MACROECONOMIC REVIEW FOR 2020Q2 and Outlook

Minimizing the Impact of COVID-19, the new and unexpected shock to the Nigerian Economy.

June 2020

MERCHANT BANK LTD

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SECTION 01

COVID-19, Oil Price and the Global Economy

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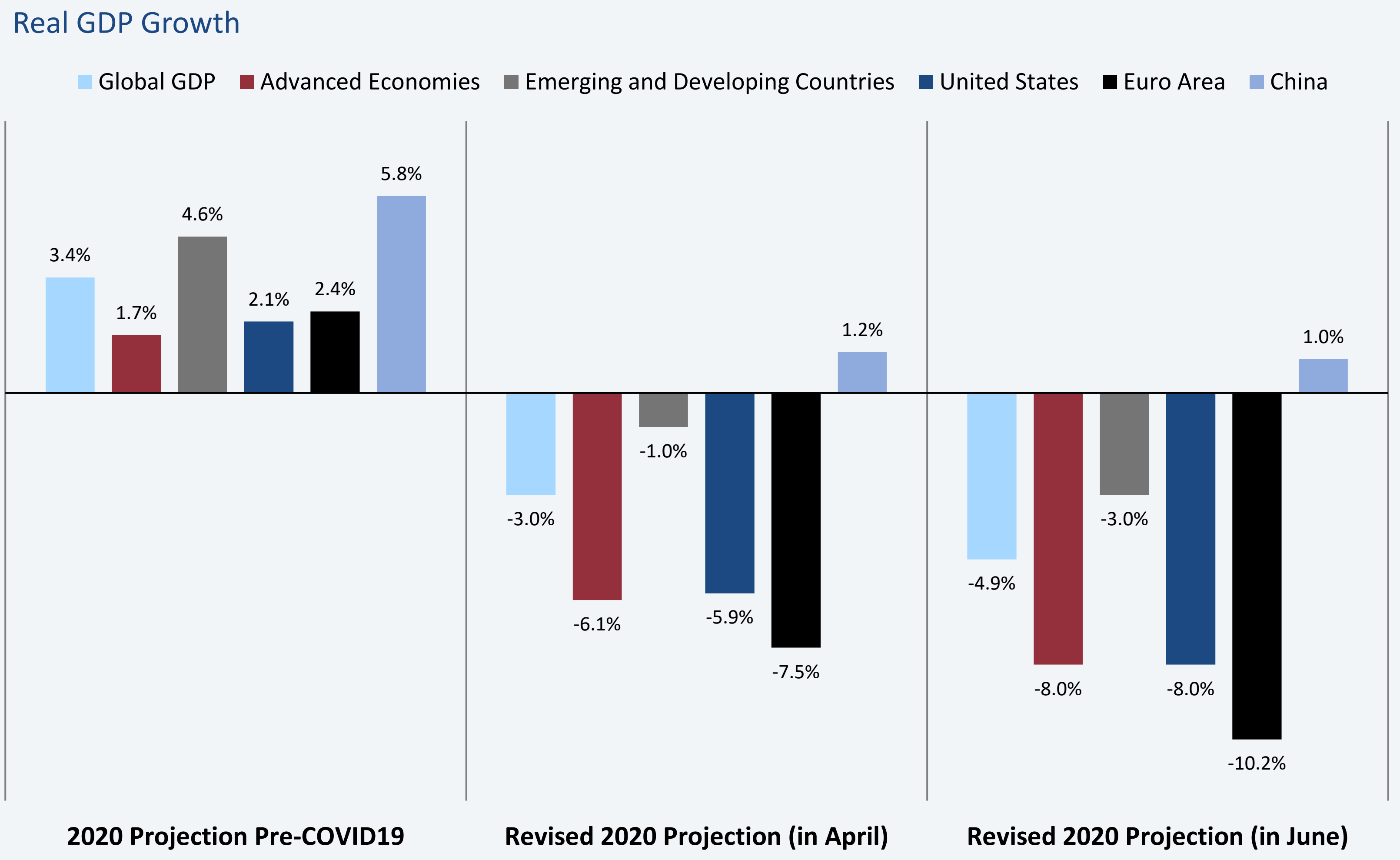
IMF Projection revised further downward in June 2020

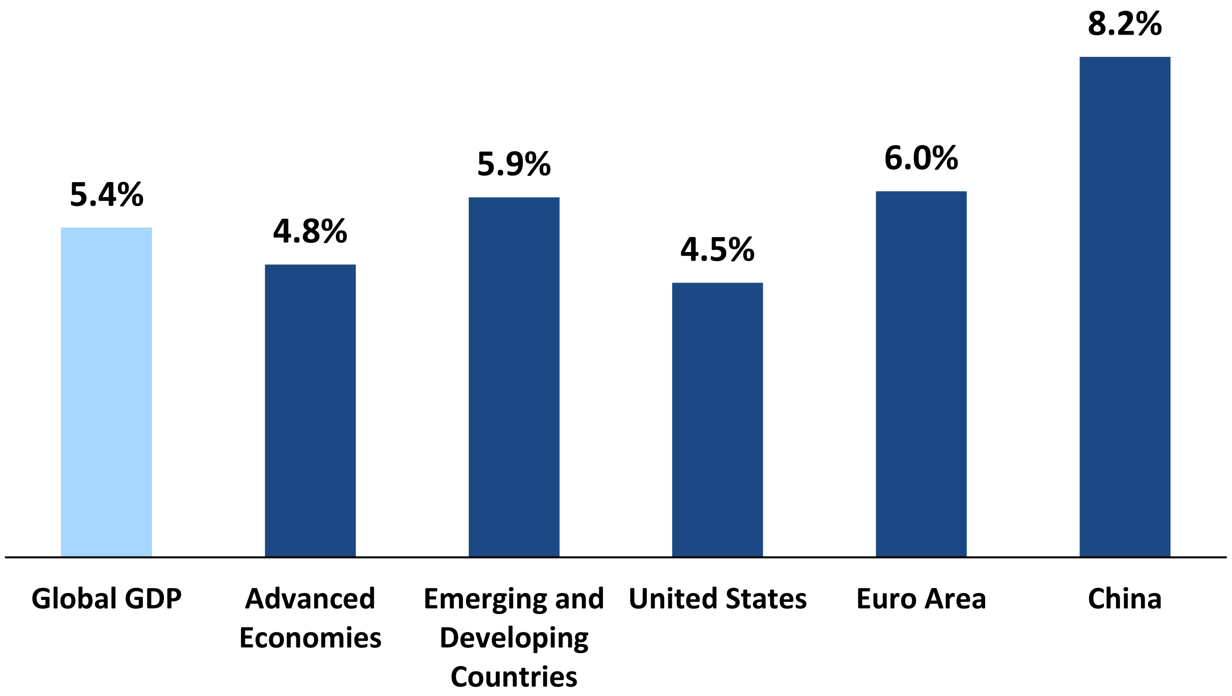


Data Source: IMF

- **In June, the International Monetary Fund (IMF) revised its projection downwards and forecasted a -4.9% contraction in global GDP from -3% projected in April.**
- **The downward review was necessitated by stringent lockdowns imposed by many economies which have disrupted economic activities.**
- **Advanced economies, led by the United States (US) and the Euro Area, are expected to lead the decline in global economic growth.**
- **The IMF noted that first quarter GDP was worse than expected in several countries. The US economy contracted by -4.8% in 2020Q1 against 2.1% in the previous quarter.**
- **The economies of the European Union (EU) and the UK contracted by -2.6% and -2.0% in the first quarter of 2020.**
- **Chinese economy recorded a 6.8% decline in 2020Q1 slipping from 6.0% in the previous quarter.**

Global GDP projected at 5.4% in 2021

Projected GDP Growth for 2021



Data Source: IMF

- **According to the IMF, economic outcomes across countries will largely depend on the following:**
  - **The length of the pandemic and required lockdowns**
  - **Displaced workers' ability to secure employment, possibly in different sectors**
  - **Scarring from firm closures and unemployed workers exiting the workforce**
  - **Global supply chain reconfigurations that affect productivity**
  - **The extent of cross-border spillovers from weaker external demand as well as funding shortfalls**
  - **Eventual resolution of the current disconnect between asset valuations and prospects for economic activity.**
- **The global economy is expected to recover significantly by 5.4% in 2021, although this is lower than 5.8% that was previously anticipated.**

