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FDC MONTHLY ECONOMIC UPDATE

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In This Issue ...

Policy directions and implications

PMS pump price increased by 18% to N143 per litre

The Petroleum Product Pricing Regulatory Agency (PPRA) has announced an increase in the pump price of petrol by about 18% to N143.80 per litre. This is reflective of the 26% rise in the average price of Brent crude to $40.87pb in June from $32.41pb in May. Following the removal of petrol subsidies and the gradual shift to a deregulated market, PMS prices will depend on global crude oil prices and movements in the exchange rate. However, the PPPRA will continue in its price modulation and give monthly price guidance after reviewing prevailing market fundamentals and considering marketers' realistic operating costs.

Based on the average fuel consumption of about 58mn litres, the effect of this price increase is a $1.18bn reduction in aggregate consumption ($278.4bn) and a resultant increase in transport costs. Transport costs account for 6.6% of consumers' expenditure.

Implications

The price increase by N22 simply means that the average Nigerian would spend more on petrol and may be forced to adjust spending patterns, with less demand for non-essentials and luxury goods.

The new electricity tariff hike

The cost-reflective tariff hike scheduled for July 2020 has now been postponed for the second time to Q1'2020. This came after a review meeting with the national assembly, the NERC and representatives of electricity distributors.

Also, the World Bank recently approved a $750mn loan to the power sector in the country. The tariff increase is expected to cater for revenue shortfalls in the sector and offset the high cost of electricity generation in the country.

Implications

This could be a disincentive to investors, stalling the much needed investment in the sector. This coupled with the increase in the pump price PMS (N143/litre) and food prices will further reduce consumer disposable income. To manufacturers, this will increase their operating cost and ultimately product prices, pointing to a transfer of the cost burden to consumers.

Subsequently, this will boost investment in the sector, as the market is now cost-reflective. Eventually, electricity generation and supply could increase and in turn lower prices thereby capping the effect of the initial price hike.

The Gas pricing policy

The price of energy products in Nigeria, such as gas has been a subject of controversy for many years, now forcing the Federal Government to review the pricing framework. This is expected to boost activities in the gas industry, increase supply and the use of gas-related products –like cooking gas (making it affordable) and CNG (an alternative to petrol). Also, the government recently flagged off the Ajaokuta-Kaduna-Kano (AKK) gas pipeline project.

Implications

The immediate effect would be an increase in the price of gas products like cooking gas, which implies higher cost for households but in the near term as investments gradually pick up in the industry, prices will drop. Also, this policy could address the problem of gas shortages, which remains the major constraint to power generation in the country. Higher gas output could increase power supply, which is beneficial to all economic agents – households, firms and the government.

FIRS enforces stamp duties

The Federal Inland Revenue Service (FIRS) has announced the enforcement of stamp duty on house rent, Certificate of Occupancy (C of O) among other chargeable transactions. This is in line with the revenue generation strategy of the FGN.

Implications

The FIRS generated about N66bn from stamp duties between January and May 2020, from N18bn from January to December 2019. At a time of dwindling revenues from oil, the enforcement of stamp duty could boost government revenues. However, this could erode consumers' disposable income and exert pressure on the revenues of companies.

Nigeria agrees to pursue exchange rate unification

In the past few weeks, the monetary and fiscal authorities have made policy pronouncements to the effect that Nigeria is likely to achieve a unified exchange rate as against the current practice of multiple exchange rates. It is widely believed that the sudden conversion of the monetary policy making bodies to accept the unification is at the instance and persuasion of the multilateral bodies especially the IMF and the World Bank.

This is good news for the markets and investor sentiment. At a time of dwindling revenue, the Nigerian economy needs all the help it can get. Exchange rate unification around the investor and exporter window (NAFEX rate) will lead to an adjustment of the official rate to N386, while the parallel market is expected to gravitate towards that rate. Most forex transactions are conducted at the IEFX window, with the CBN as the major supplier. It also brings the naira closer to its fair value. Using the purchasing power parity as a rough estimate this brings the exchange rate around N400/$. This move is expected to reduce arbitrage activities and speculative attacks against the naira.

Implications

So far in Q2, the average daily turnover at the IEFX window is $43.22mn, compared to $345.01mn in Q1 which is indicative of the dearth of forex. Different figures have been bandied about on the volume of the forex demand backlog. Irrespective of what the actual demand is, the fact still remains that there are shortages. Indeed one would ask where the demand is emanating from especially as schools are closed (so international tuition to an extent has been put on hold) and international travel remains suspended. But what of the investors that are stuck with naira cash and want to repatriate their funds?

The antsy over whether the naira is trading at its fair value or if the external reserves level is sufficient to meet outstanding obligations has heightened uncertainty in the markets. The CBN's announcement that the reserves level is "comfortable to meet obligations" should smooth many ruffled feathers.

Also, now that there is more clarity on the CBN's exchange rate stance, it should boost investor confidence. However, a note of caution- there are outstanding obligations and when nilled off puts the net external reserves level below $20bn (about 5 months of import cover).

In addition, Nigeria still faces a serious problem with respect to its sources of forex which remain constrained. Oil prices will remain low, probably below $50pb for the rest of 2020. Coupled with reduced oil production, forex revenue from oil receipts will be limited. Another source of forex, Diaspora remittances, will decline sharply due to the rising rate of unemployment and contraction in the global economy. The Minister of Finance has said no Eurobond issue this year. However the drawdown on multilateral loans from the likes of the IMF and World Bank should provide some buffer.

Increased FAAC funds

State governments will benefit from an exchange rate unification around the NAFEX as they will be receiving more naira. This should offset the impact of reduced oil sales and tax revenue due to the contraction in economic and business activities. Also, the fact that the government has stopped the payment of gasoline subsidies should ease the fiscal burden.

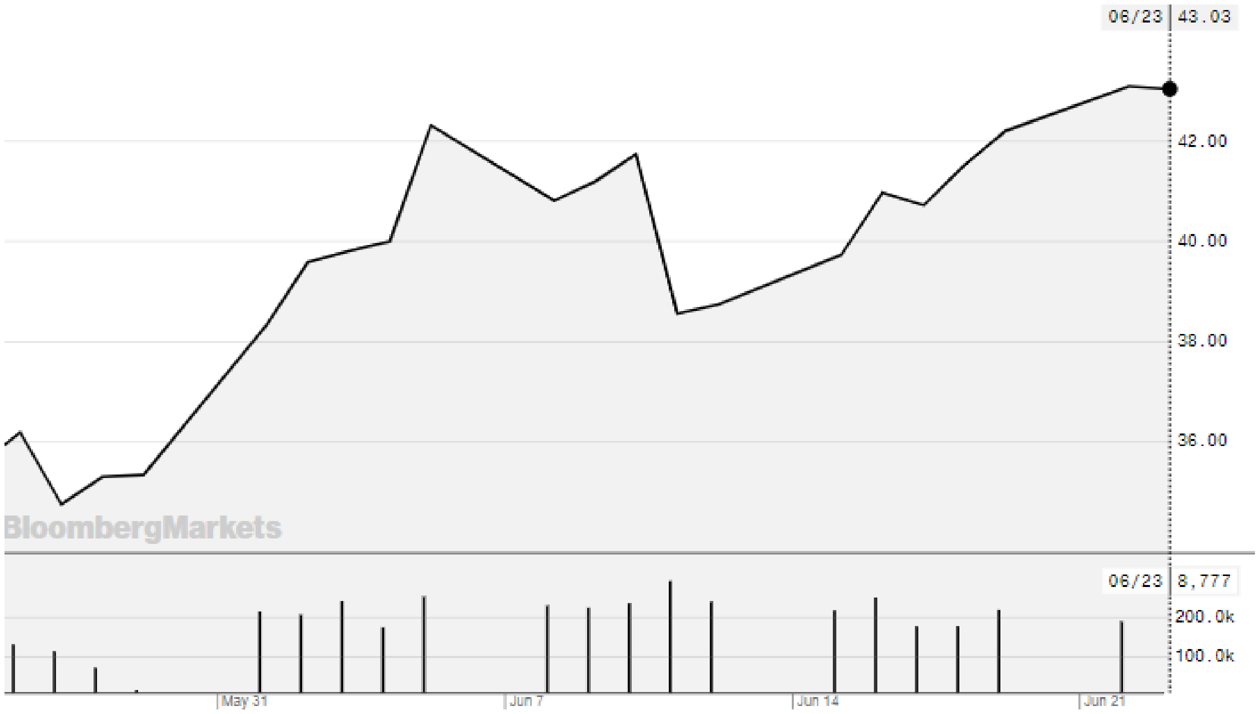
Why the naira may not crash

There are certain assumptions we have based our projections on. These are as follows:

- Terms of trade decline of 6%
- External reserves cover after discounting $5bn backlog and $6bn swaps gives a 6.5months cover
- A money supply mop up of 4.78%
- Exchange rate liquidity mop up of 9.72%
- There is a possibility that the REER could be anywhere between N400-N420/$
- Fear, uncertainty and speculation not factored in

Based on the above, the unification of exchange rates is expected to lead to a depreciation of 9.72% of the official rate towards the IEFX rate. This will in turn mop up about 4.78% of liquidity (N1.35trn). The total naira liquidity reduction of 14.5% is expected to lead to an appreciation of the parallel market rate towards the range of N400- N420.

