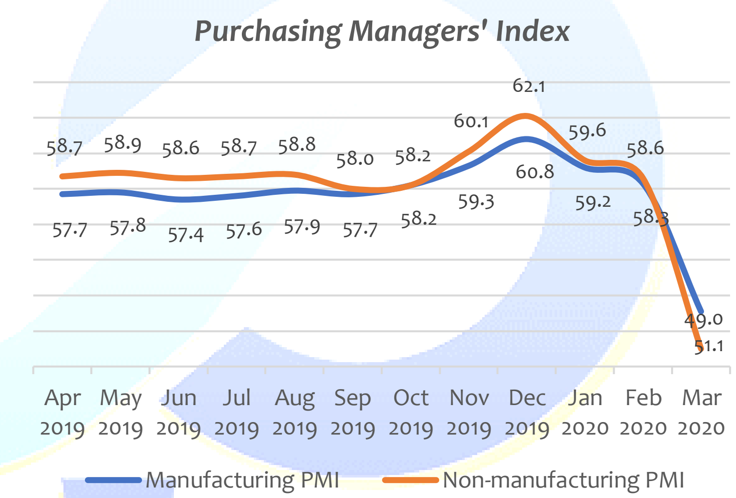
The bond market is still on a tear

I&E FX Window declined by 87.6% in April 2020 to $459 million, a multi-month low, with foreign inflows into the window accounting for 33.8% of total inflow in the month of April from 9% in the previous month. Surprisingly, other local sources apart from the CBN dominated total inflows, accounting for 66.2% of total inflow in the month of April from 13% in the previous month. The 30-day moving average of the nation's foreign exchange reserves continued its downward trajectory in the month of April, declining by 4.7% to $33.52 billion. The foreign reserves declined continuously during the month but increased by $77.9 million on the last day of the month likely due to the receipt of the IMF emergency financial assistance package and the refund of the Abacha loot.

Given the huge inflows that boosted the foreign reserves, the CBN has indicated that it would resume the provision of over $100 million per week for SMEs and school fees payment. The Bank has also arranged to resume foreign exchange sales to the BDC segment of the foreign exchange market for business travels, personal travels and other designated retail uses as soon as international flights resume.

Did You Know…
Nearly 3 billion people in 82 countries were affected by either a full or partial lockdown of their respective economies?

Purchasing Managers' Indices
As at print time, the CBN had not released its PMI report for the month of April due to the effect of the lockdown on the bank's operations. However, given the extended lockdown in Lagos and Abuja, two commercial power houses of the Nigerian economy, we expect the manufacturing and non-manufacturing PMIs to decline significantly to sub 50 levels as economic activity practically ground to a halt in the month of April. Given the dependence of most Nigerian states on Lagos and Abuja, we expect the effect of the lockdown to be felt in those states, thus extending the slowdown to most parts of the country. Exacerbating the trend, various state governments also imposed partial or complete lockdown on economic activities in their states in response to the Covid-19 pandemic. Some sectors are however expected to see marginal to significant growth as online sales, grocery purchases and internet usage increased significantly.

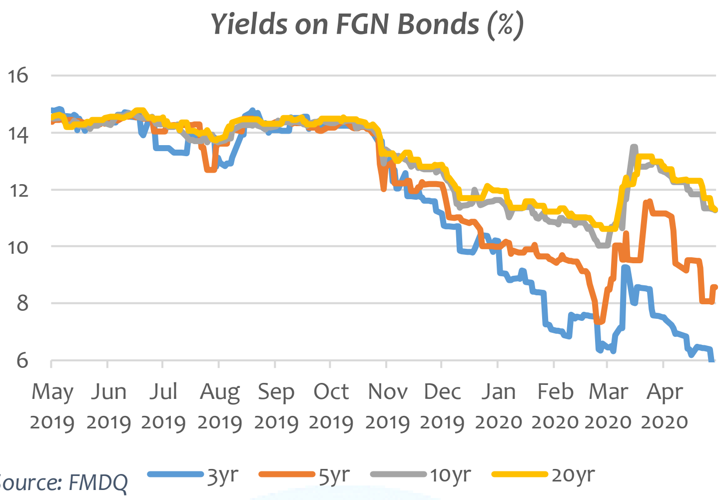


Source: CBN

FINANCIAL MARKETS

Fixed Income Market

The fixed income market reversed its bearish trend from last month as the unmet bid at the auction coupled with the liquidity improvement spurred a bullish bias in the market. Yields for the benchmark securities monitored declined across all maturities on a month-on-month basis, as average yields of the sovereign bonds with 3-year, 5-year, 10-year and 20-year maturities declined by 120 bps, 57 bps, 8 bps and 2 bps, respectively.