Impact of COVID-19 on GDP of Select African Countries

Real GDP Growth

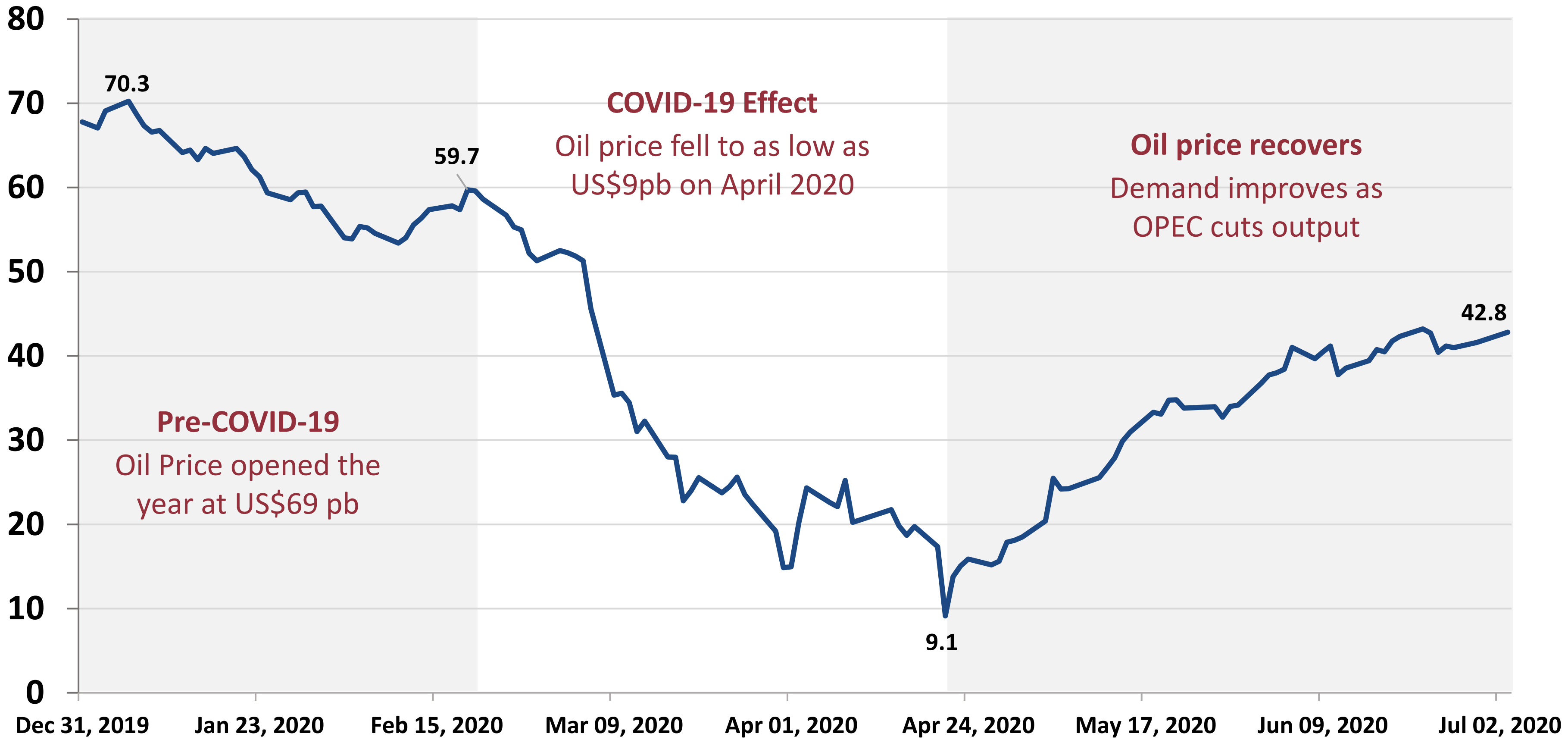
		2020 Revised (April)	2020 Revised (June)
	Sub-Saharan Africa	-1.6%	-3.2%
Oil Exporters	Nigeria	-3.4%	-5.4%
Oil Exporters	Angola	-1.4%	N/A
Oil Exporters	Gabon	-1.2%	N/A
Other Resource Intensive Countries	South Africa	-5.8%	-8.0%
Other Resource Intensive Countries	Ghana	1.5%	N/A
Non-resource Intensive Countries	Ethiopia	3.2%	N/A
Non-resource Intensive Countries	Kenya	1.0%	N/A

- **Growth in Sub-Saharan Africa (SSA) for 2020 was further revised downwards from -1.6% to -3.2% due to the effect of lockdowns on economies in the region.**
- **Major oil producing countries such as Nigeria and Angola have been badly hit by the pandemic.**
- **Nigeria's growth forecast for 2020 was revised to -5.4% from -3.4%.**
- **South Africa, which is the second largest economy will experience a significant decline of -8% in 2020, mainly due to restrictions imposed on the economy.**
- **Non-resource intensive countries showed better resilience led by Ethiopia and Uganda. The economies of both countries will expand by 3.2% and 3.5% respectively.**
- **SSA is expected to recover in 2021 with a growth of 3.4%. In 2021, the economies of Nigeria and South Africa will expand by 2.6% and 3.4% respectively.**

Data Source: IMF

Oil Price improves following OPEC cuts and higher demand

Europe Brent Spot Price FOB (US Dollars per Barrel)



- Crude oil price experienced improvements in April & May 2020 as demand increased.
- Following improved demand, OPEC cuts had significant positive impact on price movement in June.
- According to EIA, oil supplies fell by almost 12 million barrels per day in May even as OPEC agreed to extend its cuts till August.
- Brent crude price stabilized at around US$40 per barrel in June.
- Year to date average stands at US$40.3 per barrel.
- Possible risk to oil price increase include fears of a second wave of COVID-19 outbreak.

Data Source: U.S. Energy Information Administration

SECTION 02

Review of Nigeria's Macroeconomic Environment in the light of COVID-19

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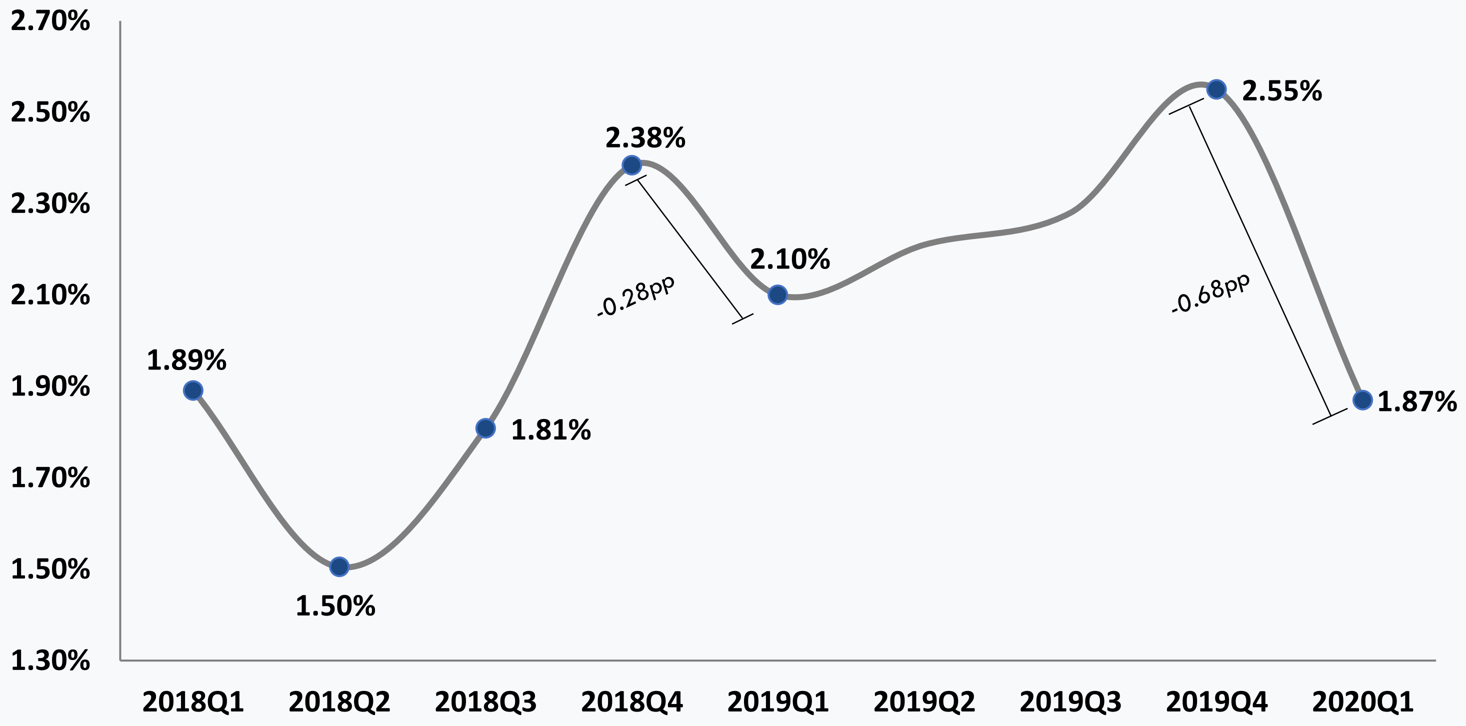
GDP Growth in Q1 2020 slows at 1.87%, partly due to COVID-19

Nigeria's GDP Growth Rate



The gap between GDP growth in Q4 and Q1 expanded in 2020 to -0.68 percentage points (pp) from -0.28 in 2019.

Data Source: National Bureau of Statistics

- **Nigeria recorded a GDP growth of 1.87% in the first quarter of 2020. This represents the lowest growth rate since the third quarter of 2018.**
- **The slow rate of economic expansion was as a result of restriction of economic activities and social distancing policies which were implemented to control the spread of COVID-19 in Nigeria.**
- **Slowdown of growth rate reflected the shutdown of airports, cancellation of events and conferences and the sharp decline in crude oil price.**
- **In our Macroeconomic report released in earlier in 2020, we had predicted a GDP growth of less than 2% in the first quarter of 2020.**
- **For Q2, the Nigerian economy will contract significantly following shut down of non-essential economic activities in several States in April.**

