20 March 2020

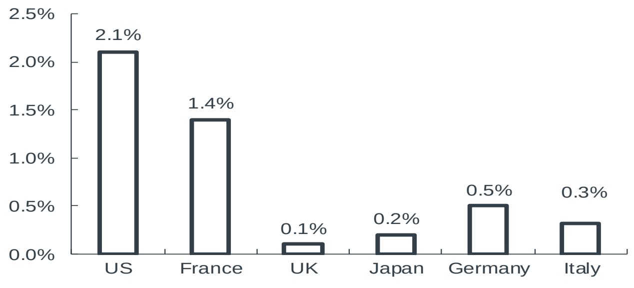
Weekly economic and market update.
Overview of markets in the week ended 20 March 2020

Global economy

To further limit the impact of the rising cases of coronavirus on economic activities in the US, the Fed announced another rate cut to a range of 0.00% and 0.25% -- previously 1.00% to 1.25%. The Fed stated that the rate is expected to remain at this level for an extended period until activities start to turn the corner and move towards its employment and price stability targets. Beyond that, the committee further announced the start of a quantitative easing (QE) program of USD700.00 billion to protect the economy from the negative effects of the coronavirus. The QE is expected to be split across Treasury (USD500.00 billion) and agency-backed mortgage (USD200.00 billion) securities. **The Fed's action in itself will not rescue the US economy from recession, but it will help to mitigate the risks from financial tensions that could make the growth and jobs outlook significantly worse. The action will also offer breathing room before an anticipated fiscal stimulus and a potential lending scheme provided by the Treasury materialise.**

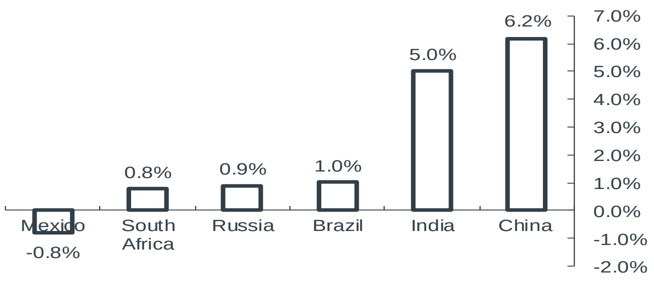
Also, for the second time in a week, the Bank of England (BoE) announced an additional rate cut to 0.10% from 0.25% previously. As with the Fed, the committee intends to continue to curtail the negative pass-through effects of the coronavirus outbreak on economic activities. Furthermore, the bank raised its bond-buying programme by GBP200.00 million to GBP645.00 million. However, unlike the Fed, the BoE said a significant portion of the additional assets purchase programme would comprise of government bonds. **The move will do little to prevent the economy suffering significantly in Q2, but it will help limit the increase in unemployment, and foster a swifter and smoother recovery when the virus-shutdowns have passed.**

