Cowry Monthly Economic Digest

Pulsating Past the Pandemic

The global economy appeared to have turned the corner3333 in Q3 2020, as latest economic data suggest, following a recession witnessed in the first half of the year when COVID 19 took a toll on most economies. According to J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) expanded to 52.1 points in September, albeit slower than 52.4 points in August.

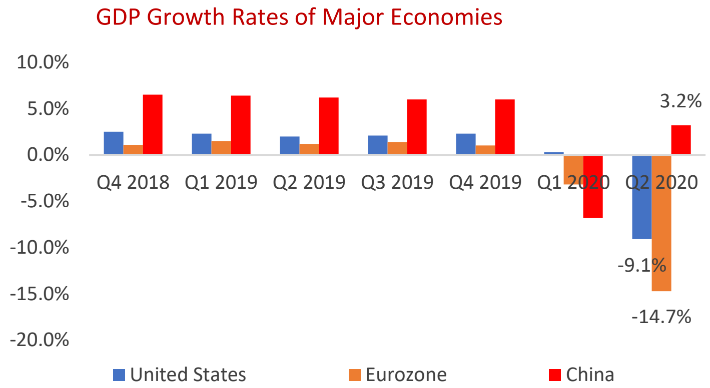
Following the recovery in global crude oil prices, Nigeria's external reserves rose by 5% to an average of USD35.76 billion in September from an average of USD34.03 billion in April when the pandemic was rife. Against the backdrop of improved external buffers, the Naira/USD exchange rates tended towards convergence in September amid sustained dollar supply from CBN. Naira appreciated by 0.06% to N386.01/USD at the I&E FX window (NAFEX) following a 118.4% month-on-month boost in inflows to USD0.94 billion.

In a bid to stimulate demand-driven growth, the Monetary Policy Committee (MPC) cut Monetary Policy Rate (MPR) by 100bps to 11.50% and reviewed the asymmetric Corridor to +700bps/-100bps (from +500bps/-200bps) around the MPR. Amid boost in financial system liquidity, Commercial banks' prime lending rates lowered to 11.76%; however, maximum lending rates remained somewhat sticky at 29.51%.

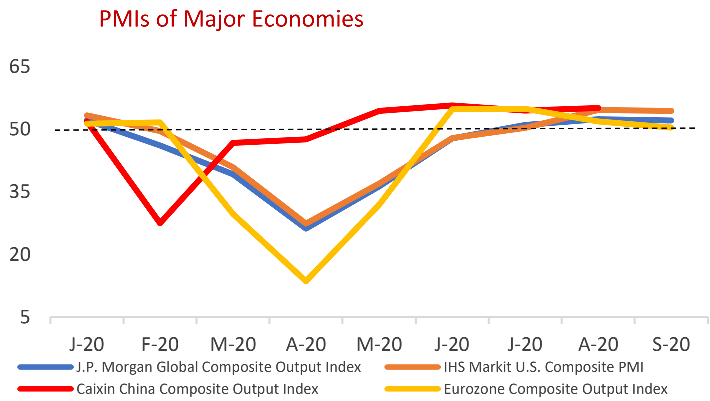
Meanwhile, institutional investors continued to chase relatively safe assets, thus crashing short term yields further. At the primary market T-Bills auctions, stop rates for 91-day and 182-day bills fell to 1.09% and 1.50% respectively in September (from 1.10% and 1.55% in August) while stop rate for 364-day bills was flattish at 3.05%. In the same vein, investors scrambled for higher yields at the longer end of the yield curve, thus dragging stop rates lower at primary market auctions. Stop rates for the 10-year and 30-year FGN bonds moderated to 6.0% and 8.94% respectively in September (from 6.7% and 9.9% in August).

The Nigerian stock market witnessed a boost in monthly performance in September, mainly due to increased participation of foreign portfolio investors. The NSE ASI climbed month-on-month by 5.9% to 26,831.76 points while market capitalization rose by 6.1% to N14.02 trillion.