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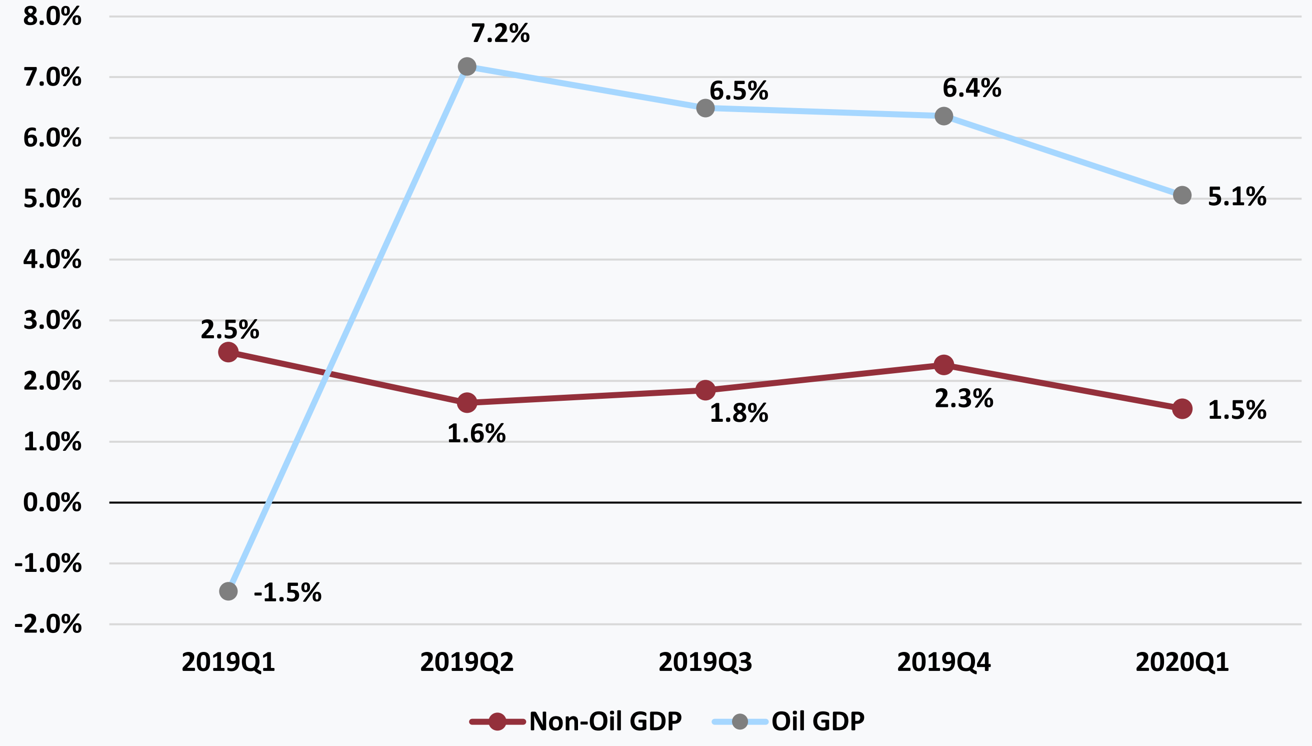
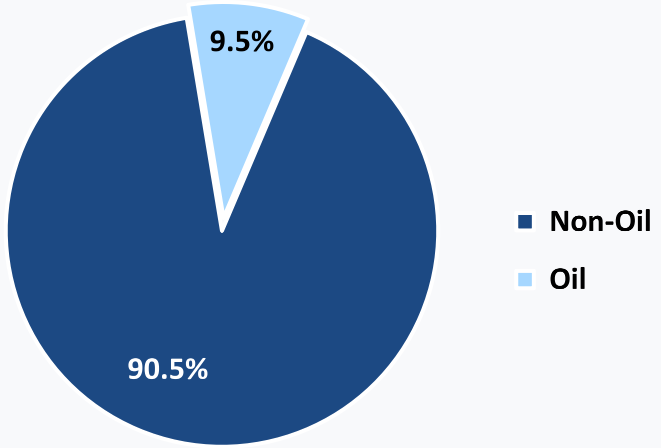
Oil & Non-Oil GDP expanded further but at a slow pace in 2020Q1

Growth of Oil & Non-Oil GDP



Data Source: National Bureau of Statistics

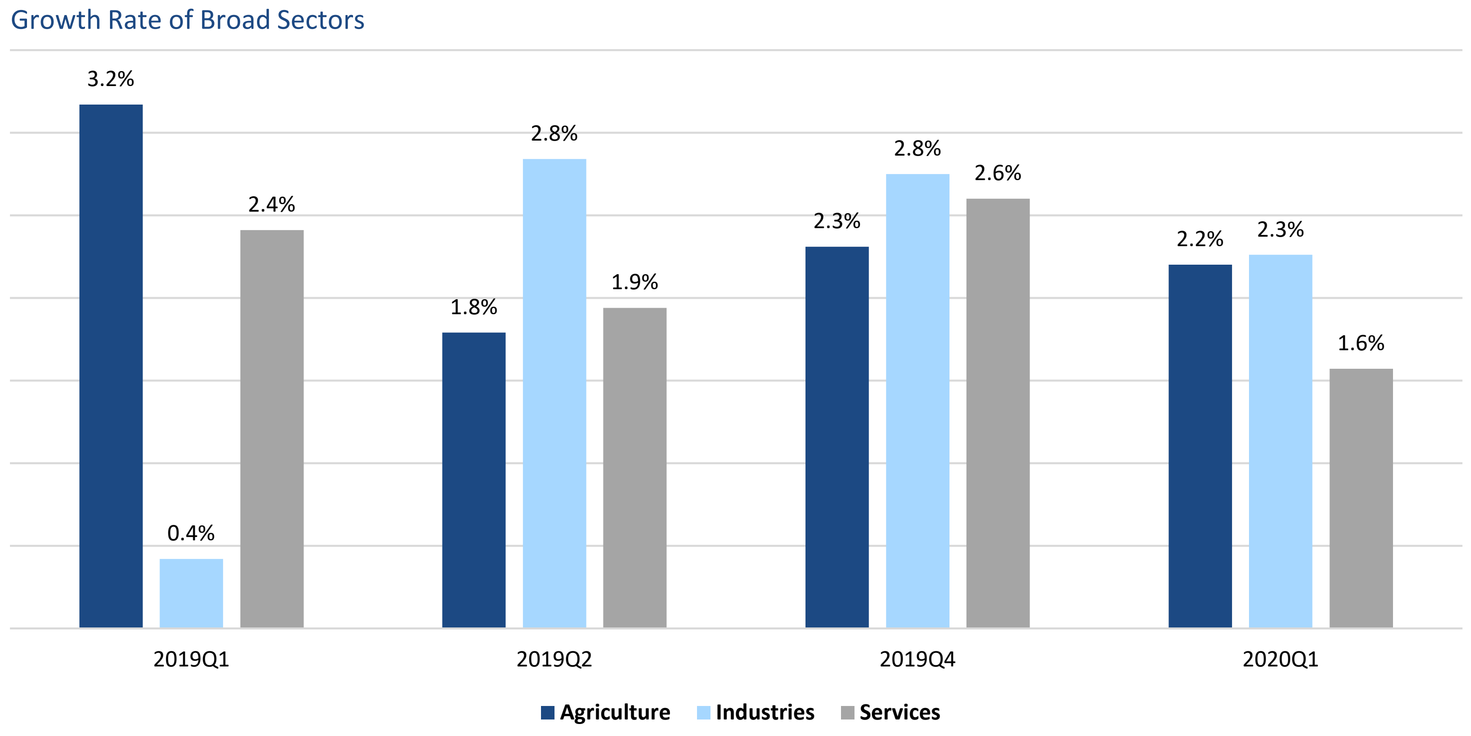
Share of Oil & Non-Oil GDP in 2020Q1

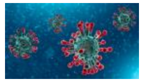


- **In the first quarter of 2020, the oil sector expanded by 5.1%, a significant improvement relative to the first quarter of 2019.**
- **However, when compared with the previous quarter (6.4%), the sector expanded at a slow pace.**
- **Growth in the sector was triggered by increase in crude oil production which averaged 2.07 million barrels per day in the quarter.**
- **Non-Oil sector's growth slowed to 1.5% in the quarter on the backdrop of COVID-19.**

Performance of three broad sectors

The Industrial Sector continues to drive growth in 2020Q1





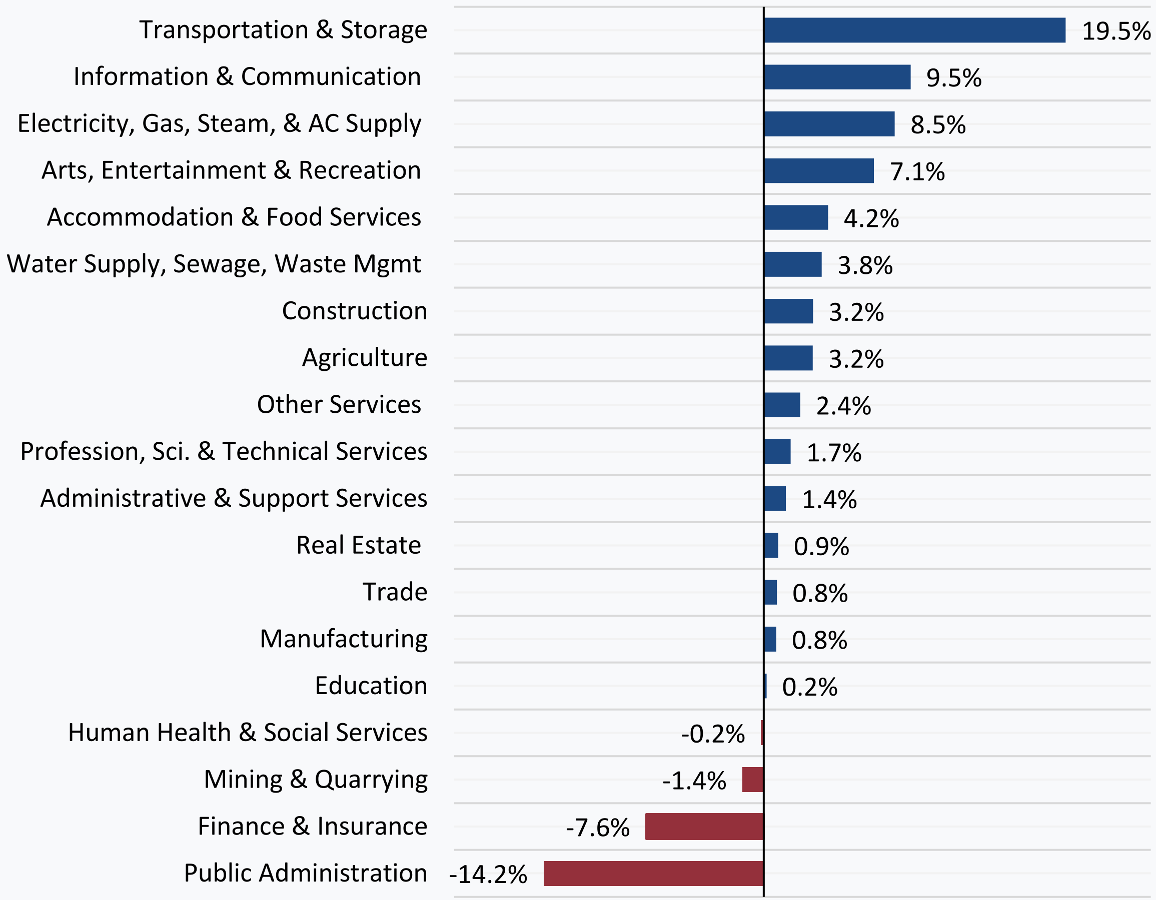
Government's response to COVID-19 such as restriction of gatherings, social distancing policies had an impact on sectoral activities in the quarter.