Movement in oil prices and what it means for Nigeria



[1]

The recent volatility in oil prices due to the coronavirus pandemic and the oil price war between Russia and Saudi Arabia, has caused a drastic drop in Nigeria's revenue profile. Nigeria's oil revenue dropped by N425.52billion in Q1'2020 to N940.91billion and may drop further in the coming quarters. This is a twin challenge for Nigeria as it has negatively impacted both the demand and supply sides of the economy. Demand for Nigeria's oil has declined due to the global economic contraction. As at May 30, Nigeria had over 50 million barrels of oil waiting at the port for potential buyers.

Meanwhile, oil prices have started to recover owing to improved compliance to OPEC's output cut of almost 10 million barrels per day and the global easing of lockdown restrictions. Brent crude price rose 40% in May which is its highest level since 1999 while WTI crude price was up by about 80%, its highest increase since 1983. Brent crude was up by more than 5%, to $43.20 per barrel as at June 23rd. This is the highest level since March this year.

[1]Bloomberg

In a bid to further aid recovery in the global oil market, the OPEC+ agreed on June 6th to further extend its oil production cut of 9.7 million barrels per day till the end of July. Further extension in the coming months is dependent on the compliance to quotas of some countries including Nigeria and Iraq. This indicates that the future of the global oil market is still bleak in the medium term although global oil consumption and price may have been recovering as lockdowns ease in North America and Europe. Given the global situation as it relates to oil, Nigeria can expect to navigate much lower costs per barrel and revenue projections for the foreseeable future. This will trigger an increased reliance on domestic and external borrowing and will have negative impacts for the financial sector.

Impact on the Nigerian economy

Before the recent economic crisis and pandemic, Nigeria was already reeling from the 2016/17 recession: struggling to boost its growth, rising inflation, depleting external reserves and a huge external debt. The IMF has predicted a 3.4% contraction in the country's GDP in 2020 due to COVID-19. If oil prices remain soft Nigeria's recovery may be stalled due to its vulnerability to price shocks.

Nigeria records N138.98bn trade deficit in Q1 2020

Nigeria recorded a trade deficit of N138.98bn in the first quarter of 2020 compared to a deficit of N579.1bn in Q4'19 and a surplus of N831.62bn in Q1'19. The trade deficit recorded in Q1'2020 marks the second consecutive quarter of deficit since Q3 2016 and was attributed to the global economic slowdown ensuing from COVID-19 pandemic. This led to several economies implementing trade, travel and tourism restrictions in the period.

The total trade in the quarter was valued at N8.30trn, a 17.98% decline compared to N10.12trn in Q4'19. Total import stood at N4.22trn (50.84% of total trade) and a decline of 21.12% compared to the total imports in Q4'19, while export totaled N4.08trn (49.16% of total trade), a 14.47% drop compared to total exports in Q4'19.

The fall in the value of imports was due to the decline in the value of machinery and transport equipment, chemicals and related products and crude inedible materials by 35.5%, 30.5% and 22.2% respectively.

On the other hand, top exported products were petroleum oils and oils obtained from bituminous minerals (72.12%), liquefied natural gas (11.76%), and vessels and other floating structures (8.90%).

Top Trading Partners

Percentage share of Nigeria's Export	Jan. 2020	Feb. 2020	Mar. 2020
India	14.20	17.21	15.72
Spain	9.66	8.50	12.26
Netherlands	11.75	8.36	8.20

Percentage share of Nigeria's Import	Jan. 2020	Feb. 2020	Mar. 2020
China	20.83	27.00	34.47
Netherlands	16.11	11.82	2.19
US	9.78	10.53	11.46

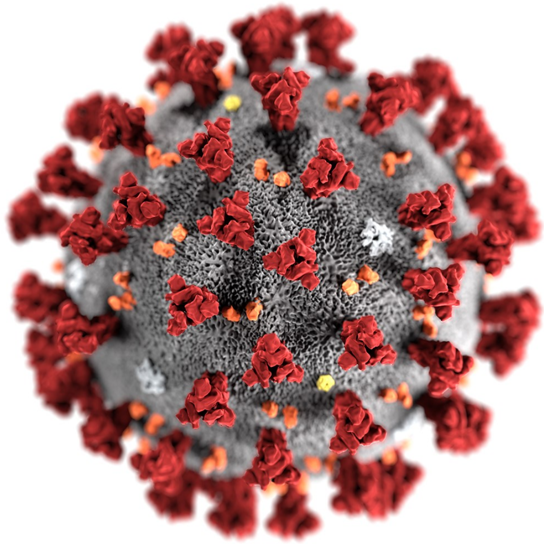
The top major trading partners of Nigeria are mainly from Asia and Europe where the outbreak of the covid-19 is more prevalent.

Outlook

So far in the second quarter global oil prices have collapsed by about 40%. The fall in global oil prices due to falling demand suggests that Nigeria's crude oil sales will likely drop further. Crude oil accounts for about 75% of the country's total exports and a fall will cause exports to drop in the second quarter. China is a major trading partner with Nigeria and the impact of Covid-19 spread within and outside China will disrupt foreign trade as exports are constrained resulting in a sustained trade deficit. However, as economies ease their restrictions and global trade picks up, we expect a boost in trading activities and Nigeria's trade flows. However the exchange rate volatility will cap gains due to a higher import bill.

Are we flattening the Covid-19 curve? Implications for the Nigerian economy

Earlier in the month of May, the President relaxed the lockdown on Lagos, Ogun and Abuja. In spite of this, total covid-19 cases in the country has continued to increase, currently at 17,735 cases of infections (as at June 17) from 1,932 and 10,162 in April and May respectively. Similarly, fatality rate has also soared to 469 (as at June 17) from 287 in the previous month. Meanwhile recovery rate has seen a significant improvement at 5,967 (as of June 17) compared to 3,007 in May.



Going Forward

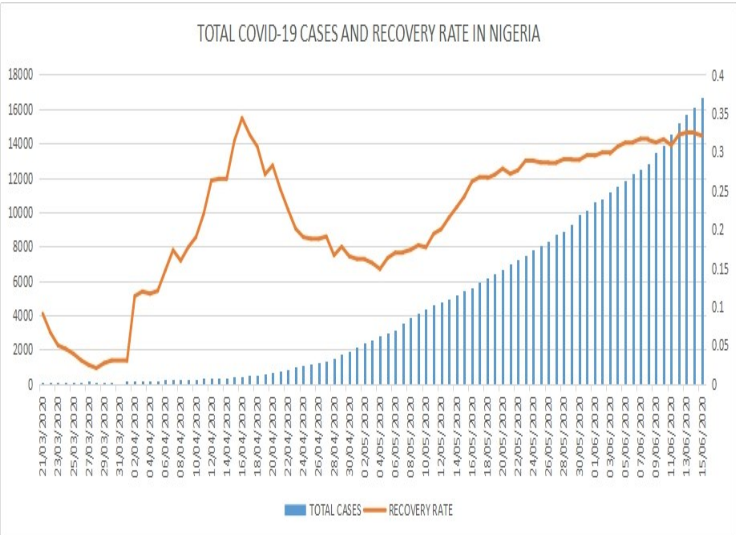
The federal government (FG) announced a cautious advance into the second phase of the national response to COVID-19 on June 1, 2020 in spite of the surging virus cases. Part of the measures for the new phase is the full reopening of the financial sector. Reopening the economy at a time when there is a daily exponential rise in the number of cases will have serious health implications on the Nigerian economy.

Impact

* Economic activities will continue to pick up but the economy will still plunge to between 4% and 8% if the preventive controls put in place by the NCDC are not fully adhered.
* There will be huge pressure on the health sector as cases keep increasing and it may result in a situation where Nigeria may not be capable of containing it effectively.
* Aggregate demand is anticipated to rise as investment and consumer expenditure is expected to increase owing to a pick-up of economic activities.

Is Nigeria flattening the curve?

While the number of patients discharged increased between February and June, the recovery rate has been fluctuating since mid-February and total confirmed cases and deaths have risen geometrically over the months, despite lockdown efforts. Accordingly, Nigeria is yet to flatten the curve. This suggests that the government must improve its response to COVID-19 in order to improve the country's recovery rate and limit community spread.



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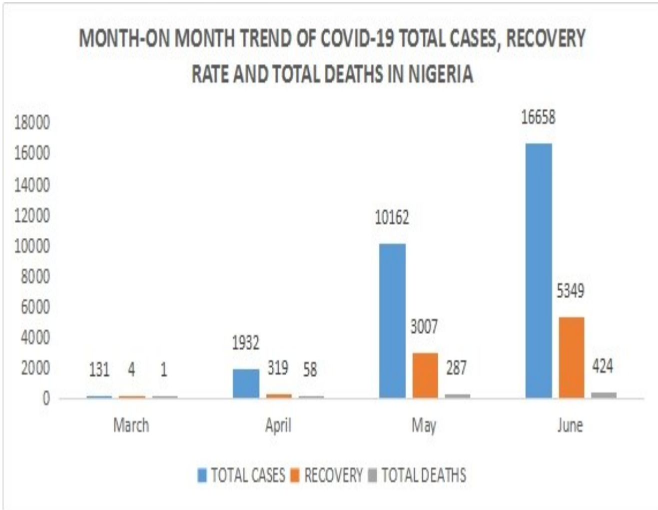


[3]

How can the Government flatten the curve?