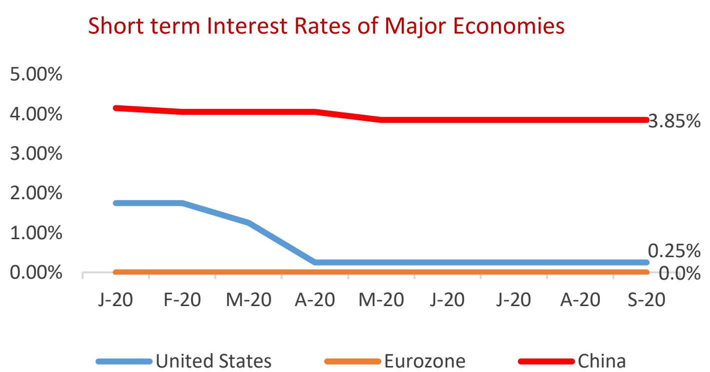
Global Economy



Source: Trading Economics, Cowry Research



Source: Markit Economics, Cowry Research

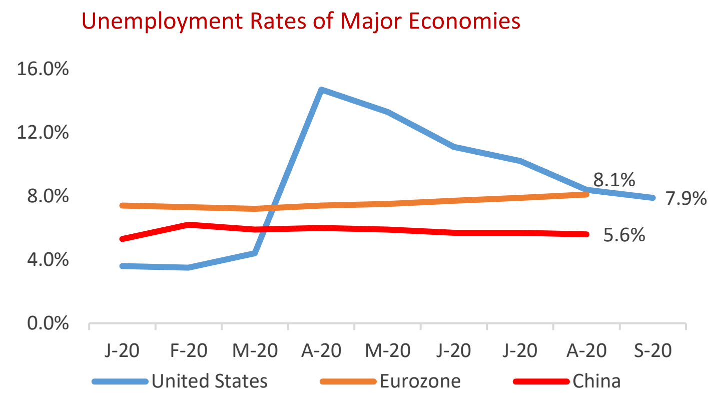


Source: Trading Economics, Cowry Research

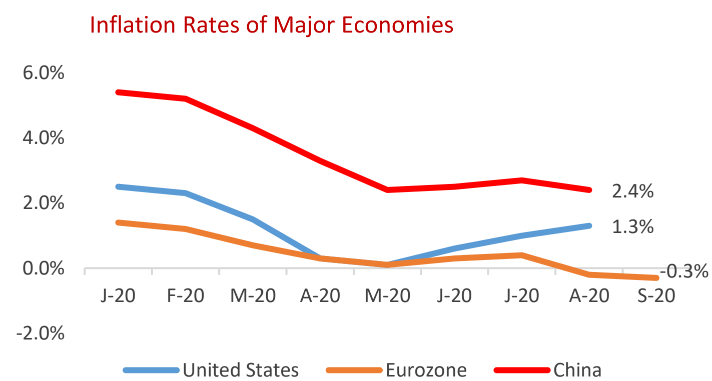
The global economy appeared to have turned the corner in Q3 2020, as latest economic data suggest, following a recession witnessed in the first half of the year when COVID 19 took a toll on most economies. According to J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) expanded to 52.1 points in September, albeit slower than 52.4 points in August.

China, which avoided a recession (having recorded a 3.2% growth in real GDP in Q2 2020 following a decline of 6.8% in the preceding quarter), remained on the vanguard of the recovery in the third quarter as it registered faster expansion in business activities to 55.1 points in August, from 54.5 points in July, on the back of sustained efforts by the Chinese authorities to boost economic activities by a mix of fiscal and monetary policy measures which positively impacted on consumer wallets and enhanced access to cheaper credit by local businesses. However, other major economies which could not resist the gravitational pull of the recession nevertheless broke free to fly in the second half following efforts by their governments to stimulate their respective economies by equally using fiscal and monetary policy tools.

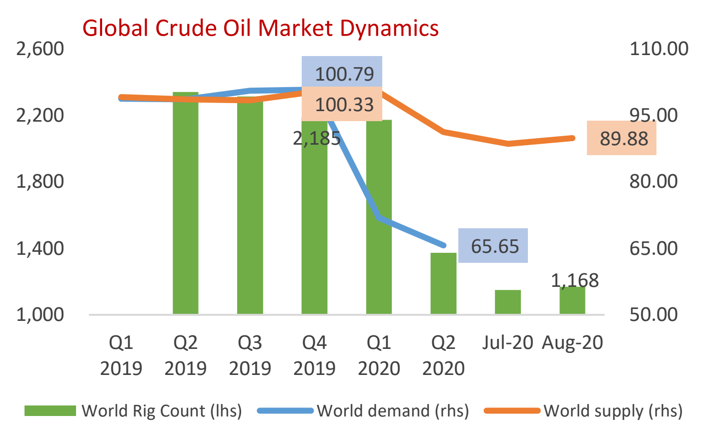
The general pattern of the stimuli involved global central banks cutting interest rates, increasing quantitative easing and easing credit terms. On the other hand, fiscal authorities provided funding to prevent the spread of the pandemic and to produce medical equipment, put money in the wallets of the consumer during the lockdown, and provided grants and other packages to businesses in order to sustain jobs.