Data Source: National Bureau of Statistics

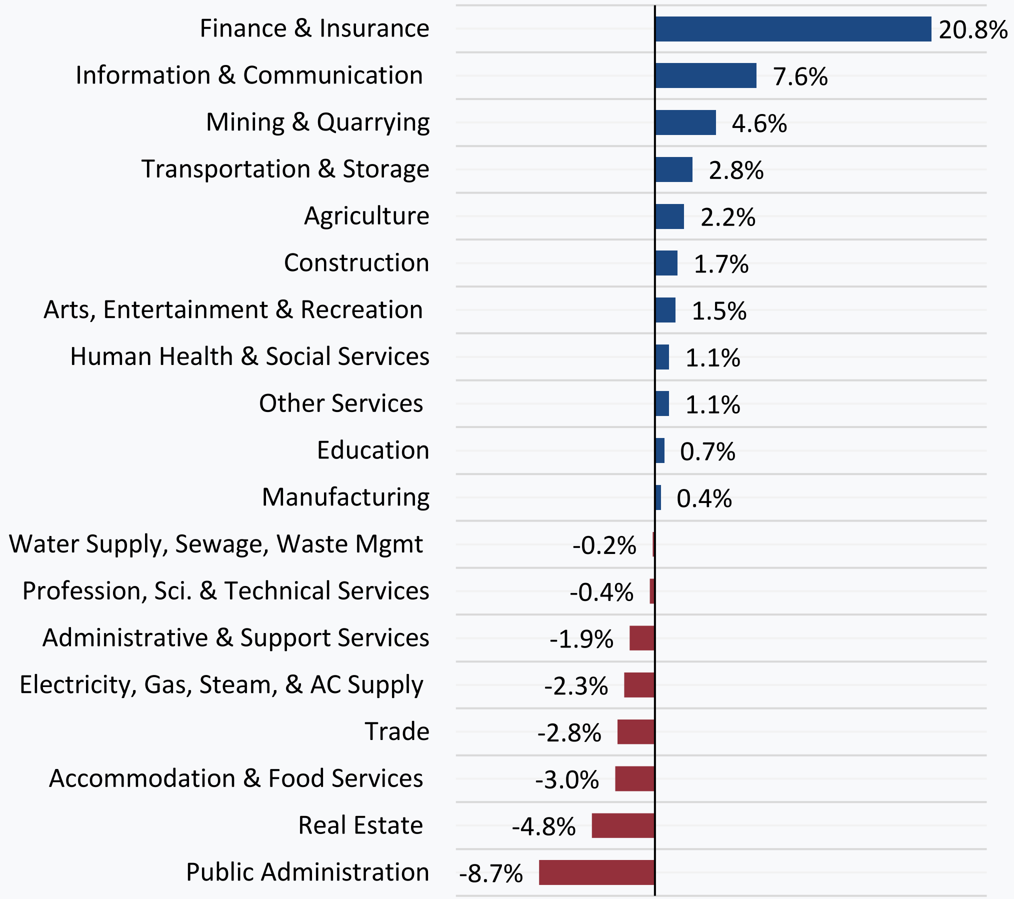
- Among the three broad sectors, the Industrial sector, led by crude oil, recorded the highest growth rate of 2.3%.
- Major industrial sub-sectors such as construction, manufacturing recorded slower growth rate due to gathering restriction, social distancing policies and revenue constraints faced by the Nigerian government.
- Growth of Agriculture slowed to 2.2% in the quarter from 3.2% in 2019Q1 and 2.2% in the previous quarter due to seasonal factors and relatively lower demand/investments.
- Services sector recorded the lowest growth in the quarter at 1.6% as a result of government's response to contain COVID-19. The decline in growth was driven by poor performance of major subsectors such as Trade, Real Estate, Entertainment and Accommodation & Food Services.

Sectoral Growth: 8 out of 19 sectors contracted in 2020Q1

2019Q1



2020Q1



In the first quarter of 2020, 8 out of the 19 major sectors contracted largely due to gathering restrictions and social distancing policies as a result of COVID-19. Transportation fell off the top five fastest growing sectors while Finance and Insurance emerged as the sector with the highest growth. From the bottom, Real Estate and Public Administration continued to underperform.

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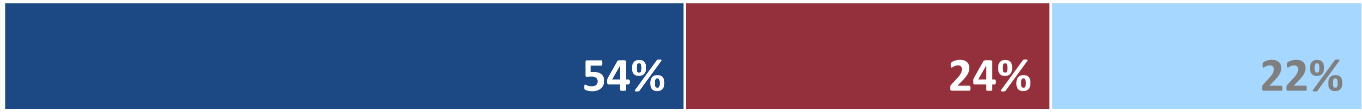
Data Source: National Bureau of Statistics

Share of Services in GDP increased as Agriculture's share reduced

Share of GDP in 2020Q1



Services

The share of Services in 2020Q1 GDP stood at 54%- same percentage recorded in both the previous quarter and in 2019Q1. Trade and Telecoms were the largest contributors to Services GDP with shares of 30% and 20% respectively.

Industries

The Industrial sector contributed 24% to GDP in 2020Q1. Manufacturing and Crude Oil sectors contributed 41% and 40% to Industrial output in the quarter.

Agriculture

Agriculture recorded the lowest share of 22% in the quarter. This is largely as a result of seasonal factors. Typically in every first quarter, Agriculture records its lowest share in GDP and its highest in the third quarter of every year. Crop production accounted for 88% of Agricultural output in 2020Q1.

2020Q1 GDP data shows very high concentration of economic activities in few sectors – 5 sectors (Agriculture, Crude Oil, Manufacturing, Trade and Telecommunications) accounted for 72% of GDP.

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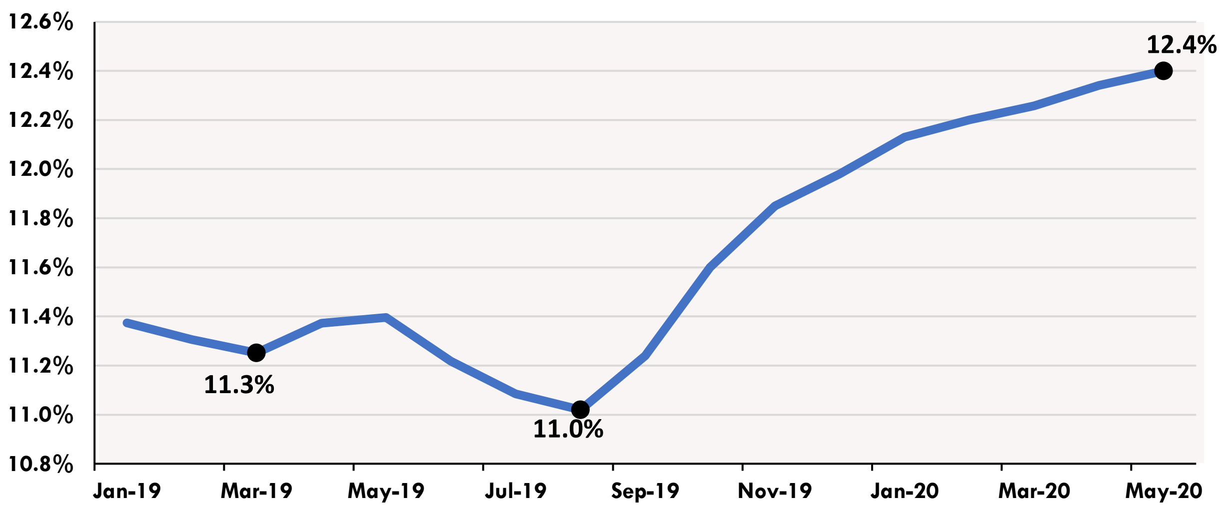
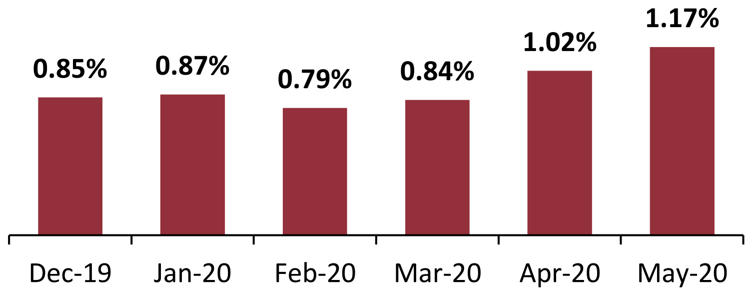
Data Source: National Bureau of Statistics

Inflation rate rises to 12.4% in May 2020

Nigeria's Inflation Rate



Month on Month Inflation Rate



Data Source: National Bureau of Statistics

- **The spread of COVID-19 continues to constrain economic activities, driving up average general prices in the country.**
- **Headline inflation rate for the month of May 2020 stood at 12.4% year-on-year, the highest in 25 months since April 2018. This represents a marginal increase from 12.34% recorded in April 2020.**
- **On a month-on-month basis, average prices increased by 1.17% in May from 1.02% in April and 0.84% in March 2020.**
- **Increase in inflation rate has been driven by the following factors:**
  - **Constrained economic activities as a result of lockdown policies across major states**
  - **High cost of transportation**
  - **Depreciated exchange rate**
- **Inflation is expected to rise further in the year given the imminent exchange rate pressures, high cost of transport and pressure on food supply.**