Fig 1: Annualized GDP growth rate Q3-2019 – DMs



***Source**: Bloomberg, Cordros Research*

Fig 2: Annualized GDP growth rate Q3-2019 – EMs

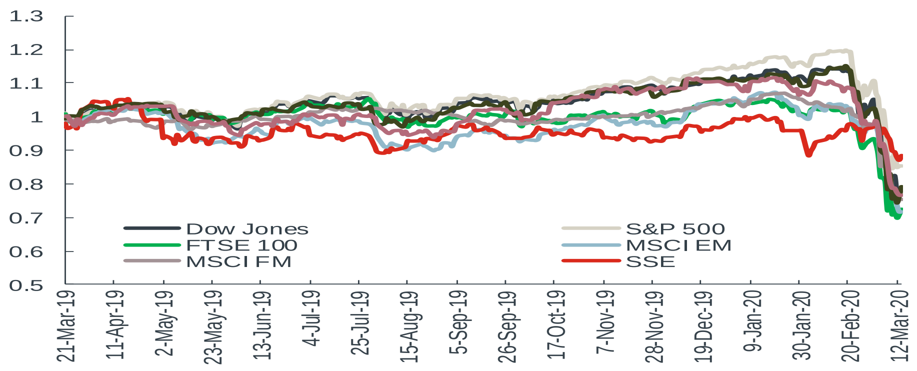


***Source**: Bloomberg, Cordros Research*

Global markets

Global stocks rebounded on Friday as investors appeared willing to put their faith in vast stimulus moves from central banks and governments to shore up economies against the fast-spreading coronavirus pandemic. However, the gains were not enough to offset the previous days' rout as stocks were still headed for a weekly loss as at the time of writing. Consequently, US (DJIA: -13.4%; S&P: -11.1%) and European (STOXX Europe: -0.4%; FTSE 100: -1.8%) shares were on track to close the week in the red. Asian shares (Nikkei 225: -5.0%; Shanghai SE: -4.9%) made a partial comeback from the global rout on Friday but still nursed massive losses for the week. Emerging markets (MSCI EM: -14.0%) and Frontier markets (MSCI FM: -8.0%) were not immune to the global rout, with significant losses in South Korea (-11.6%) and Kuwait (-6.6%) weighing down the respective indices.

Fig 3: Global indices (index of 1)



***Source**: Bloomberg, Cordros Research*

20 March 2020

Nigeria

Economy

In line with our expectations, headline inflation rose by 7bps to 12.20% y/y (Cordros' est.: 12.30% y/y) in February. We attribute the uptick to the unfavourable base from the corresponding period of last year. We recall that lower energy prices, especially in H1-19, had driven focal temperance across both the food and the core basket. **For March, softer price increase expectations from robust market supply underpin our slower food inflation forecast (-4bps to 0.83% m/m). Elsewhere, the recent naira weaknesses are not expected to bleed over to either the core or food basket in the short term as the CBN continues its aggressive supply of FX for eligible imports across the different FX windows. Thus, core inflation is expected to print 0.71% m/m, 2bps lower than the previous months. Tying it all together, headline inflation is expected to print 1.79% m/m, cascading to 12.20% y/y.**

Last week, the Nigerian government announced plans to slash its 2020 budget by NGN1.5 trillion to NGN9.09 trillion (excluding GOEs: NGN8.21 trillion). This is due to the coronavirus outbreak and its negative impact on global economic activities, together with the recent decline in oil prices. We understand that the FGN intends to cut 20.0% and 25.0% of its recurrent and capital expenditures, respectively. From NGN7.00 trillion, the FGN is now looking to expend NGN5.24 trillion in recurrent (including debt servicing). On the other hand, a total of NGN2.34 trillion is now expected to be spent on CAPEX. **Given the scale of things thus far, a NGN1.5 trillion cut is a drop in the ocean in our view. Assuming a 90% implementation rate, we expect the budget deficit to settle at NGN4.87trillion, on an optimistic NGN4.17 trillion retained revenue forecast. With the previously planned Eurobond suspended, the FGN's domestic debt issuance is likely to run ahead if we are to see meaningful implementation.**

Table 1: Macro indicators

Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	2.55%	2.10%	1.96% (Q1-20)
MPR	13.50%	13.50%	13.50% (Next meeting)
CPI	12.20%	11.85%	12.20% (Mar-20)
Exchange rate (USD)	NGN307.00	NGN306.00	NGN306.00 (27th Mar)
Foreign reserve (USD' bn)	35.98	36.33	35.79 (27th Mar)
Unemployment	23.10%	23.10%	*UR (Q4-18)
Brent crude oil price (USD)	27.32	66.57	25.00 (27th Mar)

*UR: Under review

***Source**: CBN, Bloomberg, NBS, Cordros Research estimates*

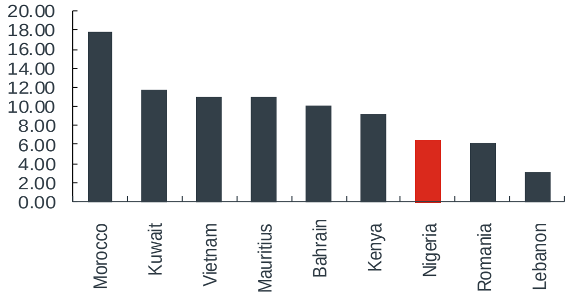
Capital markets

Equities

Nigerian stocks suffered another week of losses as worries deepened about the impact of the novel coronavirus outbreak and as oil prices fell to 17-year lows during the week. The ASI declined by 2.4% w/w, led by selloffs in DANGCEM (-15.2%) and NESTLE (-7.1%). The decline pushed the index well into bear market territory, with the ASI falling over 25% from its recent peak to its Thursday low. Accordingly, the MTD and YTD losses increased to -15.3% and -17.3%, respectively. Sectoral performance was mixed as the Industrial Goods (-4.9%), and Consumer Goods (-3.2%) indices fell sharply, while the Insurance (+2.8%), Banking (+0.3%) and Oil & Gas (+0.2%) indices rebounded.