Source: Trading Economics, Cowry Research



Source: Trading Economics, Cowry Research



Source: Opec.com, Cowry Research

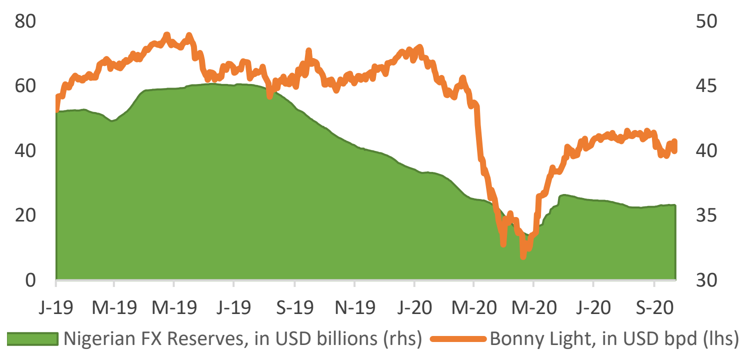
Unemployment rates continued to moderate, especially in the United States where unemployment rate consistently fell to 7.9% in September (from 14.70% in April in the thick of the pandemic). In China, unemployment also fell to 5.6% as at August (from 5.7% in July). However, the Eurozone recorded a sustained rise in unemployment rate to 8.1% in August (from a year low of 7.2% in March), although mutedly so, as various stimulus packages, especially by its biggest member, Germany, helped keep citizens in employment.

Inflation in the United States rose to 1.3% in August (from 1.0% in July) even as US consumer confidence remained upbeat, registering 78.9 points in September (from 74.1 points in August). However, China's inflation maintained a downward trajectory, registering 2.4% in August (from 2.7% in July) while the Euro area recorded an inflation rate of minus 0.3% (a deflation) in September, weaker than minus 0.2% registered in August.

The slow but steady pace of global recovery, especially in the three biggest economies which jointly make up more than half of the world economy, positively impacted on consumption of global commodities, especially crude oil which continued to hover above USD40 a barrel in the third quarter. Amid the recovery in prices, investments in crude oil exploration and production remained cautious – global rig counts rose month-on-month by 1.6% to 1,168 as at August. Total oil supply also increased month-on-month by 1.5% to 89.88 million barrels as at August. The increase in global investments in crude oil may be suggestive of recovering demand for crude oil.

Nigerian Economy

Evolution of Nigerias FX Reserves



Source: Central Bank of Nigeria, Cowry Research

Following the recovery in global crude oil prices, Nigeria's external reserves rose by 5% to an average of USD35.76 billion in September from an average of USD34.03 billion in April when the pandemic was rife. Latest data showed that goods and services import cover rose to 10.05 months in May from 7.88 months in March. However, external debt cover dropped to 115.0% as at June from 127.1% as at March.

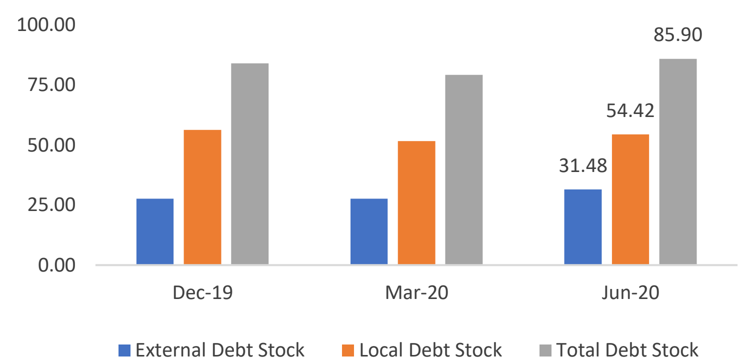
External Debt Cover

	External Debt (1)	External Reserves (2)	(2) as %age of (1)
Dec-19	USD27.68 Bn	USD38.60 Bn	139.5%
Mar-20	USD27.67 Bn	USD35.16 Bn	127.1%
Jun-20	USD31.48 Bn	USD36.19 Bn	115.0%