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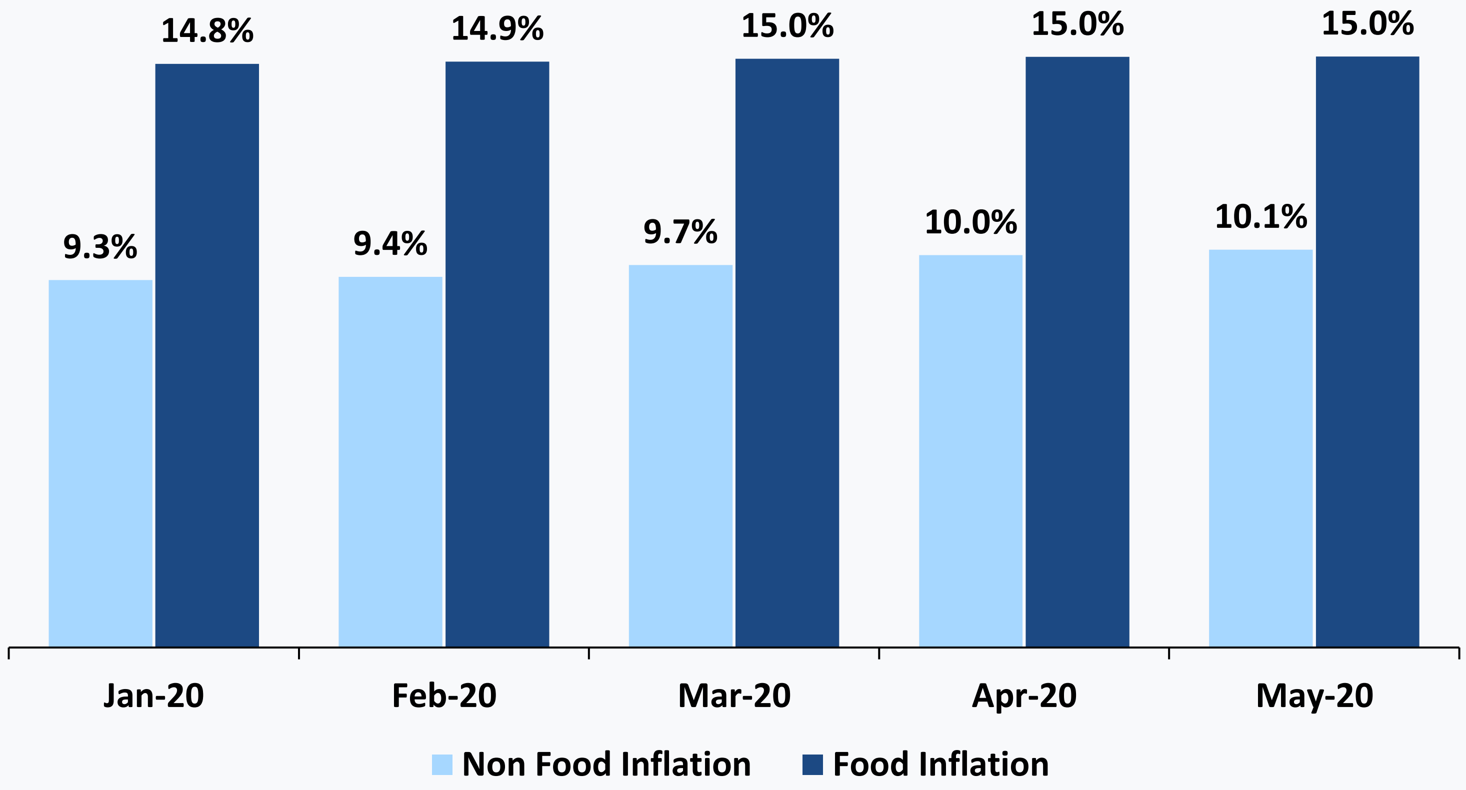
Non food inflation has risen consistently since October



- While food inflation continues to be the major driver of the headline inflation in Nigeria, non-food inflation has also continued on an upward trend.
- Non food inflation rate has expanded from 9.3% in January 2020 to 10.2% in May.
- Increase in this segment has been driven by rising price of transport services, communication and health services.
- Rising food inflation in May was triggered by increasing prices of Bread and cereals, Potatoes, Yam and other tubers, Oils and fats, Fruits, Fish and Meat

Data Source: National Bureau of Statistics

Miscellaneous goods and services records highest increase in inflation rate (year on year)

Food & Non Alcoholic Bev.

Inflation Rate: 15%

Inflation rate for Food & Non Alcoholic Bev. was 15% in May 2020. This is a 1.3 percentage point increase from 13.7% in May 2019. The increase was triggered by border closure, higher demand, etc.

Miscellaneous Goods & Services

Inflation Rate: 10%

Inflation rate for Miscellaneous Goods & Services rose from 8.7% in May 2019 to 10% in May 2020.

Communication

Inflation Rate: 8.4%

Communication inflation is recorded an increase of 0.8 percentage point to 8.4% in May 2020. VAT increase and higher consumer demand are largely responsible.

Health

Inflation Rate: 10.7%

As a result of the COVID-19 pandemic and high demand for health care, Health inflation experienced a sharp increase to 10.7% in May 2020.

Transport

Inflation Rate: 10.1%

Transport inflation rose to 10.2% in May 2020 from 9.1% in May 2019. The increase was driven infrastructure deficit and rising demand for transport services.

Key drivers of Inflation in the last one year include closure of land borders, infrastructure deficit, exchange rate depreciation, rising transport costs, lockdowns & movement restrictions and VAT increase.

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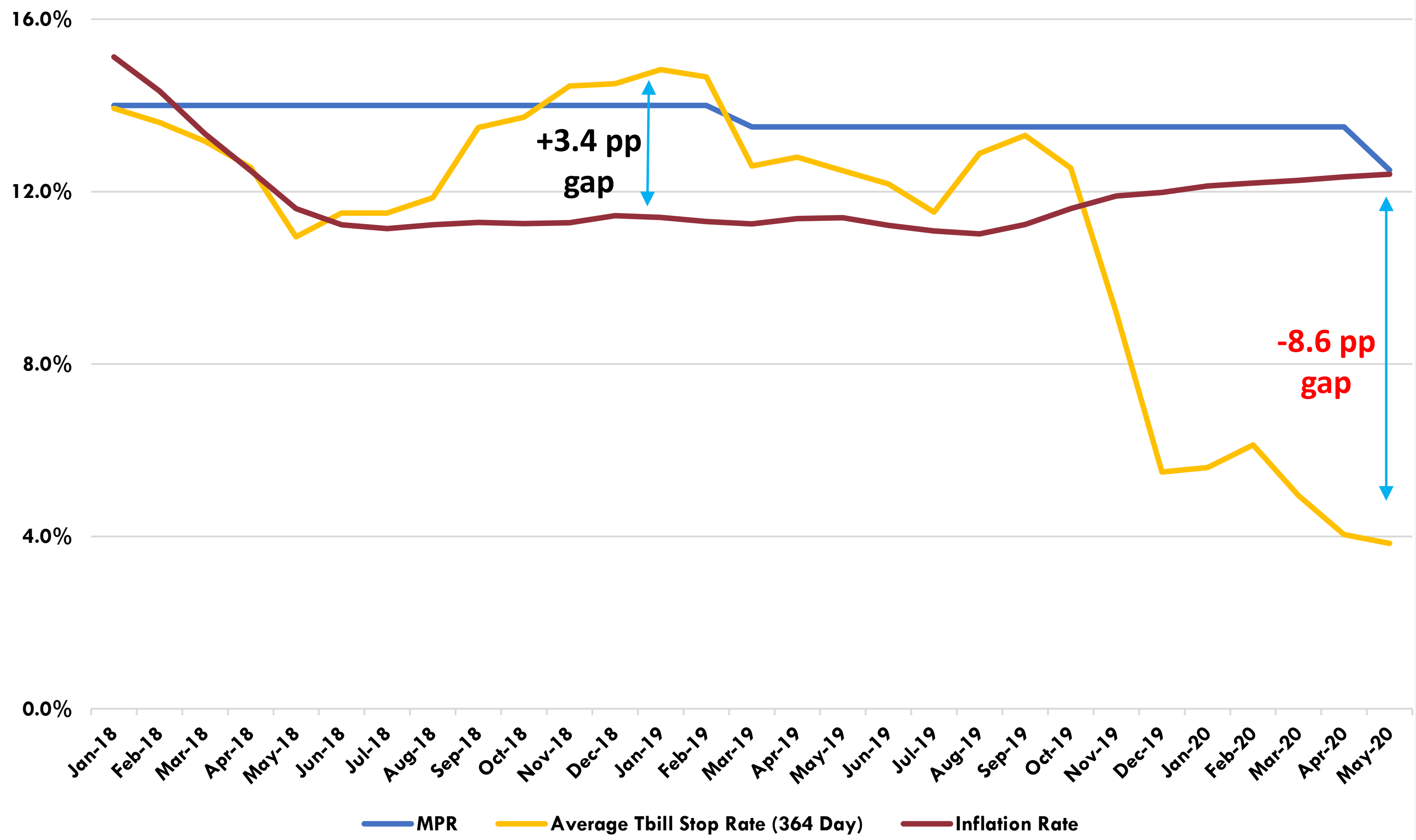
Data Source: National Bureau of Statistics

Real interest rate gap expands from -6.5pp in Jan 2020 to -8.6pp in May

Real Interest Rate: 364-Day Treasury Bill Average Rate vs Inflation Rate



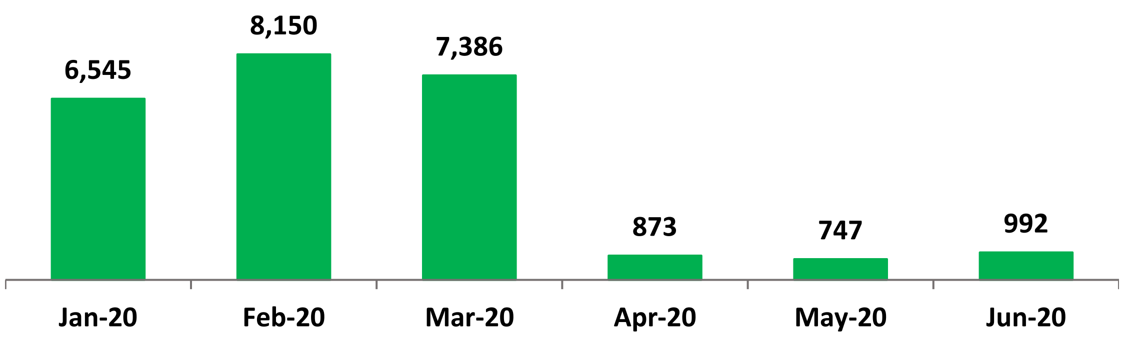
- Real interest rate gap expanded to -8.6 percentage points (pp) in May 2020 (January 2020: -6.5pp).
- CBN OMO policies resulted in excess system liquidity which has led to declining rates on government securities since September 2019.
- However, the reduction of MPR in May to 12.5%, narrowed the gap MPR-Inflation rate gap to -0.1 percentage point from 1.2pp in April 2019.
- While inflation is expected to rise further in the year, the larger government deficit, which will be financed by borrowing, could narrow the real interest rate gap in the year.