- Set testing phone booths and isolation centres in primary health centres across the entire nation. This will improve house-to-house testing and also ensure people are tested on time at the community level.

- The government can provide financial support to domestic scientists and researchers to develop a test kit with lesser time lag to give result and engage in self-mass production of these kits. This will enable Nigeria to rapidly raise its testing capacity and reduce the reliance on foreign test kits. Moreso, it will ensure that the test is administered early and more often. With this approach, the spread rate is expected to reduce.

- Identify the main source or origin of the virus transmission and enforce movement restriction as well as improve contact tracing in those regions.

[2]NCDC, FDC Think tank (2020)
[3]NCDC, FDC Think tank (2020)

Africa economy: caught between a rock and a hard place

Africa continues to lag behind other major regions in terms of confirmed cases and related deaths from the Covid-19 pandemic, and there are fears that the worst is yet to come for many countries on the continent. Confirmed cases were just over 385,000 and related deaths just over 9,700 at the end of the fourth week of June, which represents a surprisingly small 2-4% of world totals. However, available official data continue to show increasing rates of new daily infections, active cases and related deaths in some of the region's largest economies. Firms are gearing up for the removal of all restrictions on business activity and the movement of people in the coming months. An easing of lockdown conditions will contribute to only modest economic contractions in the final quarter of 2020, and then a return to growth in 2021, assuming the virus does not get a new lease of life.

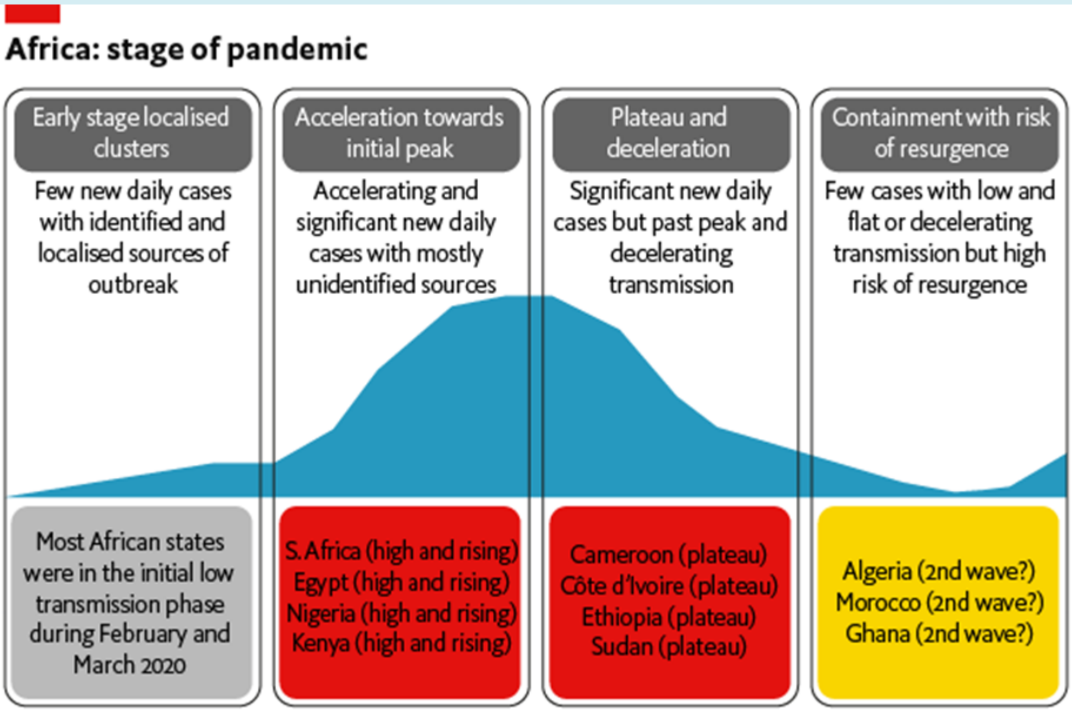
Africa is caught between a rock and a hard place as far as tackling the novel coronavirus (Covid-19) is concerned. The region has so far avoided the severe health crisis that has afflicted many parts of Asia, Europe and the Americas, but there are major uncertainties over the stage and trajectory of the outbreak in Africa and concerns that the continent has not yet dodged the bullet. Nevertheless, governments are under intense pressure to lift lockdowns, ease restrictions and reopen their economies to protect livelihoods and ensure their own political capital remains intact. In recent weeks, the balance of policy has shifted towards a gradual and phased easing of Covid-19 containment measures, including where the incidence of the virus has been rising fast. Lockdowns are expected to be lifted progressively in the next few weeks subject to regular health checks, which could contribute to improving economic and business conditions towards the end of 2020 and into 2021 assuming transmission of the virus remains in check and there is no need for a fresh round of lockdowns.

Still approaching a peak?

Towards the end of June most of the larger African economies were still in the accelerating phase and apparently yet to reach a peak of infection. This includes the African majors of South Africa, Nigeria and Egypt, which had relatively high and rising rates of infection.

The more dynamic and smaller economies of Kenya, Cameroon, Côte d'Ivoire and Ethiopia find themselves at a precarious peak and plateauing at a high rate of transmission. Some countries, especially Algeria and Morocco in North Africa and Ghana, appear to have passed an initial peak of infection but are faced with the prospect that a possible second wave is under way.

The true picture is clouded by the lack of antibody testing, some questionable official data and information gaps, which means we cannot be sure of how far Covid-19 is spreading in Africa. A clear example of this is Tanzania: the president, John Magufuli, declared the country "coronavirus-free" in mid-June but his government has not reported any data since the start of May and the neighbouring countries of Kenya and Rwanda continue to impose strict border controls that seek to limit contact with travellers and truck drivers coming from Tanzania. Despite this uncertainty and indications of a worsening outbreak across much of Africa, a process of lifting containment policies is clearly under way as governments seek to balance the risks posed to lives and livelihoods.



Emerging from lockdown

African governments are banking on the pandemic easing in the months ahead and are keen to set the foundation for a quick return to economic growth, which many expect to materialise in late 2020 or early 2021. This has led some governments to embark on a phased and gradual easing of lockdown conditions, which is ongoing even in countries that are still suffering from high and rising rates of infection and are facing lingering uncertainty surrounding the stage, severity and possible resurgence of their outbreaks.

South Africa moved from level four to level three in its five-stage process of unwinding restrictions on the economy at the beginning of June. Financial and business services, the media and communications, construction, manufacturing, mining, commerce (wholesale and retail trade) and government services reopened for business, albeit with strict public health and safety protocols. Later in June the government went a step further and reopened large parts of the leisure, recreation, hospitality and personal care sectors. Similar staged reopenings are under way in Nigeria, Egypt, Morocco, Algeria, Ghana, Cameroon, Côte d'Ivoire and elsewhere. Some countries such as Kenya and Ethiopia remain more cautious and appear reluctant to ease lockdown restrictions until they have greater clarity on the direction of travel in terms of health outcomes and related risks.

We expect Covid-19 to be a seasonal illness with no vaccine in sight for the remainder of 2020 and 2021, which will complicate matters for governments and businesses alike. Modified social distancing measures are likely to remain in place during 2020 and most of 2021, which will prevent a more robust recovery in domestic business activity and international travel, trade and investment flows that are crucial for the economic health of the region.

