

HOW WOULD RECENT EVENTS AFFECT
YOUR FINANCIAL INVESTMENTS?

FIND ANSWERS ON THE
ARM WEEKLY ECONOMIC
& FINANCIAL COMMENTARY



Weekly Commentary & Stock recommendation ...for the week 11 May – 15 May 2020

Global Economy

- ◆ The US recorded deflation in April as consumer prices fell by 0.8% MoM – the largest drop since Dec-08 – largely driven by the sharp drop in gasoline prices. On a YoY basis, inflation declined to 0.3% from 1.5% in March – lowest since Oct-2015. Further on the negatives, the US reported a record contraction in industrial production by 11.2% MoM in April – the largest in 101 years of available records -- as factories were closed owing to the COVID-19 lockdown. In contrast, China reported an increase in industrial production by 3.9% YoY in April, marking the first growth since the virus outbreak in December, as the economy slowly resumed activities after months of lockdown. However, similar to the US, China also recorded a deflation in April by 0.9% MoM (March: -1.2%). On an annual basis, inflation dropped to 3.3% YoY in April (4.3% in March), following decline in both food and non-food inflation. . This marked the lowest experienced since September 2019 as the COVID-19 pandemic continues to take its toll on consumption . Preliminary estimates also show the UK economy contracted by 1.6% YoY in Q1 20, marking the biggest fall since Q4 2009, but milder than consensus expectation of a 2.1% slump.

Domestic Economy

- ◆ This week, the Federal Executive Council (FEC), approved the revised budget for 2020 fiscal year to ₦10.52 trillion (₦71.5 billion shy of the prior approved budget). Part of the adjusted parameters include a further cut in crude oil benchmark from \$30/barrel to \$25/barrel, increase in crude oil production from 1.7mbpd to 1.94mbpd, while exchange rate was revised to ₦360/\$ (prior: ₦305/\$). Meanwhile, the Nigerian Economic Summit Group (NESG) forecasts a contraction in Nigeria's GDP to 4.1% YoY as well as a decline in investments by 39.4% based on average global oil price of \$35/barrel and crude oil production estimated at 1.3mbpd. Elsewhere, recent data from the NBS showed a 15.7% YoY and 9.9% QoQ increase in VAT to ₦339.9 billion (the highest recorded so far) over Q1 2020. We believe this can be linked to increase in VAT rate from 5% to 7.5% in February 2020. Sectoral breakdown showed professional services, other manufacturing and trading & commercial sectors contributed 27% to total VAT.

Equities and stock recommendation

- ◆ Contrary to the trend from the past couple weeks, the NSE ASI saw a decline of 0.72% WoW, closing the week at 23,871.33 points with the market capitalization at ₦12.4 trillion (-0.72%). Negative sentiments were seen in Cement (-3.30%), Telecom (-1.49%), Oil & Gas (-0.19%) and Brewers (-0.15%) outweighing gains across the Banking (+2.15%) Food (+2.62%) and Personal Care (+14.34%) sectors. For individual stock performance, major drivers for the decline were seen across ACCESS (-2.34%) DANGCEM (-4.33%), SEPLAT (-3.64%), MTNN (-2.2%) and BUACEMEN (-0.94%) stocks. On the other hand, positives were GUARANTY (+2.51%), NESTLE (+4.0%), ZENITHBANK (+0.32%) and UBA (+0.81%).
- ◆ Here are the stocks we recommend for the upcoming week: **Dangcem Plc – STRONG BUY (FVE: ₦240.87), Nestle Plc – STRONG BUY (FVE: ₦1404.4), Guaranty – STRONG BUY (FVE: ₦37.00) and Zenith Bank Plc – STRONG BUY (FVE: ₦28.0).** Click [here](#) for our Weekly Stock Recommendation.

