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THE INVESTOR

Q2 Macroeconomic Review - Nigeria

AfriKnowledgeBase

Watching Africa Move

AT A GLANCE…

The effects of the global pandemic began to take their toll on oil prices towards the end of Q1, and in Q2, prices rebounded as aggregate demand slightly increased. In the third quarter, oil prices steadied but failed to come close to pre-pandemic levels. As a result, an economic contraction of 6.1% hit Nigeria in addition to the country's rising inflation problem.

Despite a greater rise in inflation to 13.2% in August 2020, the CBN announced a second rate cut this year, bringing the Monetary Policy Rate down to a record low of 11.5% since 2016. The CBN Governor stated that the decision was arrived at based on the need to manage the economic trajectory and stimulate output growth. In essence, these have been severely dampened by lockdown measures to curb the spread of the coronavirus which exerted pressure on the cost of goods and services.

However, fears of a second wave of infections may result in another round of lockdown and travel restrictions globally, causing a less optimistic outlook for Q4.

GDP growth as of Q2 2020		-6.10%	
Inflation as at August 2020	Month-on-Month %	Year-on-Year %	12 Month Avg.Chg%
CPI Inflation	1.34	13.22	12.23
Food Inflation	1.67	16.00	14.87
Core Inflation	1.05	10.52	9.64

*source: NBS

FX Reserves (US$ bn)	**Close**	**1M%**	**3M%**
As at 24/09/2020	$35.76	0.32	-1.35

*Source: Central Bank of Nigeria -30-day moving average figure

Official Rate (USD)	N380
Monetary Policy Rate	11.5%
Crude Oil Price	$42.92

*Source: CBN as at 30/09/2020

NSE ASI Statistics as at 25/09/2020	
Current	26,319.47
Previous	25,987.14
Day Change	1.28%
YTD Return	-1.95%
YTD High	29,710.56
YTD Low	20,669.38
52wk High	29,710.56
52wk Low	20,669.38

*Source: NSE

GDP contracted by 6.10 percent in Q2 2020 - the worst quarterly contraction since Q1 2004.

MACRO POLICIES

Monetary Policy

In a bid to stimulate the economy and increase output growth, the Central Bank introduced a number of interventions in monetary policy since the beginning of the year, especially as the hard-hitting effects of the Covid-19 pandemic began to take its toll on the economy. This year, the CBN has pursued mostly expansionary monetary policy with serious caution for inflation. Torn between options to reduce domestic prices either by tightening the policy stance which would lessen the pressure on prices, or easing the stance to increase demand by providing cheaper credit, the CBN opted to ease its policy stance.

While inflation has been above target for almost 5 consecutive years, Nigeria witnessed a further acceleration in the inflation rate, reaching the highest since March. Food inflation remained the highest as food prices rose faster due to lockdown measures to curb the spread of the virus, the devaluation of the Naira and reduced farming activity. Similarly, Core inflation increased by 9.64% in August 2020 compared to July 2019.

However, according to the CBN Governor, the rise in inflation rate over the last two quarters was due to structural factors rather than monetary policy. Pressures from increased electricity tariffs and the removal of fuel subsidy are also contributors to the rising inflation rate witnessed in the third quarter.

FX Policies.
Capital importation in Nigeria declined drastically in Q2 2020. According to the NBS, total capital imported dropped by 78% compared to Q1 2020, with foreign direct investment accounting for 11.4% while foreign portfolio investment contributed 29.8%. The major cause for the large drop is attributed to the pandemic, although the lack of unification of the multiple exchange rates remains a cause for concern for investors.

Against the backdrop of reduced oil prices, Nigeria has witnessed an exchange rate crisis which resulted in several reforms and forex policy decisions by the CBN since Q1 2020. In the third quarter specifically, CBN placed restrictions on the importation of maize to foster local production and replace jobs lost due to the pandemic. Furthermore, in a bid to test the price of the Naira against the dollar, the CBN drove $50 million into the FX market which was sold to foreign investors as a test trade. These and other policy decisions have been put in place as the CBN continues its plans to reduce pressure on Nigeria's exchange rate and unify its multiple exchange rates.

Monetary Policy Rate (MPR)
On concerns of a looming recession, the Monetary Policy Committee further cut the CBN's key interest rate for the second time in 2020, this time by 100 basis points to 11.5% - the lowest since 2016. Despite the inflation rate rising from 12.82% in Q2 to 13.22% in Q3, the CBN stated the decision to lower the MPR was as a result of the need to support the trajectory of economic growth, while reducing unemployment and increasing production.

This reduction in rate places focus on the increase of credit to foster economic growth, although the MPC stated its awareness that the alternative action of tightening the policy rate could drive more capital into the economy and increase external reserves. Nonetheless, the Committee predicts growth in the last quarter of the year, or at least Q1 2021. Hence, the unexpected cut in MPR from 12.5% and adjusting the asymmetric corridor to encourage commercial bank lending was decided based on 6 out of 10 Committee member votes in favour of reducing the rate to 11.5%.