Looking ahead, we still see sizeable legroom for further downslide in risk assets as investors continue to run towards safety in the face of the fast-spreading coronavirus pandemic and the rout across global markets.

Fig 4: Trailing 12M P/E ratios (frontier market)



***Source**: Bloomberg, Cordros Research*

Table 2: Top gainers and losers

Gainers				Losers			
Ticker	CP * (NGN)	WTD	YTD	Ticker	CP * (NGN)	WTD	YTD
CADBURY	6.25	26.3%	-40.8%	WAPIC	0.21	-22.2%	-38.2%
NPFMCRFB	1.05	23.5%	-8.7%	MAYBAKER	1.79	-16.7%	-7.3%
UCAP	2.41	20.5%	0.4%	DANGCEM	129.70	-15.2%	-8.7%
CAVERTON	2.50	20.2%	-6.4%	TRANSCOR	0.60	-13.0%	-39.4%
UBN	7.20	20.0%	20.0%	SKYAVN	2.31	-10.1%	-44.9%

CP: Closing price

Source: NSE, Cordros Research

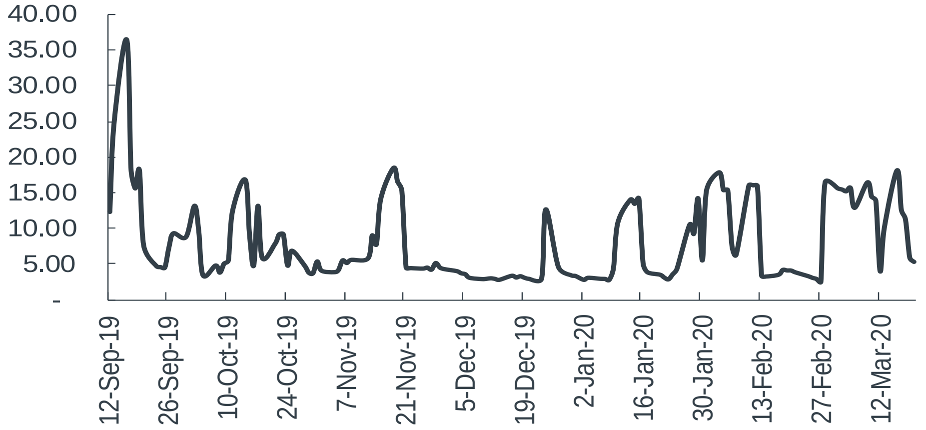
Money market and fixed income

Money market

The overnight (OVN) rate contracted by 478bps, w/w, to 5.3% as inflows from OMO maturities (NGN304.75 billion) and FGN bond coupon payments (NGN90.97 billion) outweighed outflows from the FX Wholesale auction

In the coming week, we expect the OVN to trend southwards as inflows from FGN bond coupon payment (NGN18.12 billion) and OMO maturities (NGN76.22 billion) will offer a boost to system liquidity.

Fig 5: Overnight money market rate (%)