Fixed Income

- ◆ At the NTB auction this week, the FG surprisingly net issued, for the first time since January, by ₦108.92 billion. A total of ₦33.84 billion was offered (exactly what was maturing) and ₦142.76 billion was sold from the total subscription of ₦165.55 billion. Also, for the first time since January, the stop rate closed higher, this time by 33bps to 3.06%. This comes in line with our view of higher yields on the short term, as the FG scaled up plans to finance the 2020 budget domestically. In fact, the FG, this week, released a revised Q2 bond calendar in which the maximum offering in June was increased from ₦45 billion to ₦165 billion. Meanwhile, at the OMO auction, the CBN did not sell any of the ₦70 billion it offered, despite subscriptions totaling ₦344.17 billion.. In the secondary market, average FI yields closed flat at 6.24% as a 38bps decline in NTB yields was cancelled out offset by a similar rise in bond yields. The bond yields increase was led driven by the March-2024 (+121 bps) and April-2023 (+88bps) while decreases across all tenors dragged down NTB yields.

The week in Review

◆ The US recorded deflation in April as consumer prices fell by 0.8% MoM – the largest drop since Dec-08 – largely driven by the sharp drop in gasoline prices. On a YoY basis, inflation declined to 0.3% from 1.5% in March – lowest since Oct-2015. Further on the negatives, the US reported a record contraction in industrial production by 11.2% MoM in April – the largest in 101 years of available records -- as factories were closed owing to the COVID-19 lockdown. In contrast, China reported an increase in industrial production by 3.9% YoY in April, marking the first growth since the virus outbreak in December, as the economy slowly resumed activities after months of lockdown.

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Global Fixed Income

Global Currencies

	1-Yr Tenor	WoW (pps)	10-yr Tenor	WoW (pps)	Inflation (%)		This Week	Prior Week	WoW (%)	YTD (%)
US	0.14		0.64	N/A N/A	0.3	Euro (€)	1.1	1.1	-0.2	-3.6
UK	Real	N/A N/A	0.13	0.0	1.5	GBP (£)	1.2	1.2	-2.3	-8.6
Euro	-0.22	10.4	-0.15	-23.9	0.4	JPY (¥)	107.3	106.7	-0.6	1.3
Japan	Real	N/A N/A	-0.11	-0.1	0.4	INR (₹)	75.6	75.6	0.0	-5.6
China	1.44	-2.8	2.42	-0.6	3.3	CNY (¥)	7.1	7.1	-0.4	-2.0
India	3.71	4.5	5.78	-3.2	5.5	MXN (\$)	24.0	23.6	-1.6	-21.2
Mexico	4.88	0.0	5.75	-1.4	2.15	RUB (p.)	73.7	73.6	-0.1	-15.9
Turkey	14.41	16.6	12.78	-1.0	10.94	ZAR (R)	18.6	18.3	-1.1	-24.6
Russia	4.71	-4.2	2.15	0.7	3.1	EGP (£)	15.7	15.7	0.0	1.9
Egypt	12.48	8.52	16.00	1.39	5.9	KES (sh)	107.1	106.0	-1.0	-5.4
South Africa	4.48	-0.9	9.55	-1.8	4.1	GHS (?)	5.8	5.8	-0.6	-1.3
Kenya	9.17	0.1	12.05	-3.0	5.6	XOF (?)	606.6	604.9	-0.3	-3.6
Ghana	17.90	N/A N/A	19.00	0.0	10.6	XAF (?)	605.9	604.5	-0.2	-3.3
Nigeria	3.84	0.0	11.00	-1.0	12.3	NGN (?)	388.5	386.8	-0.4	-6.7

Global Commodities

Global Indicators for the Week

		This Week	Prior Week	WoW (%)	YTD (%)		Latest	Prior
Brent Crude	\$/bbl	32.2	31.0	3.9	-51.2	China Consumer Price Index (YoY) - April	3.3%	4.3%
OPEC Crude	\$/bbl	24.9	22.9	12.3	-63.3	China Producer Price Index (YoY) - April	-3.1%	-1.5%
Gasoline	\$/gal	95.3	95.2	0.1	-48.9	China Retail Sales (YoY) - April	-7.5%	-15.8%
Natural Gas	\$/MBtu	1.7	1.8	-7.9	-25.2	US Producer Price Index (YoY) - April	-1.2%	0.7%
Gold	\$/oz	1749.3	1702.7	2.7	15.3	US Consumer Price Index (YoY) - April	0.3%	1.5%
Sugar	\$/lb	10.3	10.3	0.4	-24.4	UK Gross Domestic Product (YoY) - Q1	-1.6%	1.1%
Wheat	\$/bsh	500.0	522.0	-4.2	-11.3	EU Industrial Production (YoY) - March	-12.9%	-2.2%
Crude Palm oil	MYR/MT	2091.0	1946.0	0.0		Germany Gross Domestic Product** (YoY) - Q1	-1.9%	0.2%