Source: Debt Management Office, Central Bank of Nigeria, Cowry Research

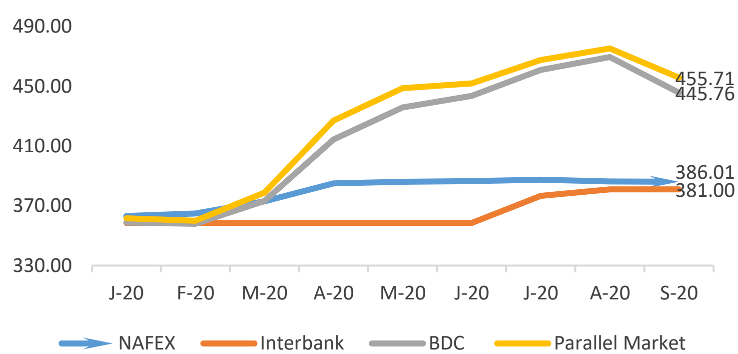
Against the backdrop of improved external buffers, the Naira/USD exchange rates tended towards convergence in September amid sustained dollar supply from CBN. Naira appreciated by 0.06% to N386.01/USD at the I&E FX window (NAFEX) following a 118.4% month-on-month boost in inflows to USD0.94 billion (of which remittances from exporters accounted for 22%) in September. The Interbank rate stabilized at N381/USD while BDC and black market rates fell by 5.07% and 4.13% to N445.76/USD and N455.71/USD respectively.

National Debt Stock (USD Bn)



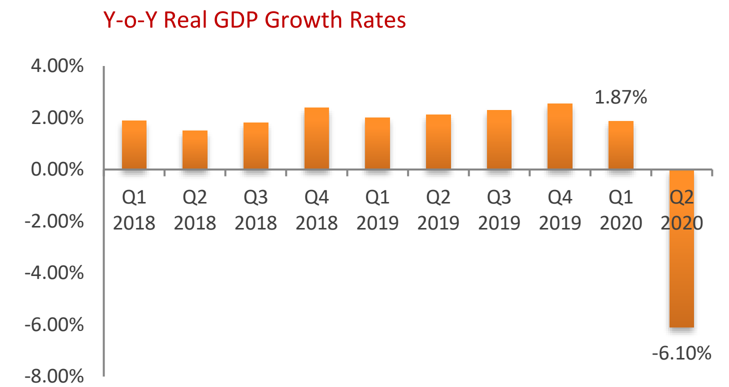
Source: Debt Management Office, Cowry Research

Evolution of Naira/USD Exchange Rates



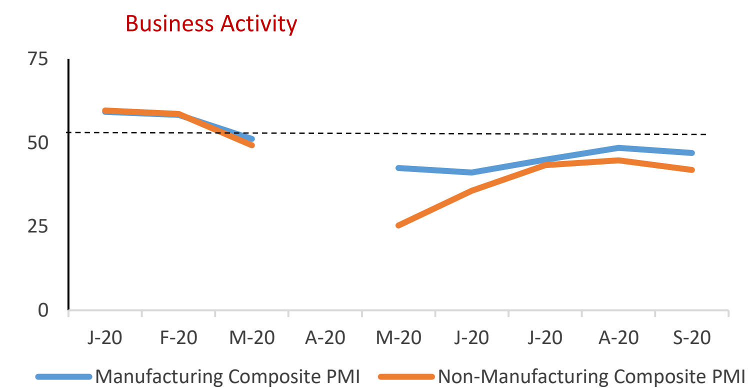
Source: FMDQ, Abokifx.com, Cowry Research

According to Fitch Ratings, the stock of outstanding non-resident holdings of CBN open-market operation (OMO) bills was around USD10 billion in August 2020, equivalent to about 30% of external reserves (USD35.7 billion) in September 2020.