*pp - percentage points

Data Source: National Bureau of Statistics & Central Bank of Nigeria

Forex inflows into the I&E Window declined significantly in Q2'2020

I&E Window Turnover (US$'million)



Forex Inflow in the I & E Window (US$'million)

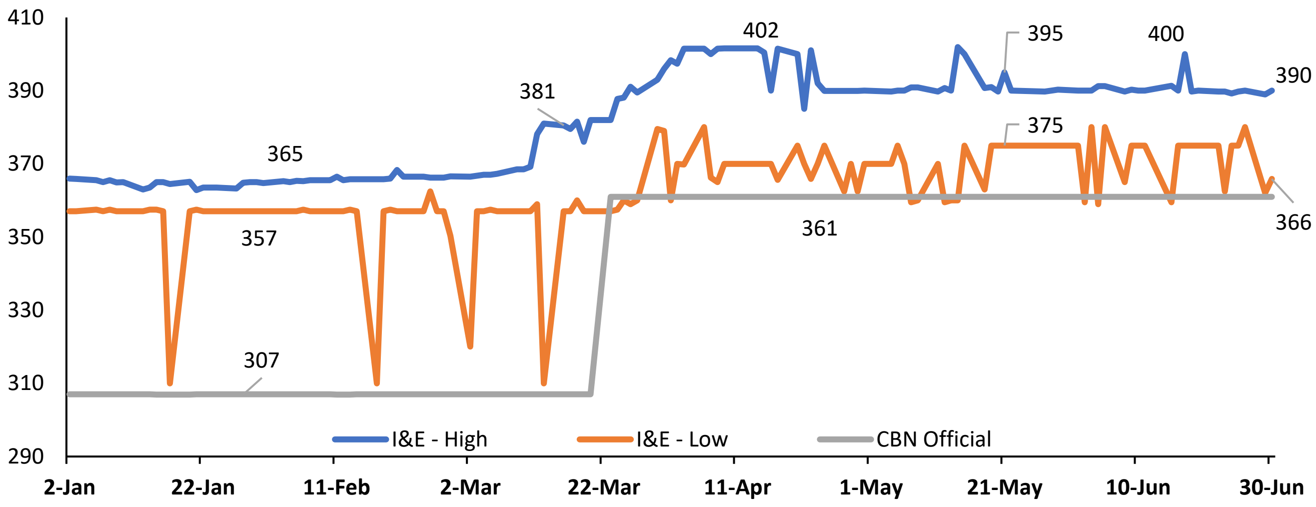
Sources	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
FDI	50.0	150.0	37.5	25.4	34.4	29.6
FPI	2040.0	1370.0	239.3	66.9	131.6	27.2
Other Corporate	110.0	130.0	58.1	62.8	28.9	24.6
CBN	390.0	2480.0	2889.7		0.1	0.3
Exporter	80.0	70.0	41.5	22.1	50.1	23.6
Individuals	10.0	10.0	3.1	1.0	11.3	0.8
Non-bank corporate	520.0	800.0	439.6	281.0	235.6	141.9
Total	**3,190.0**	**5,020.0**	**3,708.8**	**459.2**	**492**	**248**

Data Source: FMDQ

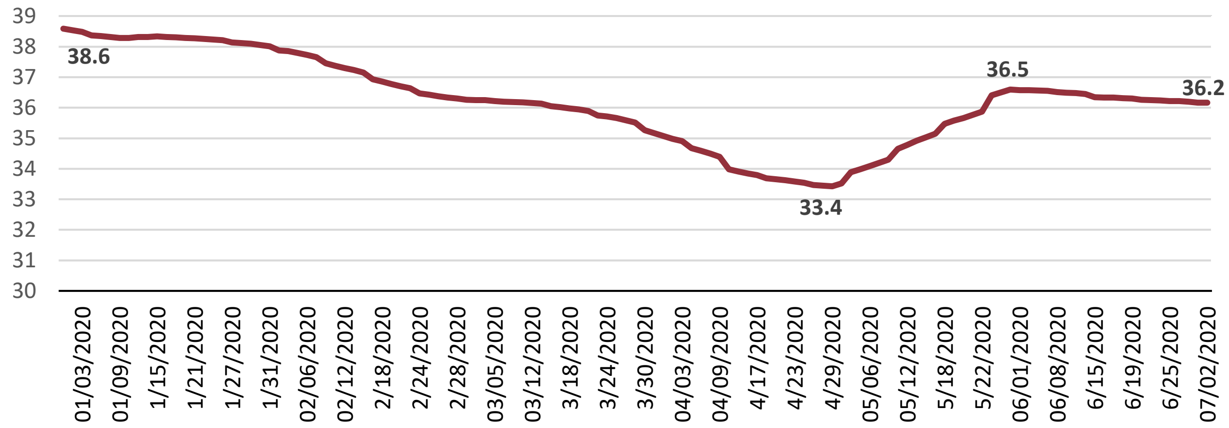
- Following the outbreak of COVID-19, Forex inflows into the I&E Window reduced significantly in 2020Q2 on the back of lower Foreign Portfolio inflows.
- FPI inflow declined to US$27.2 million in June 2020 from US$2.04 billion in January 2020. On a quarterly basis, inflows declined from US$3.65 billion in 2020Q1 to US$225.7 million in 2020Q2.
- CBN intervention increased from US$390 million in January 2020 to US$2.48 billion and US$2.89 billion in February and March respectively.
- The attendant effect of COVID-19 on oil price constrained the CBN's capacity to intervene further as dollar inflow dwindled in April.
- Following the lockdown and restriction of economic activities in April and May, total inflows to the I&E Window dropped from US$3.7 billion in March to US$459.2 million in April, US$492 million in May 2020.
- FX Inflows dipped further to US$248 million in June 2020 (Q1'20=US$11.92 billion VS Q2'20=US$1.2 billion). In early July, the CBN adjusted exchange rate in the Secondary Market Intervention Sales (SMIS) – a window where importers access foreign currencies – from N360/$1 to N380/$1.

Foreign Reserves improved in May and stablised in June, following rising oil prices

Exchange rate Movement (N/US$)



External Reserves (US$ Billion)

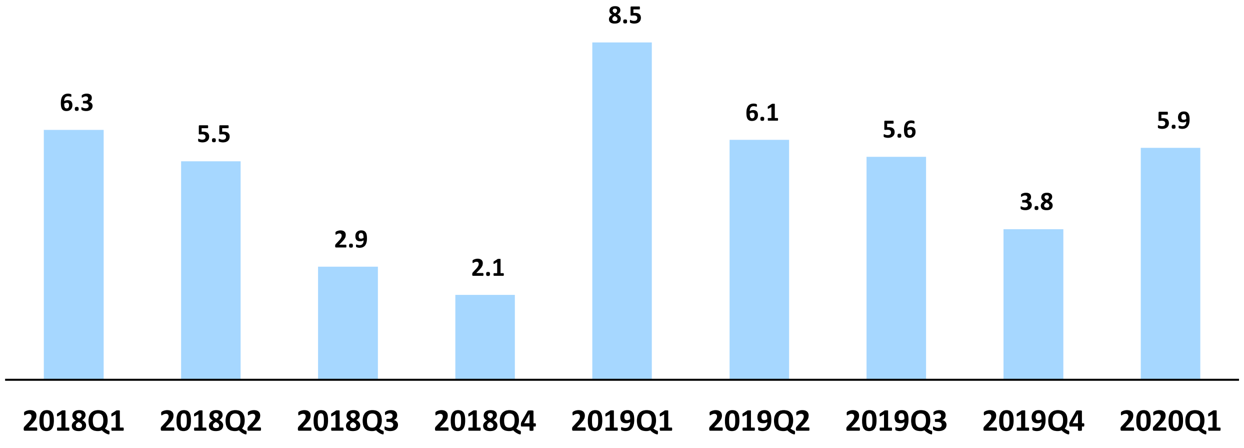


- **From mid-March the exchange rate faced significant pressure in the I&E window.**
- **This pressure stemmed from declining external reserves and falling crude oil prices.**
- **The Naira fell from N367/US$ in early March to N401.6 in mid-April.**
- **As oil prices increased in May following OPEC cuts and higher crude oil demand, external reserve situation also improved.**
- **In addition, the Nigerian government's ability to secure US$3.4 billion loan from the IMF also contributed to the improvement in the reserves position.**
- **In the month of June, external reserves maintained a stable trend as crude oil price stabilized.**
- **Reserves stood at US$36.19 billion as at June 30, 2020 with a year to date of decline of -6.24%.**