** means Preliminary Estimate

The week in Review

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◆ Elsewhere, recent data from the NBS showed a 15.7% YoY and 9.9% QoQ increase in VAT to ₦339.9 billion (the highest recorded so far) over Q1 2020. We believe this can be linked to increase in VAT rate from 5% to 7.5% in February 2020. Sectoral breakdown showed professional services, other manufacturing and trading & commercial sectors contributed 27% to total VAT.

Currency	This Week	Prior Week	WoW (%)	YTD (%)	Report released this week (Click Link below for Full report)
External Reserve (\$'bn)	35.59	35.98	-1.08%	-7.79%	UACN Q120 - Slow revenue growth and sticky Opex to hamper earnings
USD/NGN (₦/\$)					Nestle Q1 20 - Flattish revenue and elevated Opex drag earnings
NAFEX	382	370	-2.92%	-4.45%	Fixed Income Monthly Update - April 2020
Parallel	402.5	375.0	-6.83%	-10.56%	Currency and crude oil market update - April 2020
Economic Snapshot	Latest (%)	Prior	CHG (pps)	2020 Avg.	
Inflation YoY (January)			CHG (pps)		
Headline	12.2	12.13	0.07	12.17	
Core	9.43	9.35	0.08	9.39	
Food	14.9	14.85	0.05	14.85	
GDP (%) - YoY	Q4 19	Q3 19	Q2 19	FY19	
Real GDP	2.55	2.3	2.1	2.3	News Headline for the week (click news for link)
Oil	6.4	6.5	7.2	4.6	*Borrowing: W/Bank, AFDB to approve Nigeria's request by June - DMO
Agriculture	2.3	2.3	1.8	2.4	*Nigerians spent N22.78trn on imported food items in 2019
Manufacturing	1.2	1.1	-0.1	0.8	*Nigeria's foreign portfolio deficits widen by 356% to N121.3b in Q1
Services	4	3.5	2.9	3.4	*NESG forecasts 4.1% GDP rate decline for Nigeria
Labor Data (%) - Q3 18			Latest	Prior	*COVID-19: Manufacturers seek 5% interest rate
Unemployment Rate			23.1	18.8	*Petrol price: FG setting us against Nigerians, marketers say
Underemployment			20.1	21.2	*Total pension assets rise to N10.5tn
Capital Importation (\$'mn)	Q4 19	Q3 19	QoQ (%)	YoY (%)	*Nigerians consumed N2.5tn petrol in 13 months -NNPC
Foreign Portfolio Investment - Equities	353.65	358.19	-1.3%	62.0%	*Foreign reserves gain \$1.22bn in 11 days
Bonds	47.36	91.60	-48.3%	-96.0%	*U.S. reports record \$738 billion budget deficit in April
Money Market	1482.57	2549.71	-41.9%	50.8%	*FG adjusts 2020 budget to N10.52tn, adopts \$25 oil benchmark
Foreign Direct Investment	257.25	206.58	24.53%	-6.2%	*NNPC reports N211.6bn on petroleum products' sale
Balance of Payment (\$'mn)	Q3 19	Q2 19	Q1 19	QoQ	*NLNG signs Train 7 EPC contracts with Saipem, others
Trade Balance	2,559	1,668	775	230.2%	*PFAs slash investment in TBs by 30%
CA Balance	(2,796)	(3,772)	(2,819)	-0.8%	