MPR	Reduce to 11.5%
Asymmetric Corridor	+100/-700 basis points around the MPR
CRR	Retained at 27.5%
Liquidity Ratio	Retained at 30%

*Data from CBN

*Data from CBN

Fiscal Policies

The pandemic has shed light on several irregularities of the government. For instance, the dependence on oil as a sustainable source of revenue is questionable. While crude oil maintained a price around $40/b in Q3, revenues from oil have been unable to come close to pre-pandemic levels. Furthermore, Nigeria witnessed certain fiscal policy decisions in Q3 hinged on the need to stimulate revenue growth, maintain financial stability and increase employment as a response to the drastic economic contraction of 6.1%. While some of these interventions provide positive short-term relief, many of these may have negative long-term effects on businesses and households. Some of the fiscal policy decisions made in Q3 include:

- Increase in petrol pump price due to the removal of fuel subsidy from N123.5/litre to $151/litre effective from September 2020
- Approval of electricity tariff hike by 100%, excluding poor and vulnerable households
- Suspension of electricity tariff increase for 2 weeks to avert nationwide strike (which would have further constrained an already suffering economy)
- Plans to roll out a $2.3 trillion stimulus package for Micro, Small and Medium Enterprises (MSMEs)
- Increased easing of lockdown measures

ASSET CLASSES

Equities

Past performance is not a reliable indicator of future returns.

Following the slight improvement in the equities market in Q2, losses due to the global pandemic were gained back in Q3, with stocks posting gains in three consecutive months (July, August and September). The All-Share Index (ASI) increased by 7.5% in Q3, reflecting investor confidence based on a more positive outlook on the global oil market. However, this increase in ASI was only half that witnessed in Q2.

Hence, investors are not completely out of the woods yet as the economy battles contraction, the effects of the long-standing exchange rate crisis, increased fuel prices, and a weaker naira which could later dampen investor gains.

Sector Winners and Losers

Returns in the equities market were suppressed by still low oil prices which have been unable to reach pre-pandemic levels. As a result, topping the list of losers was the Oil and Gas sector which declined by 26.87% YTD at the close of business in September. The Consumer Goods sector followed in second place, declining by 22.63%.

On the other hand, the banking sector, as well as the Industrial goods sector showed notable growth in performance in Q3.

Performance by Sector

25/09/2020	**MtD**	**QTD Chg%**	**YTD Chg%**
NSE-Banking Index	3.67	7.28	-15.23
NSE Consumer Goods Index	7.44	3.84	-22.63
NSE Oil/Gas Index	0.48	-2.28	-26.87
NSE Industrial Goods Index	3.20	5.22	7.98
NSE Insurance Index	3.02	4.52	7.76

*Source: NSE

*Data from NSE

Fixed Income

As envisaged by our Q2 report, fixed income rates in Q3 took a further dip with yields dropping across all maturities. This was on the back of the dovish monetary policy stance taken by the CBN in which the MPR was cut for the second time in the year by 100bps. While the strategy for most individual investors was to take profits as the prices of bonds rose to unprecedented levels, most institutional investors (who constitute majority of the investors in this market) remained invested due to unavailability of suitable alternatives in the bond market and the reinvestment risk associated with rolling into bonds with lower yields.

OMO rates remained fairly stable in the primary market with 3m, 6m and 1-year rates averaging 5%, 8% and 9% over the quarter respectively. One would have expected a sell off as the CBN began to sell FX to the FPIs via the I&E window via spot and forward rates at the end of August 2020. The FPIs had initially been trapped from repatriating capital as the CBN failed to supply FX to this investor segment during the course of the year. However, rates remained stable likely due to the fact there are little or no attractive alternatives available both in the local and international market.

T-bill rates remained depressed, perhaps worse as 1-year t-bill rate fell to an average of 3% compared to 4% in the previous quarter in the primary market.

Rating Agency	**Rating**	**Outlook**
Fitch Ratings	B	negative
Moody's Investors Service	B2	negative
Standard & Poor's	B-	-

Commodities

Despite eased lockdown rules globally, the improvement in the oil commodity price in Q2 steadied in Q3, barely moving outside the $40/b range throughout the third quarter.

However, global oil supply rose by 1.1 mb/d in August 2020 to 91.7 mb/d due to the easing of OPEC+ cuts. Nonetheless, this was still low compared to August 2019 as a resurgence in lockdown measures in certain countries as well as tourism and travel still at record lows suppressed possibilities for an increase in oil price.
A report by the International Energy Agency projects that demand will only recover to pre-pandemic levels by 2022, while analysts at Citigroup posit that oil demand may never reach pre-pandemic levels as businesses adapt to the virtual new normal.

MARKET DATA – Week Close 25/09/2020

Top Five Performers

Company	Close	Gain (N)	% Change
NIGERIAN BREW PLC	52.55	10.55	25.12
CORNERSTONE INSURANCE PLC	0.71	0.10	16.39
LAFARGE AFRICA PLC.	15.05	2.05	15.77
CONSOLIDATED HALLMARK INSURANCE PLC.	0.34	0.03	9.68
TRANS-NATIONWIDE EXPRESS PLC	0.82	0.07	9.33

*Source: NSE

Top Five Decliners

Company	Close	Loss (N)	% Change
AIICO INSURANCE PLC.	0.72	-0.18	-20.00
REDSTAR EXPRESS PLC	3.00	-0.61	-16.90
OANDO PLC	2.03	-0.27	-11.74
N NIG FLOUR MILLS PLC	4.05	-0.45	-10.00
CHAMPION BREW PLC	0.81	-0.09	-10.00

*Source: NSE

Report by AfriKnowledgeBase
info@afriknowledgebank.com
www.afriknowledgebase.com