Cautious optimism prevails

The Covid-19 pandemic will take a heavy toll across Africa in terms of economic outcomes despite efforts to ease restrictions and reboot economies during the second half of 2020. Africa as a region will suffer a serious economic setback in 2020 as a direct result of policies implemented in the region and elsewhere to contain the spread of Covid-19. There is great uncertainty surrounding the severity and likely trajectory of the outbreak in Africa, but many governments are sounding a note of cautious optimism that their outbreaks will soon be under control and are working at setting the foundations for a rapid return to economic growth in late 2020 and 2021. Not all countries will be affected to the same degree and some will emerge from the crisis of 2020 in better shape than others.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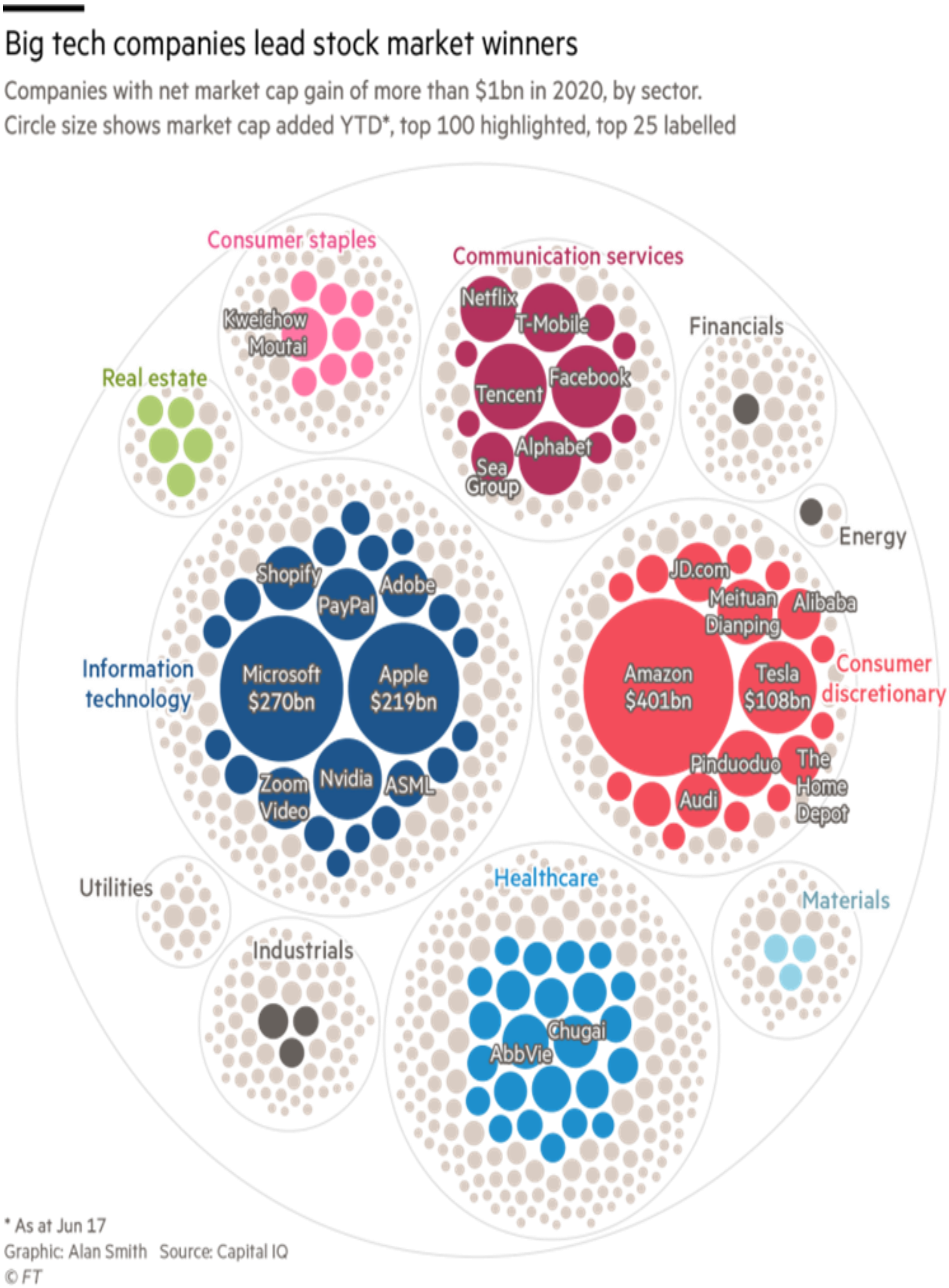
Prospering in the pandemic: the top 100 companies

In a dismal year for most companies, a minority have shone: pharmaceutical groups boosted by their hunt for a Covid-19 vaccine; technology giants buoyed by the trend for working from home; and retailers offering lockdown necessities online.

Public companies had the tailwind of a surprisingly robust stock market — which many believe is a bubble. To rank companies that prospered in the pandemic, we have chosen to look at equity value added. Later in the series, we will look at an alternative gauge of success, as well as the big corporate losers and four thematic winners: pharma, cloud computing, ecommerce and gaming.



1. Amazon

SECTOR: ECOMMERCE / HQ: SEATTLE, US

$401.1bn

Market cap added

Key stat: Amazon anticipates it could spend $4bn to keep its logistics running during the coronavirus crisis.

As world leaders ordered their citizens indoors, Amazon became the emergency port of call for those desperate to stock up on vital household goods — a rush that led the company to temporarily shut its warehouses to "non-essential" products. Record revenues followed, but also soaring costs. Chief executive Jeff Bezos warned as much as $4bn could be spent on virus mitigation, such as testing labs and thermal cameras — potentially pushing Amazon into its first quarterly loss since 2015. Still, the accelerated shift to online shopping and the increased importance of its cloud computing business in the remote work era drove Amazon's stock to all-time highs. Dave Lee in San Francisco

2. Microsoft

SECTOR: TECHNOLOGY / HQ: REDMOND, US

$269.9bn

Market cap added

Key stat: 75m people used the Teams communication app in a single day in April, up from 20m in late 2019.

Microsoft's shift to the cloud under Satya Nadella has left it well-placed for a world where large numbers of people are working remotely. The Teams communication app has become a way for workers to stay in touch. The Azure cloud computing platform has become a more critical part of the digital backbone for many companies. Microsoft even has a way to satisfy the personal: a record 90m players turned to the Xbox Live gaming service in April. Richard Waters in San Francisco

3. Apple

SECTOR: TECHNOLOGY / HQ: CUPERTINO, US

$219.1bn

Market cap added

Key stat: The iPhone maker managed to rake in $58.3bn in revenue in the March quarter, despite closing all of its retail stores.

While all of Apple's 500 stores around the world were forced to close, revenues in the opening quarter were resilient thanks to robust online sales.

Apple managed to release a new iPhone, iMac and MacBook Air, drawing more users into an ever-expanding ecosystem of wearables and services. Apple executives predicted sales of some items would even accelerate, as millions of consumers working from home would opt to upgrade their electronics. Investors crowned Apple the first $1.5tn company. Patrick McGee in San Francisco

4. Tesla

SECTOR: AUTOS / HQ: PALO ALTO, US

$108.4bn

Market cap added

The clear technology leader for battery-powered cars, Tesla is outpacing legacy competitors as they struggle to retool factories and perfect software. Meanwhile, chief executive Elon Musk is promising to upend the entire model of car ownership with fleets of self-driving robotaxis that would charge by the mile. Still, even Mr Musk said on Twitter, on May 1, that the "Tesla stock price is too high". Since then it has climbed even higher. Patrick McGee

Key stat: 402 miles: the range of Tesla's latest Model S, underscoring its technological lead.

5. Tencent

SECTOR: TECHNOLOGY / HQ: SHENZHEN, CHINA

$93bn

Market cap added

Key stat: Online gaming revenues rose 31 per cent in the first quarter.

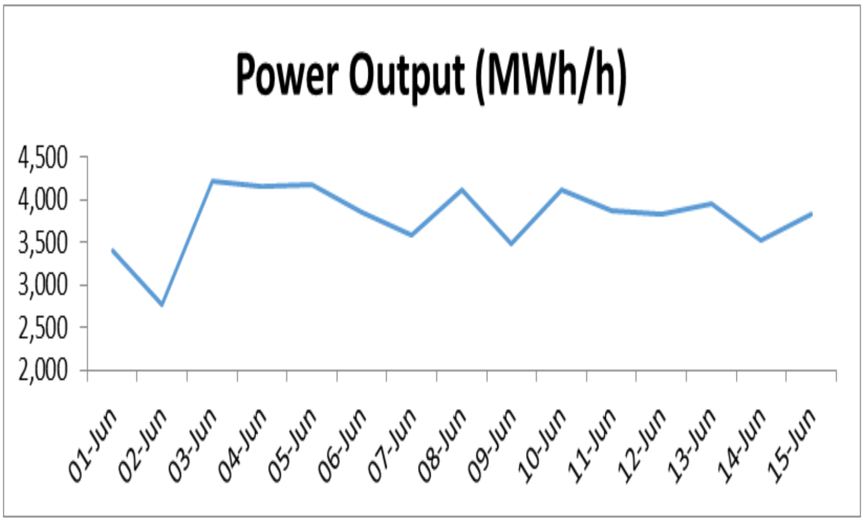
Chinese people isolated at home turned to Tencent's virtual worlds. In its hit games such as Honor of Kings, users shelled out for new weapons and outfits. Tencent's video subscriber numbers swelled to 112m, its music streamers jumped to 43m and monthly users of its social media app WeChat — indispensable for buying noodles and verifying users' health during the coronavirus period — hit 1.2bn. In a global spending spree, Tencent has exploited falling valuations: it recently acquired Norwegian game developer Funcom, took a stake in German developer Yager, and poured capital into an array of fintech start-ups. Ryan McMorrow in Beijing

For more information visit

Macroeconomic indicators

Power Sector

The average power output from the national grid during the review period was 3,807MWh/h, 9.68% lower than the average of 4,215MWh/h recorded in the first half of May. Gas constraints (31,243MWh/h) remained the principal challenge to power generation primarily in Ihovbor NIPP and Olorunsogo NIPP plants. During the review period, grid constraint and water constraint stood at 20,007MWh/h and 3,893MWh/h respectively. Total constraints were 58,094MWh/h, resulting in a revenue loss of N29.95 billion (N359.4billion annualized).



[4]

Outlook

As the rainy season continues, we expect water constraints to decline and this would increase power supply. Hence, average power output is expected to increase to a range of 3,900-4,000MWh/h in the coming weeks.