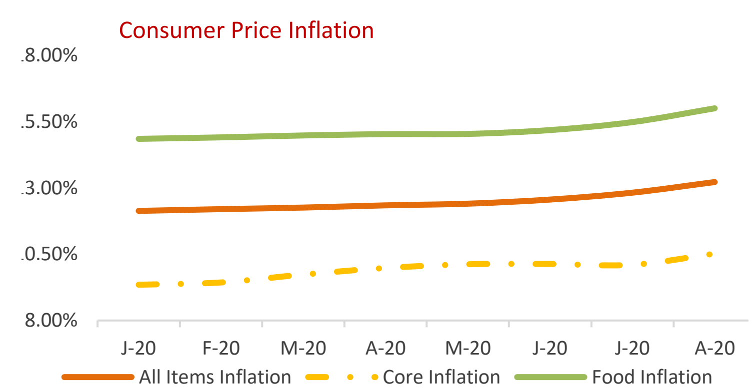
Source: National Bureau of Statistics, Cowry Research

Nigeria's real GDP fell year-on-year by 6.10% to N15.90 trillion in Q2 2020, (against a 1.87% growth in Q1 2020) due to the COVID-19 pandemic. The oil & gas sector fell y-o-y by 6.63% (against a 5.06% growth in Q1 2020) as Nigeria's crude oil output fell q-o-q by 10.40% to 1.81mbpd. The non-oil sector shrank y-o-y by 6.05% to N14.48 trillion amid declines witnessed in Construction, Real Estate and Trade sectors to which jointly accounted for 22.85% of GDP.



Source: Central Bank of Nigeria, Cowry Research

September PMI survey report by CBN showed that manufacturing and non-manufacturing activities declined faster amid weakened new orders. Specifically, the manufacturing composite PMI printed faster contraction to 46.9 points in September (from 48.5 points in August) – the fifth consecutive contraction – as new orders index fell to 46.4 in September (from 49.2 in August). Also, the non-manufacturing sector recorded faster contraction as its composite PMI fell to 41.9 points in September (from 44.7 points in August) as business activity and incoming business slowed – their indices fell to 43.7 (from 47.4) and 39.5 (from 44.0) respectively.



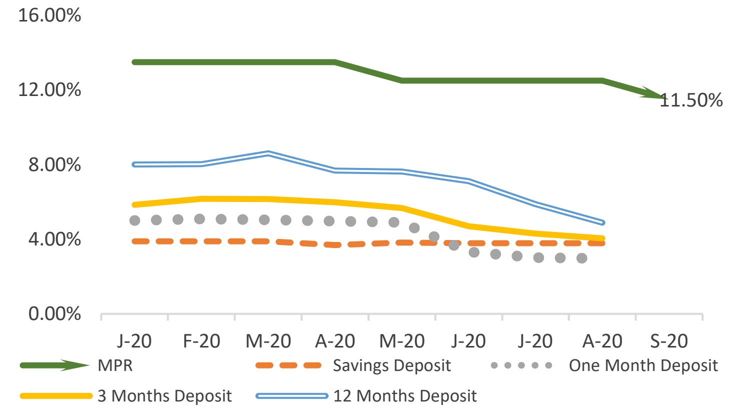
Source: National Bureau of Statistics, Cowry Research

Inflation rate rose to 13.22% in August (the highest since March 2018) from 12.82% printed in July. Food inflation jumped to 16.00% in August from 15.48% it printed in July while core inflation rate climbed to 10.52% (from 10.10% in July) given the rise in transport, electricity and clothing costs. Given the implementation of the new cost-reflective electricity tariff, coupled with the full deregulation of the downstream sector, we expect inflation to further increase in September 2020.

In a bid to stimulate demand-driven growth, the Monetary Policy Committee (MPC) cut Monetary Policy Rate (MPR) by 100bps to 11.50% and reviewed the asymmetric Corridor to +700bps/-100bps (from +500bps/-200bps) around the MPR. The monetary authority also reduced the minimum Savings Rate at commercial banks to 1% of MPR or 1.15% from 1.25%.

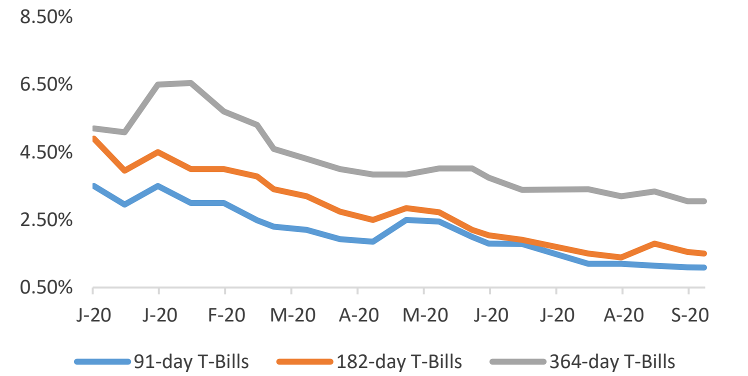
Meanwhile, institutional investors continued to chase relatively safe assets, thus crashing short term yields further. At the primary market T-Bills auctions, stop rates for 91-day and 182-day bills fell to 1.09% and 1.50% respectively in September (from 1.10% and 1.55% in August) while stop rate for 364-day bills was flattish at 3.05%.