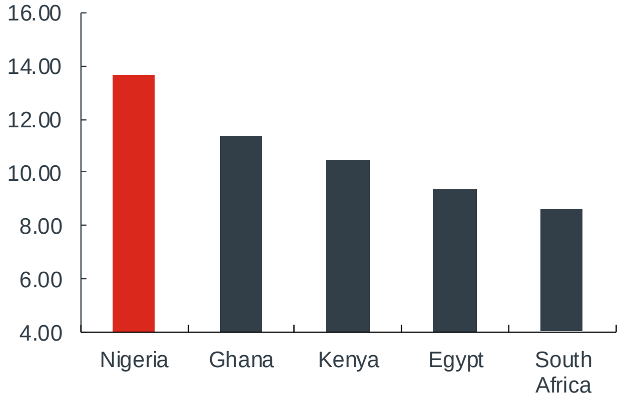
***Source**: FMDQ, Cordros Research*

Treasury bills

Trading in the Treasury bills secondary market turned bullish following increased demand for instruments in the OMO segment of the market. Consequently, the average yield across instruments contracted by 17bps to 12.4%. In the OMO secondary market, average yield contracted by 26bps to 16.5%, while the average yield in the NTB market expanded by 14bps to 4.0%. Also, at this week's NTB primary auction, the CBN fully allotted NGN47.57 billion worth of bills – NGN2.00 billion of the 91-day, NGN8.39 billion of the 182-day and NGN37.18 billion of the 364-day – at respective stop rates of 2.30% (previously 2.49%), 3.40% (previously 3.78%), and 4.60% (previously 5.30%).

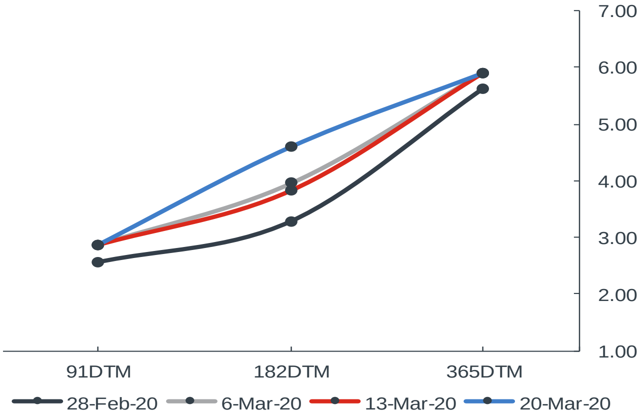
We expect the market to remain relatively bearish as offshore investors maintain a risk-off stance from emerging markets while local players anticipate next week's MPC meeting.

Fig 6: Yield on 10-year Eurobonds (Nigeria vs. African peers) (%)



***Source**: Bloomberg, Cordros Research*

Fig 7: T-Bills yield curve (%)



***Source**: FMDQ, Cordros Research*

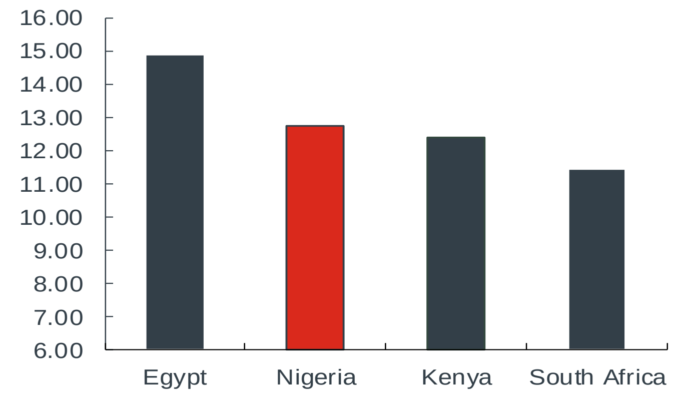
20 March 2020

Bond

The Treasury bonds secondary market was bearish this week, as weak global sentiments persisted. Consequently, the average yield across instruments expanded by 19bps to 11.7%. Yields across the short (+1bp), mid (+14bps), and long (+22bps) segments of the curve all expanded due to sell-offs of the APR-2023 (+136), JUL-2030 (+196bps) and APR-2037 (+97bps) bonds, respectively.

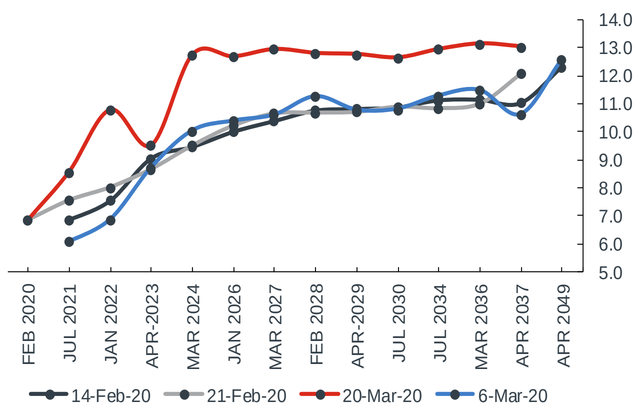
Interest is expected to return to the FGN bond market next week as investors bargain hunt, given the reduced supply at the bond auction to be conducted next week. The DMO will hold a PMA on the 25th of March wherein NGN50.00 billion across three instruments will be offered to investors – 12.75% APR-2023 (re-opening), MAR-2035 (new instrument), and APR-2050 bond (new instrument).