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	PX_LAST	CHG_PCT_WTD	CHG_PCT_MTD	CHG_PCT_QTD	CHG_PCT_YTD						
Index Performance						Sector Performance					
	Level	WoW	MTD	QTD	YTD	1 year	Returns (%)				
							WoW	QTD	YTD		
NSE ASI	23871.33	-0.72	3.69	12.07	-11.07	-15.61	Banking	2.15%	21.78%	-20.51%	
NSE ASI (\$)	57.30	-0.72	4.00%	11.94%	-16.31%	-23.17%	Brewers	-0.51%	30.55%	-37.13%	
Market Cap (? 'bn)	11393.34	-0.72%	3.70%	12.07%	-4.00%	-2.17%	Cement	-3.30%	5.13%	1.70%	
Market Cap (\$'mn)	29864.58	-0.40%	4.00%	11.94%	-9.66%	-9.09%	Telecom	-1.49%	14.08%	5.01%	
NSE 30	1027.78	-0.74	4.11	13.90	-12.74	-19.03	Personal Care	14.34%	14.24%	-34.93%	
NSE Premium	2083.86	-2.50	3.67	18.32	-1.53	2.06	Construction	-0.06%	12.59%	19.01%	
NSE 50	1108.96	0.98	8.84	20.14	-17.65	-26.54	Food	2.62%	26.65%	-22.09%	
NSE ASEM	762.45	35.93%	0.18	3.74	3.74	-5.51	Insurance	-2.18%	0.39%	-1.23%	
NSE Banking	282.33	-0.03	3.96	19.70	-20.88	-21.98	Oil & Gas	-0.19%	-9.96%	-47.79%	
NSE Insurance	124.54	-0.56	2.18	4.30	-1.02	9.01	Real Estate	-0.35%	-0.43%	-0.57%	
NSE Consumer	411.55	2.25	10.89	26.44	-30.58	-36.44	ARM Indices				
NSE Oil & Gas	218.40	1.56	4.43	1.46	-16.81	-16.41	Large Cap (Top 10%)	-0.85%	12.80%	-1.21%	
NSE Industrial	1012.32	-2.18	-0.03	-2.69	-5.88	-4.83	Mid Cap (Mid 30%)	1.00%	4.20%	-7.86%	
NSE Lotus	1691.48	-0.86	3.87	11.82	-7.81	-16.30	Small Cap (Bottom 60%)	5.02%	8.84%	4.09%	
NSE Pensions	906.95	0.74	3.15	9.70	-13.96	-15.79	Volume and Value Traded (millions)				
Top 10 Gainers						Top 10 Losers					
Company	This Week	WoW	Company	This Week	WoW						
NPFMCRFB	1.78	50.8%	CHAMPION	0.76	-6.2%						
UNILEVER	12.70	21.0%	LINKASSU	0.41	-6.8%						
MAYBAKER	3.12	20.9%	NEM	2.00	-7.4%						
ETERNA	2.56	18.5%	HONYFLOU	0.98	-8.4%						
FIDSON	2.85	14.9%	UBN	6.40	-8.6%						
MOBIL	176.90	9.9%	AFROMEDI	0.31	-8.8%						
PRESCO	40.05	9.9%	CUSTODIA	5.70	-9.5%						
MANSARD	1.71	8.2%	ARBICO	2.32	-9.7%						
TOTAL	102.80	6.7%	CAP	20.65	-9.8%						
FBNH	4.95	5.3%	UACPROP	0.80	-13.0%						

Source: NSE, Bloomberg, ARM Research

The week in Review

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◆ In fact, the FG, this week, released a revised Q2 bond calendar in which the maximum offering in June was increased from ₦45 billion to ₦165 billion. Meanwhile, at the OMO auction, the CBN did not sell any of the ₦70 billion it offered, despite subscriptions totaling ₦344.17 billion. In the secondary market, average FI yields closed flat at 6.24% as a 38bps decline in NTB yields was cancelled out offset by a similar rise in bond yields. The bond yields increase was led driven by the March-2024 (+121 bps) and April-2023 (+88bps) while decreases across all tenors dragged down NTB yields.