Interest Rates on Commercial Bank Deposits



Source: Central Bank of Nigeria, Cowry Research

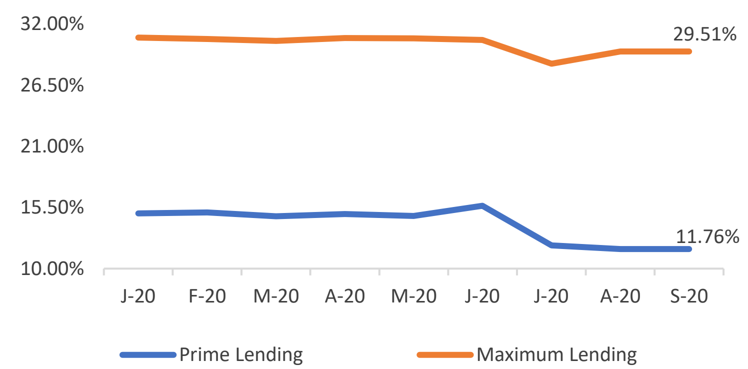
Nigerian Treasury Bill Stop Rates



Source: Central Bank of Nigeria, Cowry Research

Amid boost in financial system liquidity, Commercial banks' prime lending rates lowered to 11.76%; however, maximum lending rates remained somewhat sticky at 29.51%.

Lending Rates of Commercial Banks



Source: Central Bank of Nigeria, Cowry Research

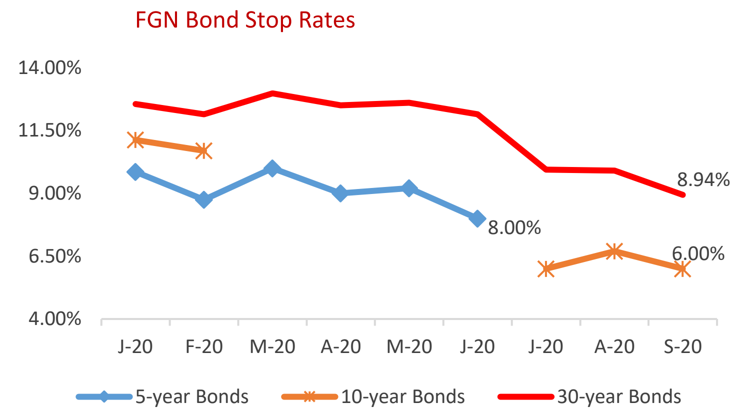
At the secondary market, investor demand for T-bills was equally strong, pushing NITTY lower across the board, especially for 1 month and 3 months maturities which traded below 1%.

Monthly NITTY Performance

Tenor	Sept. 2020 Close	Aug. 2020 Close	PPT
1 Month	0.8323%	1.1061%	(0.27)
3 Months	0.9307%	1.1184%	(0.19)
6 Months	1.0630%	1.8933%	(0.83)
12 Months	2.4752%	3.0195%	(0.54)

Source: FMDQ, Cowry Research

In the same vein, investors scrambled for higher yields at the longer end of the yield curve, thus dragging stop rates lower at primary market auctions. Stop rates for the 10-year and 30-year FGN bonds moderated to 6.0% and 8.94% respectively in September (from 6.7% and 9.9% in August).



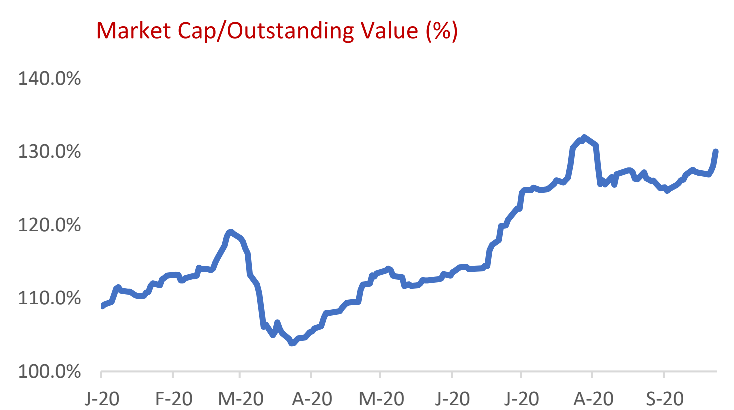
Source: Debt Management Office, Cowry Research