Fig 8: Yield on 10-year LCY bonds (Nigeria vs. African peers) (%)



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



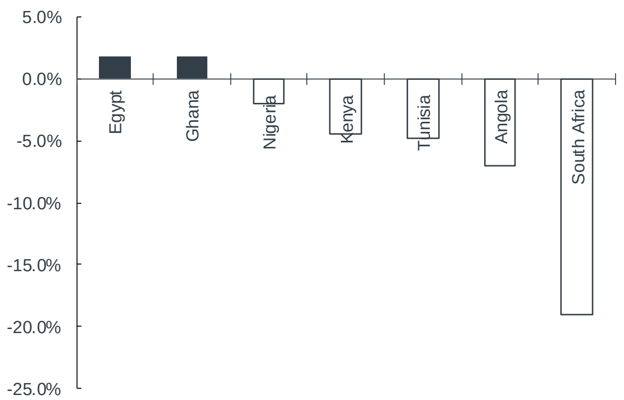
Source: FMDQ, Cordros Research

Foreign exchange

As foreign outflows intensify, Nigeria's FX reserves declined by USD156.08 million WTD to USD36.17 billion (10 Mar 2020), as the CBN maintained its support for the currency via its weekly FX interventions; USD210.00 million was sold across the different segments of the FX market – USD100.00 million to the Wholesale segment, USD55.00 million to the SMEs segment, and USD55.00 million to the Invisibles segment. Nonetheless, the naira remained under pressure, weakening by 0.6% w/w to NGN368.47/USD at the I&E window and by 5.3% to NGN380.00/USD in the parallel market. In the Forwards market, the naira depreciated across the 1-month (-2.1% to NGN377.49/USD), 3-month (-2.5% to NGN384.45/USD), 6-month (-2.9% to NGN396.67/USD) and 1-year (-3.8% to NGN427.08/USD) contracts.

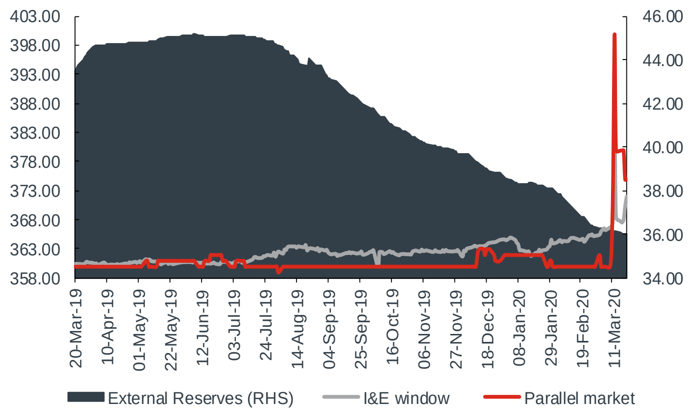
Looking ahead, we expect FX market volatility to persist in the short to medium term as lower oil earnings, together with the deceleration in FX reserves continue to induce speculative attacks on the naira. In the longer term, an extended lower oil price environment will eventually force the CBN to reprice the naira.

Fig 10: USD/NGN vs other African currencies (YtD returns)



***Source**: Bloomberg, Cordros Research*

Fig 11: USD/NGN exchange rate vs. external reserves (USD'bn)



***Source**: FMDQ, CBN, aboki FX, Cordros Research*

Top business headlines of the week

- Coronavirus threatening our debt servicing plans – DMO
- CBN grants businesses one-year extension on loan repayment
- Economic council meets Buhari, warns of recession
- Coronavirus: Nigeria slashes N1.5trn from 2020 budget
- N125 fuel price: Low compliance trails FG’s directive across states