	This Week	Prior Week	WoW change	Primary Market Auction (Rates)	90 Days	180 Days	1 Year	Issuance (N'billion)	90 Days	180 Days	1 Year
Money Market				OMO			OMO				
Overnight (O/N)	3.42%	8.33%	-4.91%	14-May-20	N/A	N/A	N/A	14-May-20	N/A	N/A	N/A
Open Buy Back (OBB)	2.75%	7.42%	-4.67%	23-Apr-20	11.50%	11.54%	12.71%	23-Apr-20	20.37	11.50	80.78
NIBOR - 1M	5.53%	8.39%	-2.86%	16-Apr-20	11.50%	11.54%	12.75%	16-Apr-20	16.00	18.00	100.00
NIBOR - 3M	6.27%	9.04%	-2.77%	09-Apr-20	N/A	N/A	12.79%	09-Apr-20	N/A	N/A	39.35
NIBOR - 6M	6.72%	9.82%	-3.10%	02-Apr-20	N/A	N/A	12.79%	02-Apr-20	N/A	N/A	4.00
Treasury Bills				Treasury Bills			Treasury Bills				
					91 Day	182 Day	364 Day		91 Day	182 Day	364 Day
1-month	2.24%	2.24%	0.00%	13-May-20	2.50%	2.85%	3.84%	13-May-20	19.78	40.09	82.89
3-month	1.86%	2.52%	-0.66%	29-Apr-20	1.85%	2.49%	3.84%	29-Apr-20	49.84	10.62	71.07
6-month	2.16%	2.75%	-0.59%	15-Apr-20	1.93%	2.74%	4.00%	15-Apr-20	5.85	3.50	49.14
9-month	2.93%	3.07%	-0.14%	01-Apr-20	2.20%	3.20%	4.30%	01-Apr-20	10.00	17.60	68.08
12-month	3.07%	3.19%	-0.12%	18-Mar-20	2.30%	3.40%	4.60%	18-Mar-20	2.00	8.39	37.18
FGN Bonds (Local)				FGN Bonds			FGN Bonds				
					5 Year	10 Year	30 Year		5 Year	10 Year	30 Year
14.50% 15-JUL-2021	5.21%	4.53%	0.68%	22-Apr-20	9.00%	12.00%	12.50%	22-Apr-20	40.1	82.3	53.7
16.39% 27-JAN-2022	6.39%	5.65%	0.74%	25-Mar-20	10.00%	12.50%	12.98%	25-Mar-20	15.0	30.0	25.0
14.20% 14-MAR-2024	9.61%	8.40%	1.21%	19-Feb-20	8.75%	10.70%	12.12%	19-Feb-20	55.0	65.0	40.0
12.50% 22-JAN-2026	10.55%	10.18%	0.37%	22-Jan-20	9.85%	11.13%	12.56%	22-Jan-20	29.3	106.4	276.1
16.2884% 17-MAR-2027	10.97%	11.18%	-0.21%	18-Dec-19	11.00%	12.00%	13.00%	18-Dec-19	59.9	96.7	96.4
12.1493% 18-JUL-2034	11.61%	11.30%	0.31%	Corporate Bonds			Corporate Eurobond				
16.2499% 18-APR-2037	11.55%	11.55%	0.00%		This Week	Prior Week	WoW (%)		This Week	Prior Week	WoW (%)
14.8% 26-APR-2049	12.54%	12.63%	-0.09%	UBA 16.45% 30-DEC-2021	14.99%	14.26%	0.73%	ACCESS 10.50% 19-OCT-2021	11.44%	12.30%	-0.86%
				MIXTA 17.00% 16-JAN-2022	5.66%	5.25%	0.41%	ZENITH 7.375% 30-MAY-2022	11.85%	11.81%	0.04%
				FIDELITY 16.48% 13-MAY-2022	8.29%	7.52%	0.77%	UBA 7.75% 08-JUN-2022	11.75%	13.77%	-2.02%
				DUFIL 18.25% 1-SEP-2022	9.49%	8.68%	0.81%	SEPLAT 9.25% 1-APR-2023	17.12%	16.91%	0.21%
				LAPO MFB 17.75% 19-DEC-2022	12.06%	11.22%	0.84%				
				STERLING 16.50% 3-AUG-2023	10.32%	9.34%	0.98%				
				FCMB 17.25% 8-DEC-2023	10.84%	9.75%	1.09%				
				STANBIC 13.25% 30-SEP-2024	10.89%	9.91%	0.98%				
				VIATHAN 16.00% 14-DEC-2027	11.02%	10.15%	0.87%				