FGN bond prices appreciated (and yields fell) on a month-on-month basis across all maturities tracked on the back of sustained investor demand. The 7-year, 13.53% FGN March 2027 vanilla paper appreciated by N9.67 (yield fell by 2.15ppt); the 7-year, 11.20% FGNSK June 2020 sukuk bond gained N7.31 (yield fell by 1.28ppt); while the 7-year, 14.50% FGNGB June 2020 green bond gained N5.67 (yield fell by 1.06ppt).

FGN Bonds	30-Sep-20 Price (N)	M-o-M Change	30-Sep-20 Yield	M-o-M PPT Δ
5-Year, 12.75% FGN APR 2023	123.57	5.29	3.14%	(2.13)
7-Year, 13.53% FGN MAR 2025	137.54	9.67	4.24%	(2.15)
10-Year, 16.29% FGN MAR 2027	149.32	8.37	6.75%	(1.36)
30-Year, 14.80% FGN APR 2049	154.43	10.05	9.32%	(0.73)
7-Year, 11.20% FGNSK JUN 2027	122.87	7.31	6.88%	(1.28)
7-Year, 14.50% FGNGB JUN 2026	139.14	5.67	6.23%	(1.06)

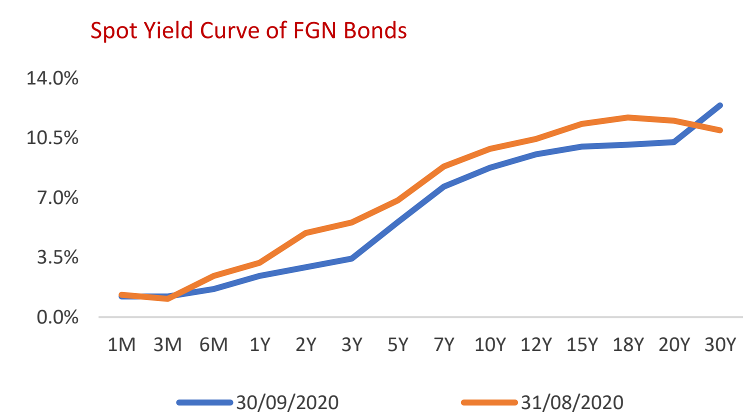
Source: FMDQ, Cowry Research

In the secondary market, FGN bonds generally traded at relatively higher premia in the third quarter although slightly lower on average in September relative to August as Market Capitalization to outstanding value ratio fell to 126.58% in September from 126.65% in August.



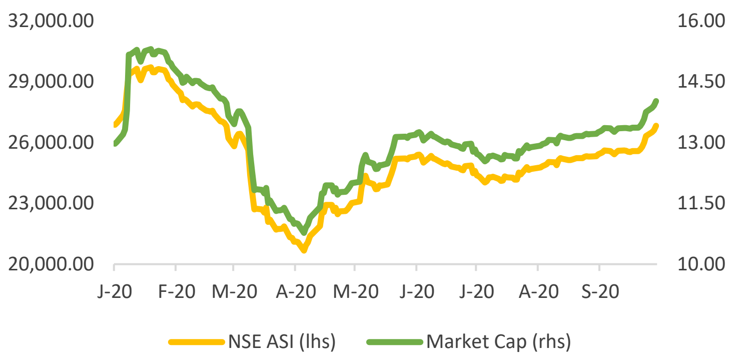
Source: FMDQ, Cowry Research

The normal yield curve at the end of September, was lower than the preceding month's ending yield curve; reflecting the sustained downward trend in yield environment. Only the 3 month and 30-year maturities had higher yields of 1.2% and 12.4% in September compared to 1.1% and 10.9% in August.