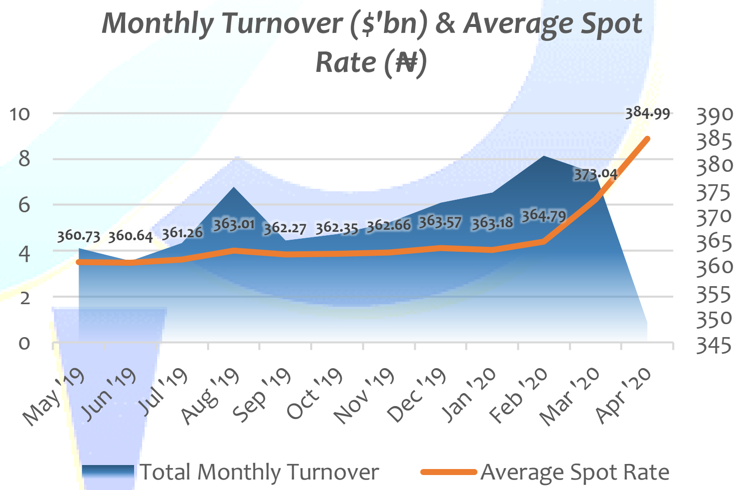


Source: FMDQ

The Bond auction, which held on 22nd April 2020, closed relatively strong with a bid to cover of 4.59x and stop rates printing as follows; 3-year, 15-year and 30-year at 9.00%, 12.00% and 12.50% respectively. On 28th April 2020, the Senate approved the conversion of ₦850bn external borrowing to local borrowing in order to finance part of its 2020 budget, thus boosting the volume of debt that will be raised locally in the coming months.

Foreign Exchange Market

The Naira depreciated further at the I&E FX Window as the average exchange rate of the Naira to a unit of the Dollar rose by 3.20% from N373.04 in March 2020 to N384.99 in April 2020, compounding the 2.26% depreciation seen in the average rate in March 2020. The depreciation was due to continued pressure on the Naira as liquidity in the window remained tepid. Total monthly turnover on the I&E FX Window declined by 88.2% to $872.9 million in April which is a record low for the window. Throughout the month of April, the CBN which had been the major source of FX inflow, refrained from pumping liquidity into the window, bringing down total I&E inflows by 87.6% to $459.2 million. The IMF emergency assistance facility of $3.4 billion which served as support for Nigeria helped boost the country's reserves level toward the end of the month. For now, the CBN has resumed its weekly dollar sales (to the tune of $100 million) for school fees and Small and Medium Enterprises (SMEs) to make essential imports. The Apex bank is yet to indicate when flows will make its way to the I&E window.



Source: FMDQ

The bond market bucked the bearish trend and turned bullish during the month; however the bearish sentiment seems to have returned

Did You Know…

For the first time ever WTI crude oil futures prices turned negative as storage capacity in Cushing, Oklahoma was severely tested?

Equities Market

Source: Bloomberg

The Month of April which started with a bearish streak turned out to be the best preforming month for the NSE in 2020. The NSEASI saw a month-on-month gain of 8.08% in April, the best monthly performance seen in 3 years on the local bourse. Offshore participants were forced back into the market during the month as FX repatriation for already executed sale mandates proved difficult, thereby forcing them to snap up good bargains. The CBN did not support the I&E window (prominent exit route for foreign investors) thus pushing total inflows into the window down by 87.6% during the month. In line with the reduced selling pressure in the market, total volume and value traded declined drastically by 51% and 47% month-on-month to 5.39 billion and ₦63.54 billion respectively.

Other factors that supported the upswing in the local bourse were crude related news and positive earnings result. The OPEC + met in April and came to a consensus to cut their overall crude oil production by 9.7 mb/d, for the months of May and June 2020. Also, impressive FY'19 and Q1'20 earnings releases provided some support to the market's bullish run with FY'19 results of WAPCO and FBNH being particularly impressive. The 2nd largest cement player in Nigeria recorded a profit after tax (PAT) of ₦115bn post LAFARGE SA divestment and declared a dividend of ₦1.00 that will be paid out of pioneer profits (exempted from withholding tax). This spurred a positive reaction from market. FBNH on the other hand grew its PAT by 26.4% to ₦73.6bn. A ₦34bn drop in impairment charges and a ₦40bn jump in trading revenue supported the lender's bottom line and strengthened its ability to pay dividend of 38 kobo (its highest dividend payout in five years).

For the month of April, the banking sector outshone all other sectors, gaining 15.14% MoM followed by the consumer goods sector (14.02% gain) and the insurance sector (2.08% gain). Top 5 gainers for the month were MTN N, WAPCO, FBNH, UBA and NESTLE.

OUR EXPECTATIONS FOR THE COMING MONTHS

The nation's crude oil production is expected to drop by 21% in compliance with the OPEC+ production cuts. As more nations ease the lockdown procedures, demand would return to the oil market and we could see price start to rise, albeit slowly, as we believe the worst of the Covid-19 crisis is behind us.

Given the lockdowns that affected majority of the country the inflation numbers for April could move significantly higher. In addition, with zero to little activities in the month of April considering COVID-19, the PMI for April will likely be down significantly from the prior month. We expect manufacturing PMI to drop below 50 for the first time in 36 months and non-manufacturing PMI to remain sub 50 as the impact of COVID-19 and the lockdown in the major states keep economic activities subdued.

We expect foreign inflows could improve in the month of May as normalcy returns to the global economy. The recently approved US$3.4bn in emergency support from the IMF coupled with the resumption of FX intervention by the Apex bank would further boost the nation's FX reserves. It is likely that the CBN may push some liquidity to the I&E window if crude prices continue to improve as further accretion to reserves would prove supportive.

We expect a slight retracement in yields next month due to the additional supply from the newly approved ₦850bn external borrowing conversion. Nevertheless, we expect liquidity to continue to drive local demand.

Two major things that will strongly impact the performance of the market are: foreign investors ability to repatriate FX and oil price stability. Though it is not certain yet, we anticipate liquidity returning to the I&E window which may spur foreign investors to carry off funds. In addition, as countries begin to ease lockdown measures, we anticipate that this would lead to an improved demand for crude and a more stable price.