Source: DMO, FMDQ, Bloomberg, ARM Research

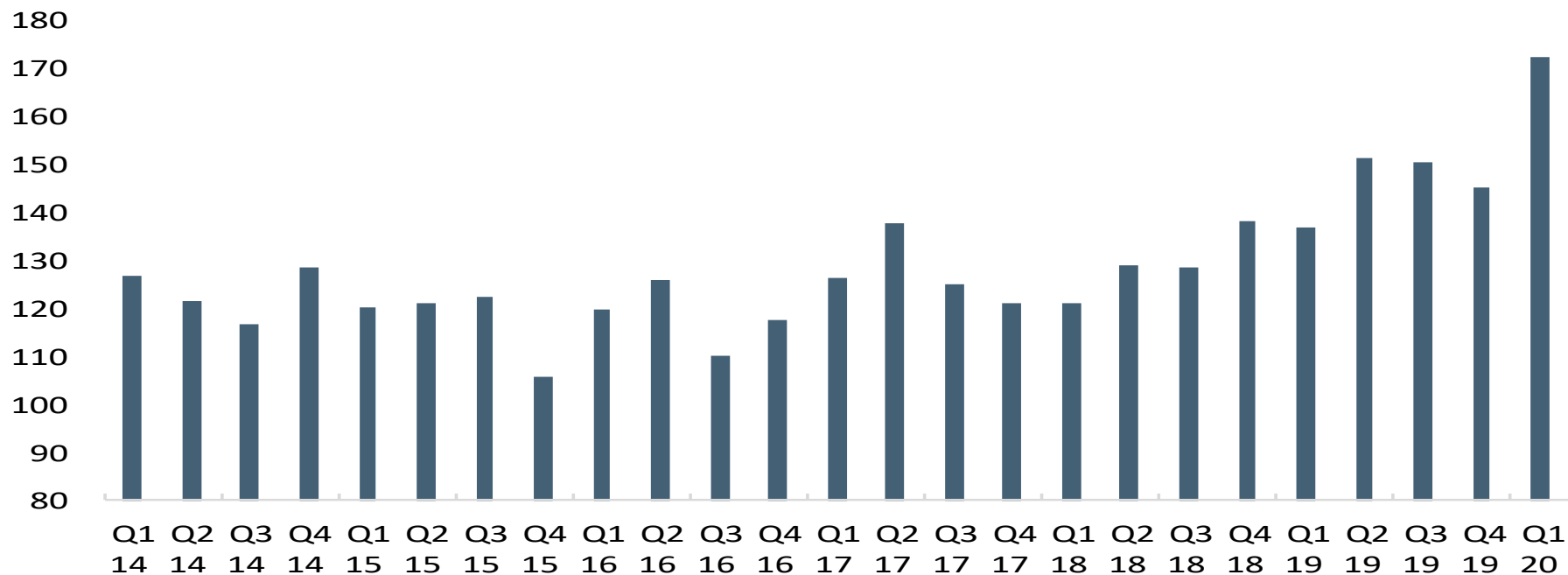
Economic and Financial Calendar for the week 18th May - 22nd May

	Monday 18-May	Tuesday 19-May	Wednesday 20-May	Thursday 21-May	Friday 22-May
Global	China House Price Index - April	Japan Industrial Production (YoY) - March	China PBoC Interest Rate Decision	Japan National Consumer Price Index (YoY) - April	UK Retail Sales (YoY) - April
		UK ILO Unemployment Rate (3M) - March	UK Consumer Price Index (YoY) - April		EU Markit PMI Composite - May
		US API Weekly Crude Oil Stock - May 15	EU Consumer Price Index (YoY) - April		
			Japan Merchandise Trade Balance Total - April		
Domestic	Premium motot spirit price watch - April		Federal Account Allocation Committee (FAAC) - April	Daily Energy Generated and Sent Out - Q120	Road Transport Data - Q120

** means Preliminary Estimate

Quarterly non-import VAT (N'billion)

This week we take a look at Q1 20 VAT data released this week which showed VAT inflows increased 26% YoY and 19% on the quarter to ₦173 billion. This largely reflects impact of the increased VAT from 5% to 7.5% which came to effect in Feb-2020. Further breakdown showed non-import VAT printed at its highest level on record, at ₦173 billion.



Source: NSE, ARM Research



Thank You

ARM
SECURITIES

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