Impact

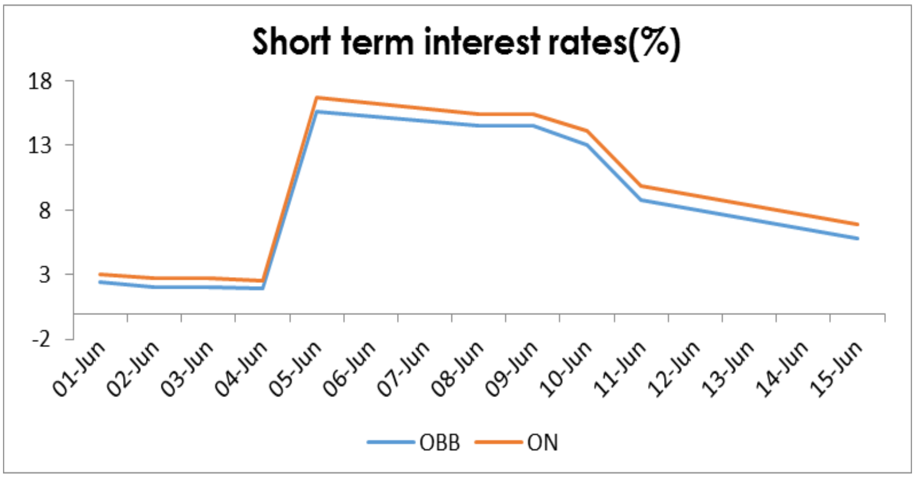
An increase in power supply implies a reduction in the use of alternative energy sources. This would decrease the operating expenses of firms and households. Meanwhile, the new electricity tariff takes effect in July. This is expected to attract investment and unlock efficiency gains. On the other hand, it is inflationary as consumers will have to spend more on electricity bills.

Money Markets

The average opening position of banks increased by 20.96% to N349.48 billion within the first fifteen days of June from N288.92 billion recorded in the corresponding period in May. This was partly due to a net OMO inflow of N19.68 billion. During the review period, OMO maturities totaled N149.68 billion, which was higher than OMO sales (N130.0billion).

[4]FGN, FDC Think Tank

On the average, the short-term interbank rates (OBB/ON) rose by 302bps to 8.50%p.a. from an average of 5.48%p.a. recorded in the first half of May. OBB and ON closed the review period at 5.83%p.a. and 6.92%p.a. from 2.40% and 3.00% respectively on June 1.



[5]

At the primary market, there was a Treasury Bills auction of N90.94 billion on June 10. Compared to May 27, yields on the 91-day and 182-day T/ bill tenors declined by 45bps and 52bps respectively while it was relatively flat for the 364-day tenor. At the secondary market, T/bill yields increased across the 91-day, 182-day and 364-day tenors respectively.

T/bills Tenor	Primary market rates as at May 27th (%pa)	Primary market rates as at June 10th (%pa)	Direction	Secondary market rates as at June 1st (%)	Secondary market rates as at Jun 15th (%)	Direction
91	2.45	2.00	↓	1.34	2.30	↑
182	2.72	2.20	↓	2.30	3.00	↑
364	4.0199	4.02	↑	3.00	4.29	↑

[6]

Outlook

We expect the CBN to continue to manage naira liquidity through its liquidity management tools; OMO bills, CRR debits and forex auctions. Meanwhile, the interbank rates are likely to hover around current levels in the near term.

Impact

The level of liquidity will continue to determine the direction of interest rates in the money market.

[5]CBN, FDC Think Tank
[6]CBN, FDC Think Tank

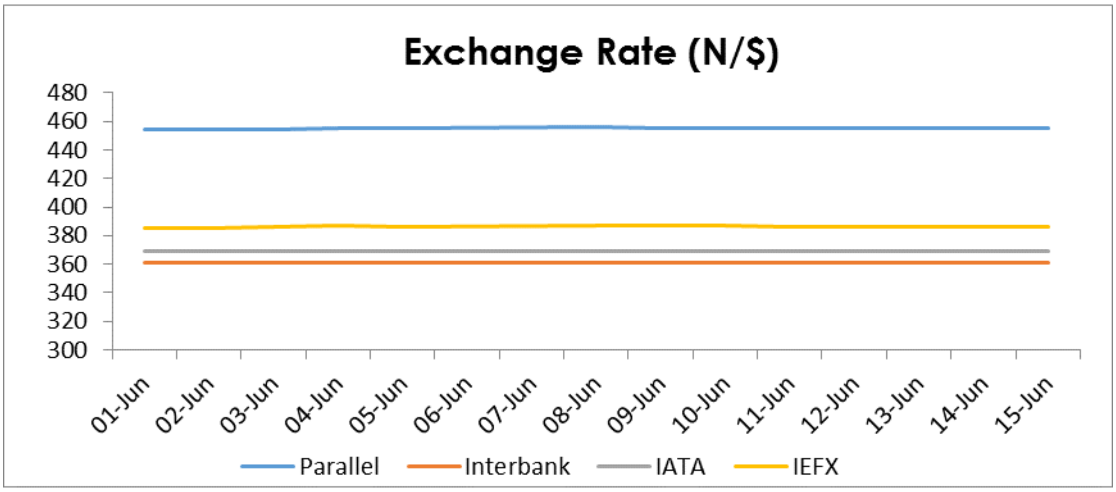
Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

The exchange rate was relatively stable across all market segments in the period. At the parallel market, the naira traded within a band of N454/$ - N456/$ to close the review period at N455/$. Meanwhile, the currency traded flat at N361/$ and N369/$ at the interbank and IATA window respectively.

At the IEFX window, the naira opened the review period at N385.5/$ and depreciated marginally by 0.26% to close the period at N386.5/$. However, the total forex turnover recorded at the window increased by 20.99% to $423.74 million compared to $350.24 million recorded in the first half of May.



[7]

Outlook

The currency is expected to remain relatively stable in the near term amid CBN's weekly forex sales of $100million. However, its ability to intervene could be limited by the continuous depletion of the external reserves.

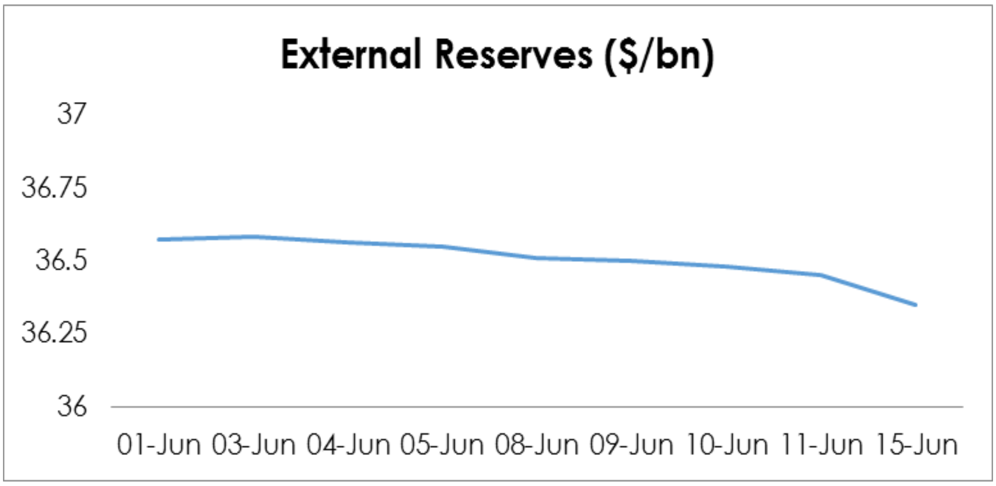
Impact

Currency instability will negatively impact the value of the country's currency, thereby increasing Nigeria's import bill from international trade and tapering investments.

[7]FMDQ, CBN, FDC Think Tank

External Reserves

The external reserves lost cumulatively $240mn in the first half of June, to close at $36.35 billion on June 15. The country's payment and import cover also declined to 9.05 months compared to 9.10 months on June 1.



[8]

Outlook

The depletion rate of the reserves level is expected to intensify especially as domestic and possibly international flights resume.

Impact

A fall in external reserves will affect the stability of the exchange rate and the CBN will continue to adopt forex rationing measures to meet rising forex demand pressures.

[8] CBN

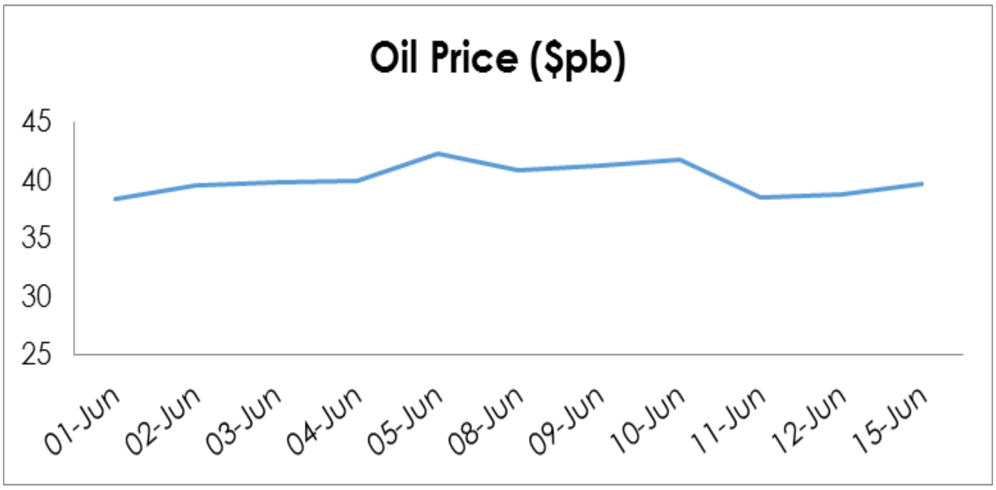
Commodities market - Exports

Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

The average price of Brent increased sharply by 34.7% to $40.06pb in the first half of June from the average of $29.74pb recorded during the review period last month. The pick-up in prices was partly due to the positive market sentiments as a result of the extension of the oil output cuts of 9.7mbpd by OPEC and its allies till July.

