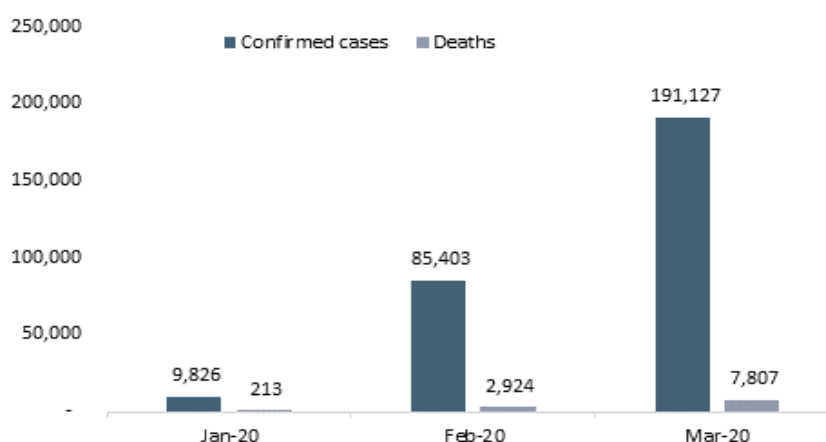


Corona update: what should investors do?

Riding the waves of uncertainty

- According to the WHO, the Coronavirus pandemic has infected around 191,127 people as at yesterday. And, so far, at least 7,807 people have died with almost half of them outside mainland China. Europe, in particular, has recorded the second highest number of cases after China. Nigeria has 8 confirmed cases so far with no deaths.

Figure 1: Global coronavirus confirmed cases and deaths



Source: WHO, ARM Research

- To keep the virus from spreading various countries (including the US, EU, Australia, China and Nigeria) have moved to close their borders to non-essential travelers thus preventing visitors from certain countries, or in some cases all visitors, from entering the country.
- Accordingly, stock markets globally have cratered, with the US market ending its longest bull market run in history. The major indexes are now in a bear market (a 20% decline from a recent high) and continue to slip further in on a daily basis as the losses continue to stack up. Oil prices, a major revenue driver in Nigeria, has declined by \$40 p/b so far this year (a 60% drop) to \$26 p/b.
- Consequently, central banks across the world are introducing new stimulus packages, almost daily, to try and limit the negative economic fallout from the pandemic. The US Fed cut its benchmark rate by 150bps, across 2 emergency meetings in less than 2 weeks, bringing the range to 0 – 0.25%.

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- The BOE cut their interest rate by 65bps to a record low 0.1% and announced a new-term funding scheme to support SMEs and encourage commercial banks to lend more.
 - Governments have also made use of the fiscal tools at their disposal to prop up the economy. The Trump administration has proposed a \$1trillion economic package, which includes \$500 billion for direct payments to taxpayers and \$500 billion in loans for businesses. This comes after a relief package that provides sick leave and unemployment benefits was signed into law. The UK announced a £330 billion aid package while France announced €45bn in direct tax breaks and €300bn of loans.
 - In Nigeria, the CBN has announced a number of emergency measures to stimulate growth most notably the creation of a ₦50 billion credit facility for households and SMEs seriously hit by the coronavirus and the extension of principal moratorium on CBN intervention facilities by one year.
 - Finally, the FG revised their 2020 budget to reflect the current situations. They amended their crude oil benchmark to \$30 p/b from \$57 p/b, kept oil production at 2.18 mbpd and cut planned expenditure by as much as ₦1.5 trillion.

Economic Implications

- With lower crude oil prices in the pipeline, we definitely expect lower oil receipts even as less demand in the global crude market threatens the country's exports. Going by our estimates, lower oil and also non-oil receipts coupled with the recent adjustment to the cut in FG's expenditure brings our estimated deficit to ₦2.14 trillion (Previous estimate: ₦3.05 trillion) – albeit still higher than FG's previous budget deficit of ₦2.02 trillion).
- We expect to see continued sell-off at both the fixed income and equity market which invariably translates to continued repatriation of portfolio flows. With 50% portfolio repatriation and lower crude oil prices, we expect continued depletion to FX reserves.
- Ex-eurobond issuance, we estimate the FX reserves could end the year at \$27.4 billion. we believe the CBN will utilize all possible administrative tools to keep the naira stable (i.e increasing OMO rates) before opting for a devaluation.
- In the event the country is unable to raise the \$3.3 billion Eurobond, the viral spread persists, and oil price maintain its current momentum, we see the possibility of a devaluation by Q3 2020. Finally, without the Eurobond issuance, the FG will be left with no choice than to take up higher than projected borrowing at the long end. Therefore, we see scope for upward movement in FI yields – specifically at the long end.

What should investors do?

- With so much paranoia and uncertainty, it is pertinent to guide our clients on right investment choices.
- For risk averse investors, we advise you stick with the safe traditional investment vehicles such as FG securities and mutual funds.
- For long term investors (minimum of 1 year time horizon) , we advise you pick up shares with strong fundamentals such as Nestle, GTB, Zenith, Dangote Cement, MTNN, UBA as they are all trading at low prices and could return strong capital gains.
- Lastly, to hedge against possible devaluation, we advise our clients to go long on dollars.

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