Source: FMDQ, Cowry Research

Evolution of NSE ASI and Market Cap (N Trn)



Source: Nigerian Stock Exchange, Cowry Research

NSE Indices	Sept Close	Aug Close	%age Δ	YTD %age Δ
NSE ASI	26,831.76	25,327.13	5.9%	-0.04%
Market Cap (N trillion)	14.02	13.21	6.1%	8.2%

Source: Nigerian Stock Exchange, Cowry Research

Sectored Indices	Sept Close	Aug Close	%age Δ	YTD %age Δ
NSE Banking	310.39	291.79	6.4%	-13.0%
NSE Insurance	138.81	131.60	5.5%	10.3%
NSE Consumer Goods	453.82	426.93	6.3%	-23.5%
NSE Oil/Gas	195.14	191.08	2.1%	-25.7%
NSE Industrial	1,193.76	1,125.47	6.1%	11.0%

Source: Nigerian Stock Exchange, Cowry Research

Market Activity	Sep-20	Aug-20	%age Δ
Deals	82,522.00	77,059.00	7.1%
Volume (million)	6,911.79	4,716.57	46.5%
Value (N million)	65,017.50	44,866.39	44.9%

Source: Nigerian Stock Exchange, Cowry Research

The Nigerian stock market witnessed a performance boost in September, mainly due to increased participation of foreign portfolio investors. The NSE ASI climbed month-on-month by 5.9% to 26,831.76 points while market capitalization rose by 6.1% to N14.02 trillion. Market capitalization also rose on account of additional listings of shares of Dangote Sugar Refinery Plc and Stanbic IBTC Holdings Plc to the Daily Official List of the NSE. Hence, on a year-to-date basis, the loss of NSE ASI slowed significantly to a mere -0.04% while the market capitalization accelerated by 8.2%.

There were across the board gains as every subsector closed in the positive territory. On a monthly basis, Banking stocks were the biggest gainers as the NSE Banking Index gained 6.4% to close at 310.39 points, reducing its year-to-date loss to 13.0%. Following, NSE Consumer Goods Index and NSE Industrial Goods Index climbed by 6.3% and 6.1% to close at 453.82 points and 1.193.76 points respectively – their year-to-date performances improved to -23.5% and +11.0% respectively.

Market activity was also upbeat as total deals, transacted volumes and Naira votes increased by 7.1%, 46.5% and 44.9% to 85,522, 9.91 billion shares and N65.02 billion respectively.

Top Gainers and Top Losers

Top 10 Gainers	Prices (N)		
SYMBOL	30-Sep-20	31-Aug-20	%age Δ
ETERNA	2.74	1.9	44%
NB	49	37	32%
WAPCO	15	11.95	26%
UACN	6.95	5.7	22%
TOTAL	96.8	80	21%
CILEASING	4.2	3.6	17%
CORNERST	0.65	0.56	16%
FLOURMILL	21.65	18.8	15%
STANBIC	40.5	36.05	12%
AFRIPRUD	4.71	4.2	12%

Source: Nigerian Stock Exchange, Cowry Research

Bottom 10 Losers	Prices (N)		
SYMBOL	30-Sep-20	31-Aug-20	%age Δ
UPL	1.24	1.65	-25%
ABCTRANS	0.3	0.39	-23%
TRIPPLEG	0.4	0.5	-20%
REGALINS	0.23	0.28	-18%
REDSTAREX	3	3.65	-18%
ARDOVA	11	12.6	-13%
NNFM	4.05	4.5	-10%
CADBURY	7	7.75	-10%
LASACO	0.28	0.31	-10%

Source: Nigerian Stock Exchange, Cowry Research

New Listing

- A total volume of 50,000,000 units at N10.00 each of Meristem Growth Exchange Traded Fund and Meristem Value Exchange Traded Fund were admitted to trade at the Nigerian Stock Exchange on Thursday, 10 September 2020.

Supplementary Listings

- A total volume of 146,878,241 ordinary shares of Dangote Sugar Refinery Plc was admitted to trade at the Nigerian Stock Exchange on Wednesday, 30th September 2020.
- A total volume of 601,030,210 ordinary shares of Stanbic IBTC Holdings Plc was admitted to trade at the Nigerian Stock Exchange on Wednesday, 16 September 2020.

Proposed Rights Issue

- AIICO Insurance Plc: Proposed Rights Issue of 4,357,770,954 ordinary shares of 50 Kobo each at 80 Kobo on the basis of five (5) new ordinary shares for every thirteen (13) ordinary shares held as at close of business on Monday, 15 June 2020.
- Prestige Assurance Plc: Extension of Offer Period for the Rights Issue of 13,635,796,006 Ordinary Shares of 50 Kobo Each at 50 Kobo Per Share on the Basis of Thirty-Eight (38) New Ordinary Shares for Fifteen (15) Ordinary Shares Held.