During the review period, oil prices touched a 3-month high of $42.30pb on June 5 before retreating to close the period at $39.72pb.



[9]

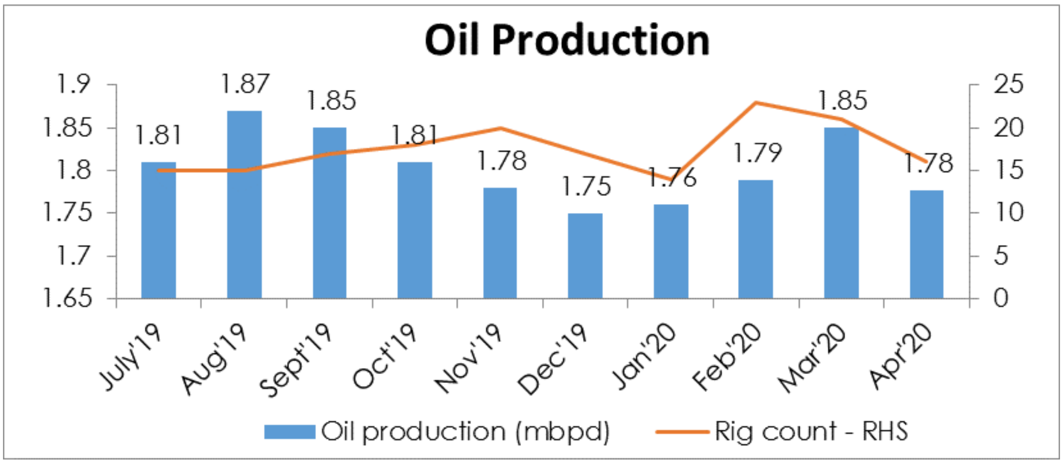
Outlook

We expect the bullish trend in oil prices to be sustained in the near term on the back of the output cuts which was extended till July. However, concerns of an oversupplied market and rising US crude inventories could lead to a reversal.

Oil production

Nigeria's crude oil production in May declined by 10.67% to 1.59mbpd from 1.78mbpd in April. Similarly, the country's active rig count declined sharply to 8 in May (its lowest level since September 2017) from 16 in April. Nigeria continues to flaunt its OPEC's quota of 1.4mbpd and has been put on notice by OPEC to improve on its compliance rate.

[9] Bloomberg



[10]

Outlook

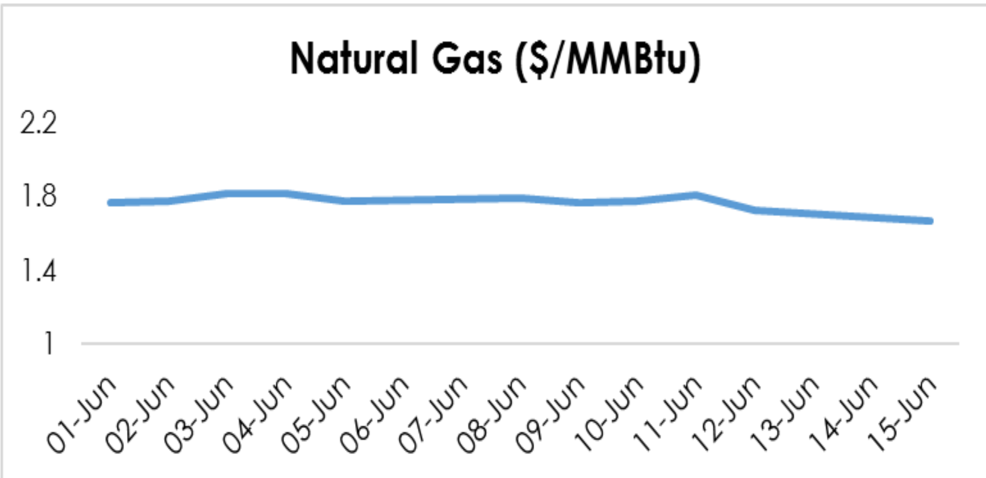
We expect an improvement in Nigeria's compliance to its quota and this means a further decline in output levels. The FGN 2020 budget is premised on a production level of 1.8mbpd. This means that revenue assumptions are flawed and Nigeria will require more deficit financing.

Impact

State and federal allocations will continue to decline will lower oil receipts. FAAC approved for disbursement in June was 9.71% lower at N547.31bn. This will limit the states ability to meet outstanding obligations.

Natural Gas

Natural gas prices averaged $1.77/mmbtu in the first half of June, 3.28% lower than the average of $1.83/mmbtu recorded in the first half of May. The decrease in prices was partly due to an over supplied market and low global gas demand.



[11]

[10]OPEC and Baker Hughes
[11]Bloomberg

Outlook

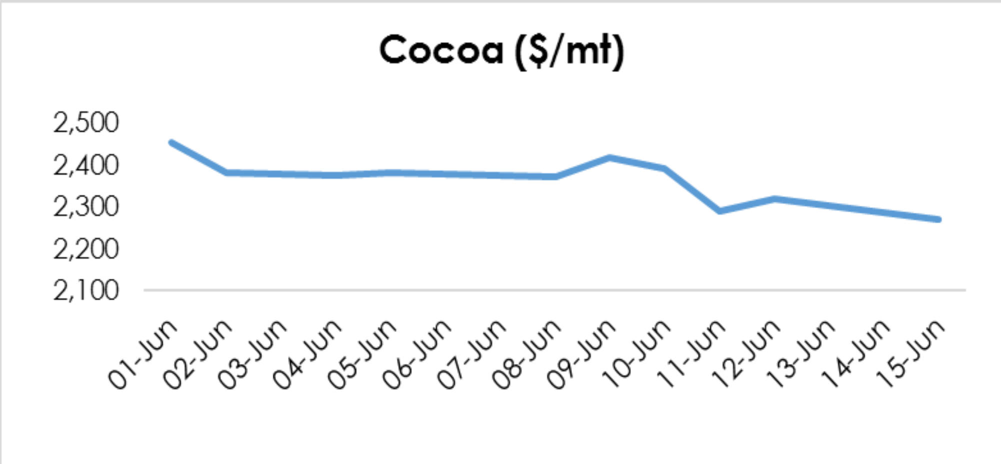
We expect the bearish trend in LNG prices to be sustained driven by poor gas demand amid excess supply.

Impact

LNG is a major export for Nigeria that accounts for approximately 13%[12] of the country's export revenue. Lower prices will adversely affect export revenue and lead to an unfavorable balance of trade.

Cocoa

During the review period, the average price of cocoa fell by 1.50% to $2,368/mt from $2,404/mt in the corresponding period in May. The decrease in price was driven by ample production in Ivory coast coupled with the poor global demand for cocoa.



[13]

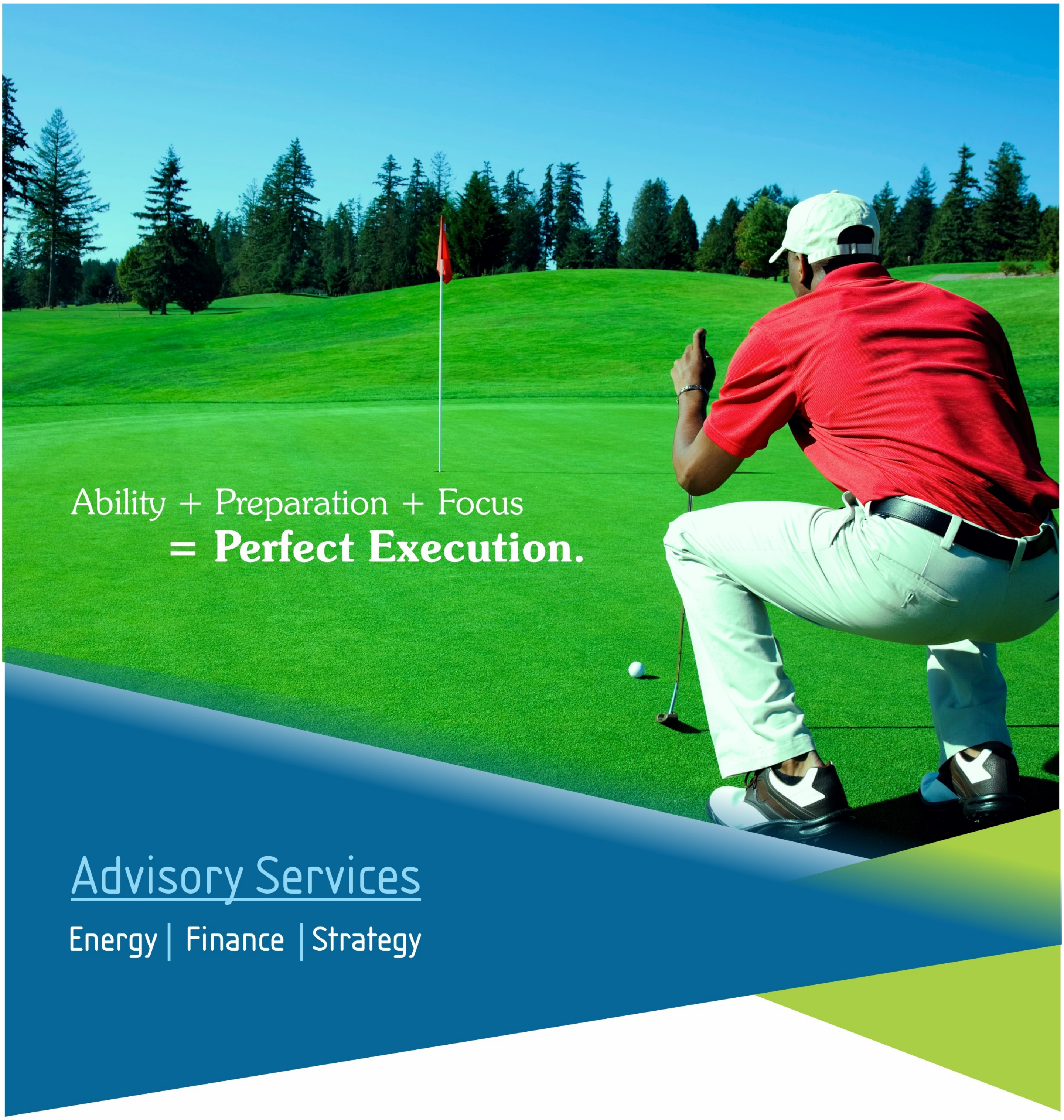
Outlook

We expect cocoa prices to pick up in the near to medium term owing to expectations of low crop output in Ivory Coast.