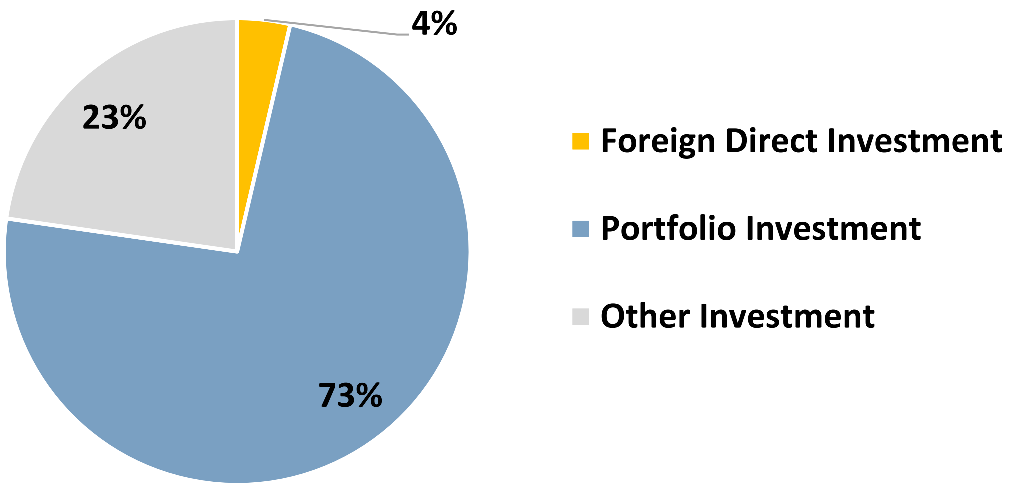
Data Source: CBN, FMDQ

Foreign Investment inflows slowed in 2020Q1 to US$5.85 billion

Foreign Investment Inflows (US$ Billion)



Breakdown of Foreign Investment Inflows in 2020Q1

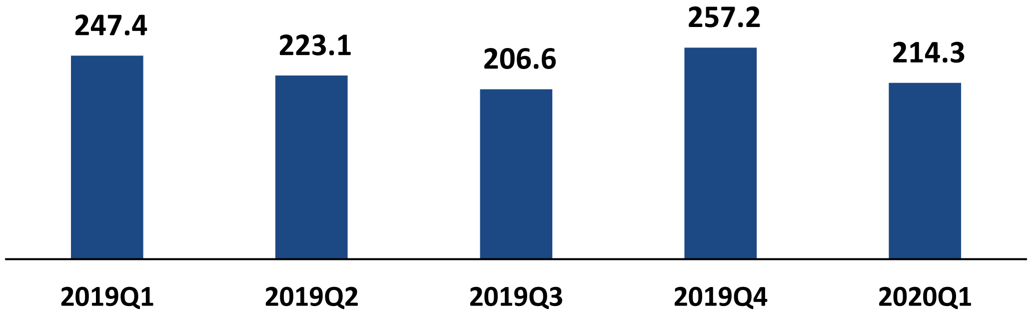


Data Source: National Bureau of Statistics

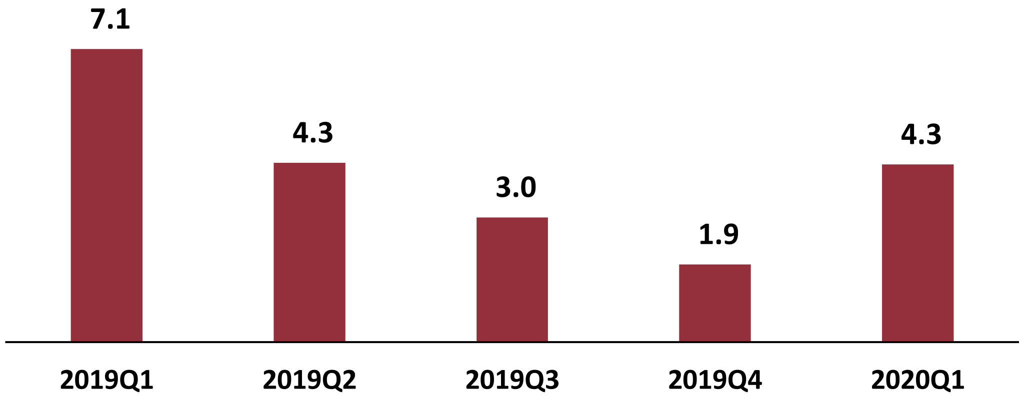
- In the first quarter of 2020, foreign capital inflows into Nigeria amounted to US$5.85 billion. This is an increase of 54% from US$3.8 billion in 2019Q4 but a 31.2% decrease from US$8.5 billion recorded in 2019Q1.
- Foreign portfolio investment continued to dominate capital inflows with a share of 73.6%.
- This is a 9.9 percentage points decrease from 83.5% in 2019Q1.
- The early impact of COVID-19 constituted a major setback for Foreign Direct Investment.
- Still performing abysmally, FDI inflows in 2020Q1 fell to US$214 million, a 13.4% decrease relative to the US$247 million recorded in 2019Q1.
- In terms of share of total inflows, FDI accounted for 3.7%.
- On Inflows by destination, Lagos and FCT accounted for 87.7% and 12.1%, respectively in 2020Q1.

Foreign Inflows will decline in 2020, FPI to dominate Inflows

FDI Inflows (US$ million)



FPI Inflows (US$ billion)



- Foreign investors continue to profit from Money Market instruments which accounted for 80% of total FPI inflows in the first quarter of 2020. Equity accounted for 15%, while Bond had a share of 5%.

- Major factors responsible for the decline in foreign investment inflows include
  - uncertainty on the economy especially given the outbreak of COVID-19 which has slowed overall investments.
  - Other factors include inconsistent policies, declining external reserves in Q1, insecurity and harsh operating environment for FDI.

- Foreign investment inflow is expected to decline in 2020 when compared with the US$24 billion inflow recorded in 2019.

- The highest decline in inflows will be recorded in the second quarter following the lockdown and movement restrictions.

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Data Source: National Bureau of Statistics

SECTION 03

Market Performance

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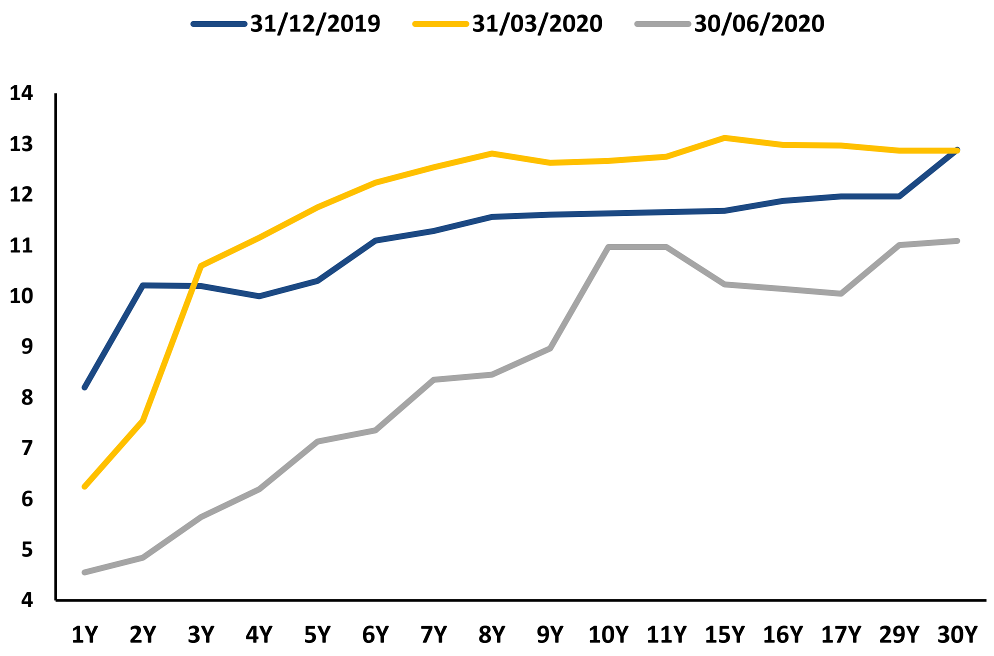
Fixed Income: Lower yields recorded across Instruments

FGN Bond Yield Curves



FGN Bond Yield

8.55%
(30/06/2020)

11.91%
(31/03/2020)

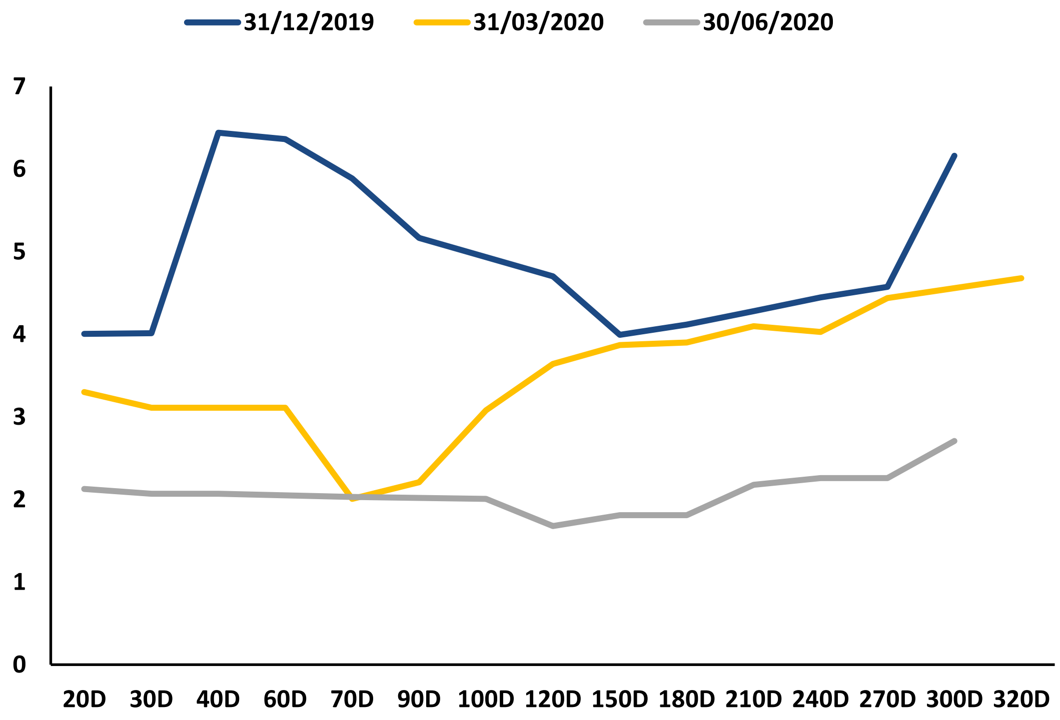
11.14%
(31/12/19)