Impact

Cocoa is Nigeria's second largest non-oil export commodity. Higher cocoa prices will have a positive impact on export earnings and revenue for the government.

[12]EIU
[13]Bloomberg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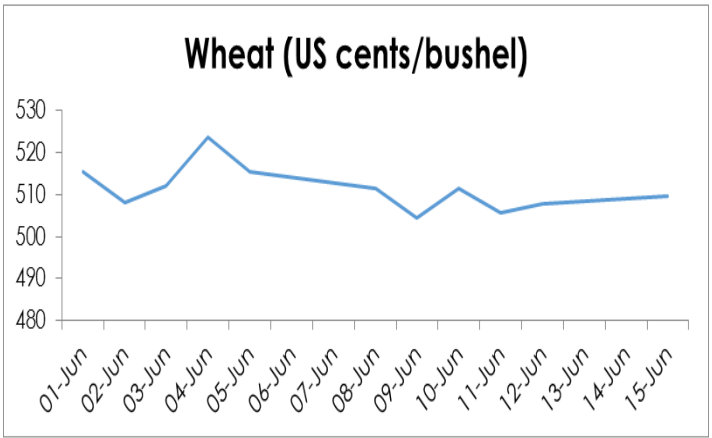
Commodities market - Imports

Wheat

On the average, the price of wheat was down 0.53% to $511.36/bushel during the review period from the average of $514.07/bushel in the first half of May. The decrease in price was in spite of poor crop prospects in some wheat growing regions.

Corn

On the average, the price of corn rose by 3.71% to $329.82/bushel within the first fifteen days of June from $318.02/bushel recorded in the corresponding period in May. The increase in price was on the back of increasing demand for grain-based ethanol.



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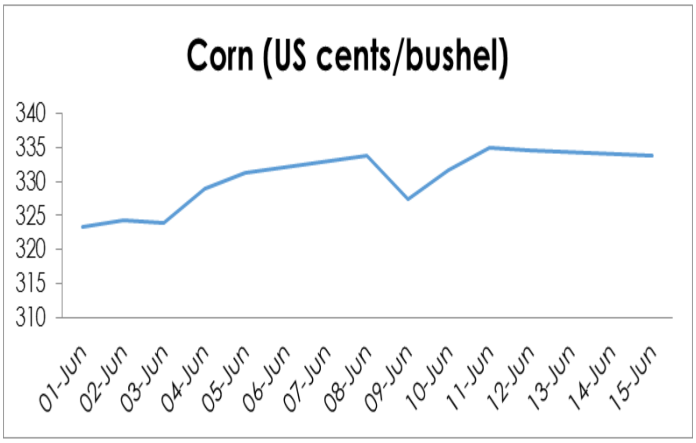


[15]

Outlook - Grains

Prices are likely to decrease on the back of expectations of ample global supply amid positive crop prospects in the US.

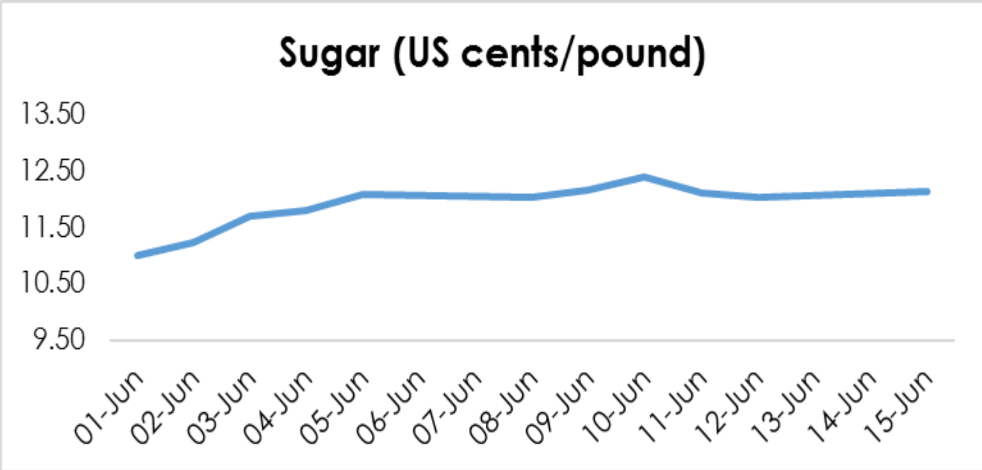
Impact

Nigeria is a major importer of grains. Therefore, lower grain prices will reduce the country's import bill.

[14] Bloomberg
[15] Bloomberg

Sugar

Sugar prices averaged $11.88/pound during the review period, 14.12% higher than the average of $10.41/pound recorded in the first half of May. The increase in price occurred despite the ample supply in major producing countries.



[16]

Outlook

We expect sugar prices to trend downwards in the near term amid reports of improved sugar production particularly in Brazil.

Impact

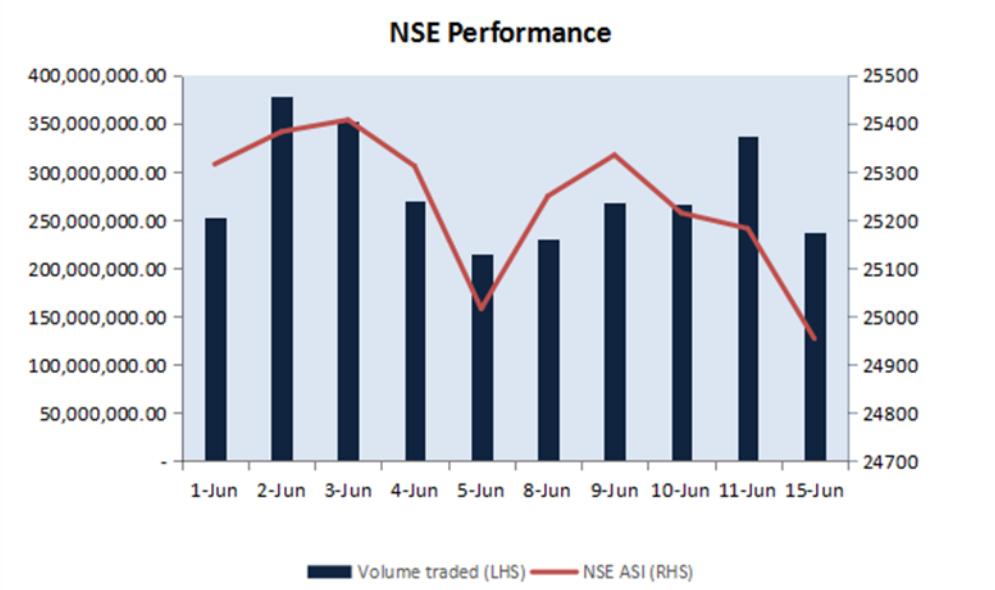
A decline in sugar prices will result in reduced input costs of sugar-producing companies in Nigeria and will reduce Nigeria's import bill on sugar.

[16]Bloomberg

Stock market review

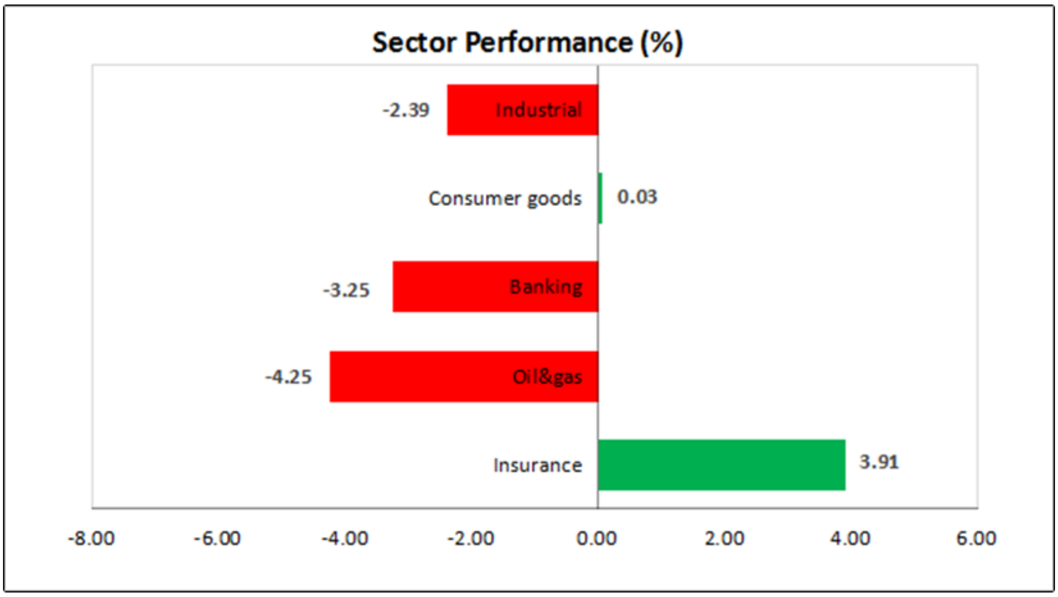
The NSE ASI lost 1.43% to close at 24,954.32 points on June 15th in the first half of June. In the same vein, market capitalization was down 1.36% (N180bn) to N13.01trn. The market has lost 7.03% YTD so far in 2020. So far, in the first 10 trading days of June, the market gained in 5 days and lost in 5 days.

The NSE traded at a price to earnings (P/E) ratio of 8.28x as of June 15th, 6.29% higher than the close of June 1st (7.79x). The market breadth was negative at 0.87x as 34 stocks gained, 39 lost while 90 stocks remained unchanged.



[17]

On the other hand, market activity level was negative in the first half of June. The average volume traded fell by 20.85% to 280.98mn units. Also, the average value of trades decreased by 9.30% to N3.51bn in the review period.



[18]

[17]NSE
[18]NSE

The sector indices were broadly negative during the review period. The oil & gas sector lost the most (4.25%), followed by the banking sector (3.25%) and industrial sector (2.39%). Only the Insurance and consumer goods sectors gained 3.91% and 0.03% respectively.

Neimeth International Pharmaceuticals Plc topped the gainers' list with a 90.16% increase in its share price. This was followed by Skyway Aviation Handling Co Plc (44.44%), Consolidated Hallmark Insurance Plc (36.11%), Associated Bus Co Plc (34.29%) and Linkage Assurance Plc (29.27%).

TOP 5 GAINERS				
Company	**01-June (N)**	**15-June (N)**	**Absolute Change**	**% Change**
Neimeth International Pharmaceuticals Plc	1.22	2.32	1.10	90.16
Skyway Aviation Handling Co Plc	1.89	2.73	0.84	44.44
Consolidated Hallmark Insurance Plc	0.36	0.49	0.13	36.11
Associated Bus Co Plc	0.35	0.47	0.12	34.29
Linkage Assurance Plc	0.41	0.53	0.12	29.27

The laggards were led by UAC of Nigeria Plc (-20.00%), Afromedia Nigeria Plc (-16.67%), Cadbury Nigeria Plc (15.73%), Cutix Plc (-14.44%) and GlaxoSmithKline Consumer Nigeria Plc (-12.35%).

TOP 5 LOSERS				
Company	**01-June (N)**	**15-June (N)**	**Absolute Change**	**% Change**
UAC of Nigeria Plc	9.00	7.20	1.80	-20.00
Afromedia Nigeria Plc	0.24	0.20	0.04	-16.67
Cadbury Nigeria Plc	8.90	7.50	1.40	-15.73
Cutix Plc	1.87	1.60	0.27	-14.44
GlaxoSmithKline Consumer Nigeria Plc	8.10	7.10	1.00	-12.35

Corporate Disclosures

Companies corporate earnings for Q1'2020 released in the first half of June was mixed. The oil sector earnings was positive with Mobil Plc's topline increasing by 17.82% to N54.28bn between January and March 2020. Similarly, the building materials sector earnings was good as BUA Cement Plc revenue was up 32.09% to N53.97bn. In contrast, consumer goods sector earnings was negative as GlaxoSmithKline Consumer Nigeria Plc gross earnings fell by 0.40% to N4.99bn in Q1'2020 compared to its topline in corresponding period last year.

Outlook

We expect the market to remain volatile in the medium term owing to the release of more Q1'2020 corporate earnings, rising inflation and uncertain macroeconomic environment.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Corporate focus : Unity Bank

Unity Bank Earnings Result – Evidence of a Bounce Back

Background

Unity bank was birthed in 2006 following the merger of nine banks. The bank has weathered several storms and it will appear it has solidified its footing in the Nigerian retail banking space. Its recently released result showed compelling performance across most parameters reaffirming its ability to maintain its course on a strong growth trajectory which started in 2018. It reported a whopping 28.7% increase in gross earnings to N44.59bn in FY'19 relative to N34.65bn reported in FY'18. Also, Q1'20 results showed an 18% increase in gross earnings to N11.86bn from N10.05bn reported in the same period in 2019. The remarkable performance can be attributed to the continuous benefit of the strategies adopted in 2017, which included cleaning of its loan book and cost minimization.

Earnings Performance

Apart from the impeccable growth recorded in top line both in FY'19 and Q1'20, the bank showed strong profitability potential as it reports profit after tax of N3.38bn in FY'19 compared to the loss of N7.70bn reported in FY'18. The profit after tax in Q1'20 moved in tandem with a 9% increase to N506.07mn from N464.87mn. In terms of profitability, its profit after tax as a percentage of gross earnings came in at 7.6%, well in line with its tier 2 peers (Sterling at 7.2% and WEMA at 5.5%). There was a significant reduction in impairment charge in Fy'19 to N1.92bn, a 68% decline from the N5.96bn reported in FY'18. The bank recorded a strong increase in its loan portfolio without compromising on asset quality. Gross loans increased by 136% and 22% to ₦104.02bn and N126.59 in FY'19 and Q1'20 respectively, while non-performing loans are at 1% – the best in the industry.

	Q1'20	FY'19
Gross Earnings	18% to N11.85bn	29% to N44.59bn
Net Operating Income	19% to N5.94bn	76% to N23.21bn
Impairment Charge	119% to N429.67bn	68% to N1.92bn
Operating Expenses	20% to N5.39bn	5% to N19.57bn
PAT	9% to N506.07mn	144% to N3.38bn
Total Assets	25% to N366.77bn	39% to N293.05bn
Gross Loans	22% to N126.59bn	136% to N104.02bn
Total Liabilities	13% to N645.85bn	15% to N571.91
Total Equity	(N279.09bn)	2% to (N278.8bn)

The efficiency test of the banking performance i.e. return on assets showed a remarkable increase from -3.6% to 8.1%. The improvement in asset utilization despite the intense competitive rivalry across tiers remains a milestone for Unity Bank. The bank continued to record a decline in its low-cost funding ratio, which improved to 73.9% in 2019, from 71.8% in 2018. Overall, Unity Bank's cost-to-income ratio reduced significantly to 77.9% from 108.3% while cost of risk declined by 11.5% to 1.8% from 13.3%.

Conclusion

We will like to commend the bank's management on its ability to deliver strong performance amidst a challenging operating environment and intensified competition within and across peers. The banking industry is experiencing both revolutionary and evolutionary growth resulting in increased competition and consolidation. The current global COVID-19 and increased volatility in global oil prices has exacerbated business environment across sectors. Although banking as we know it is changing, the role of the industry remains imperative for economic growth and development.

The bank's recent result rode on two main strategies: restructuring and revenue diversification, which we expect to continue to deliver value in the nearest future. Going forward, management is committed to increasing earnings capacity via strategic initiatives centered around capitalising on the success achieved in the agribusiness, focus on the youth market and deepening of retail play, which includes increased channels and bundled products. Technology plays a pivotal role in the success of the strategic initiatives and also provides competitive advantage given growing urbanization, drive to deepen financial inclusion and the need to compete with fintech companies.

Also, it has finalised preparations to launch UnityCares, a healthcare product that will enable it tap into credit support intervention scheme for the health sector. The Central Bank of Nigeria has created stimulus packages to support local pharmaceutical companies and healthcare practitioners that hope to build and expand capacity.

In conclusion, we are of the view that the bank can record a reversal from its negative equity position if it maintains the growth momentum in its operating performance. Also, it is perceived that factors like increasing government and other agencies support in the agriculture sector coupled with increasing interest of youths in the agriculture space are in favour of the bank.

Economic outlook

Economic growth is projected to contract significantly to -3.5% in Q2'2020 as the impact of the shutdown on economic activities and movement restrictions in key states was effective in the second quarter. This will weigh on government expenditure and aggregate consumer income. The good news is that the gradual relaxation of the lockdown measures will provide some stimulus for the economy.

We expect inflationary pressures to persist due to demand pressures as the economy re-opens and interstate movement restrictions are relaxed. This will be exacerbated by supply constraints as the planting season takes full effect.

Oil prices are likely to trade higher on the back of the extension of output cuts by OPEC and its allies till July. We expect prices to trade between the range of $38pb - $40pb in the second half of June. However, the price gains could be capped by Nigeria's impending production cuts as the country is more sensitive to oil production than price. This will negatively affect the country's fiscal and external buffers.

In addition, we expect external sector vulnerabilities to persist. External reserves will continue to decline (falling below $36bn) and naira could come under pressure due to increased demand.