- **There was an uptick in average bond yields to 11.9% at the close of 2020Q1 from 11.1% at the end of 2019.**
- **This was on the back of lowered credit rating on some securities. Year to date (June 30, 2020), the bulls returned to the market as oil price improved, dipping average yield to 8.55%.**
- **In the first half of 2020, the Federal Government through its monthly Bond Auction borrowed a total of N1.54 trillion**

Data Source: FMDQ

Fixed Income: Lower yields recorded across Treasury Instruments

NT Bill Yield Curves



Data Source: FMDQ/CBN

NT-Bill Yield

2.15%
(30/06/2020)

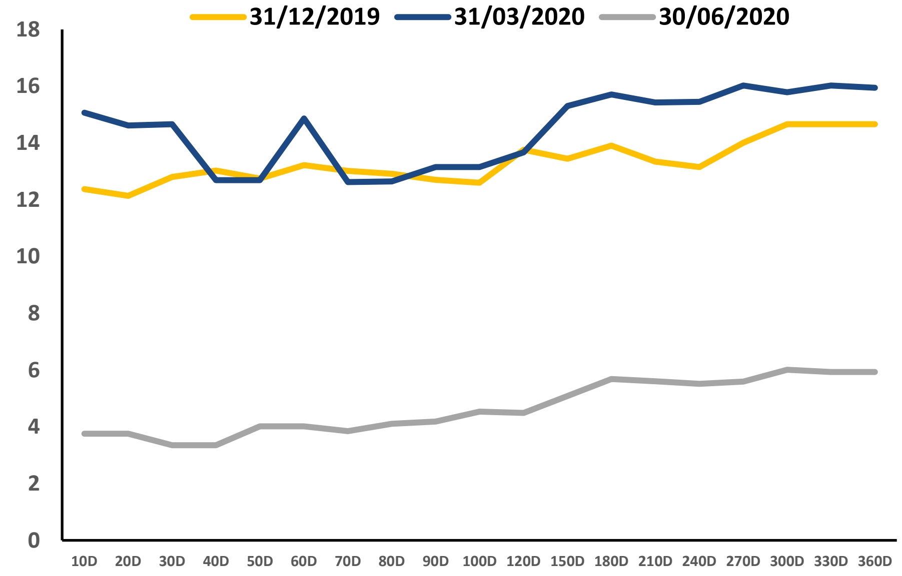
3.68%
(31/03/2020)

4.85%
(31/12/19)

- **Despite low yields in the NT-Bill space, the market remained bullish.**
- **Average yield in the NT-Bill market dipped from 4.85% it opened the year to 3.68% at close of 2020Q1.**
- **As at the end of June, 2020, average yields on the NT-Bill space pointed at 2.15%.**
- **The Federal Government through it's the Treasury Bill Primary Auction has an estimated outstanding of N1.41 trillion in H1'2020.**

Fixed Income: Investors demand higher rates in the OMO space

CBN OMO Yield Curves



OMO Yield

5.07%
(30/06/2020)

15.05%
(31/03/2020)

13.18%
(31/12/19)

- **The CBN in two of its OMO auctions recorded no sales as investors are requesting for rates higher than what the CBN would offered.**
- **The first was undersubscribed as investors' asking rate ranged from as high as 16% to 17% across tenors. The second was oversubscribed with bid ranging from 11.23% to 12.6%.**
- **In the OMO space, average yields increased to 15.05% at the close of 2020Q1 from 13.18% at the opening of the year as market confidence suppressed following Coronavirus spread.**
- **At the end of June, average OMO yields stood at 5.07%, indicating significant buy pressure across maturities.**
- **Total CBN's OMO Primary market engagement for the first half of the year stood at N1.33 trillion.**
- **The bullish fixed income market is motivated by increasing liquidity. Also, without much alternative investment outlets and challenging real sector, investors continue to lock their funds in white vanilla assets. So, the market continues to rally.**

Data Source: FMDQ

Fixed Income: No Sale at OMO Auction

Result from 19th March, 2020 No Sale OMO Auction

89 Days Tenor		180 Day Tenor		362 Days Tenor	
Amount Offered	N10.00 Billion	Amount Offered	N10.00 Billion	Amount Offered	N130.00 Billion
Total Subs.	Nil	Total Subs.	N2.00 billion	Total Subs.	N16.00 Billion
Maturity Date	16/06/2020	Maturity Date	15/09/2020	Maturity Date	16/03/2021
Range of Bid	Nil	Range of Bid	16.00 – 16.00	Range of Bid	17.00 – 18.25
Stop Rate	Nil	Stop Rate	Nil	Stop Rate	Nil
Total Sales	No Sale	Total Sales	No Sale	Total Sales	No Sale

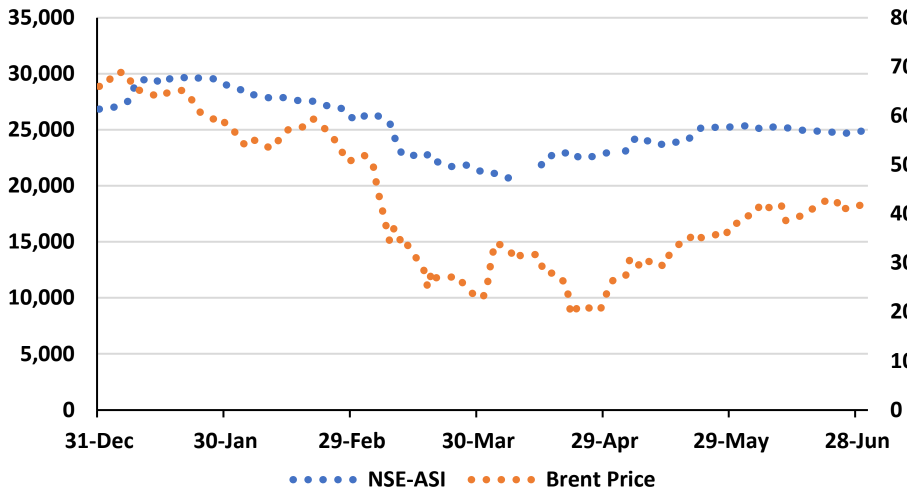
Result from 14th May, 2020 No Sale OMO Auction

89 Days Tenor		194 Day Tenor		348 Days Tenor	
Amount Offered	N10.00 Billion	Amount Offered	NGN10.00 Billion	Amount Offered	N50.00 Billion
Total Subs.	N20.50 Billion	Total Subs.	N17.00 Billion	Total Subs.	N306.67 Billion
Maturity Date	11/08/2020	Maturity Date	24/11/2020	Maturity Date	27/04/2021
Range of Bid	11.23 – 11.49	Range of Bid	11.23 – 11.40	Range of Bid	12.34 – 12.60
Stop Rate	Nil	Stop Rate	Nil	Stop Rate	Nil
Total Sales	No Sale	Total Sales	No Sale	Total Sales	No Sale

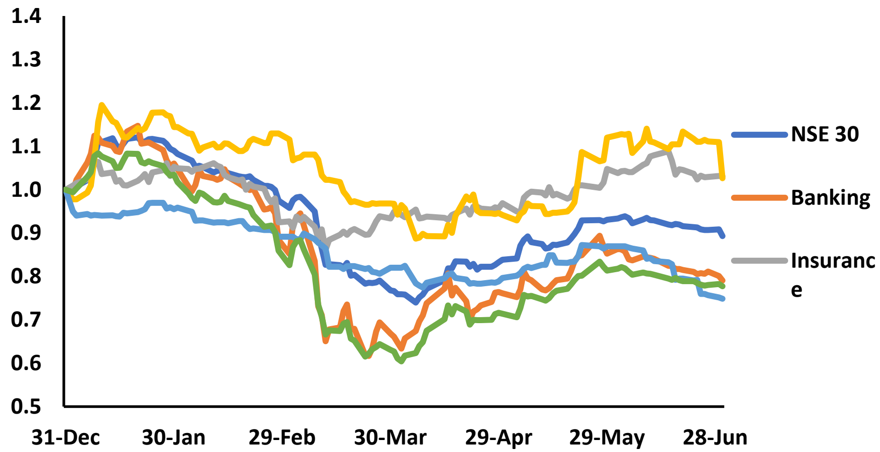
Data Source: FMDQ

Equities Market reversed gains in the wake of the year

NSE ASI vs Brent Price (US$)



Sectoral Performance



Source: Nigerian Stock Exchange

- **The Nigerian Stock Exchange reversed the gains recorded in the wake of the year.**
- **The NSE-ASI fell to a record low of 20,669.38 index points on the 6th of April, representing a -23% Year-to-Date (YtD) change as investors lost about N2.2 trillion.**
- **To close 2020Q1, the NSE-ASI settled at 21,300.47 index points, representing a -20.65% YtD change.**
- **As at June 30, 2020, the market was set on the recovery path as the NSE-ASI reached 24,479.16 index points.**
- **The market recovery was largely motivated by investors' bargain hunting, taking position on dividend paying stocks and finding a way to reap off the liquidity situation. In 2020Q2, the NSE-ASI gained 14.92% quarter on quarter. .**
- **The NSE30 which mirrors the stocks of large cap and best performing companies listed on the NSE recorded year to date losses of -23.39% and -10.68% as at March 31, 2020 and June 30, 2020 respectively.**
- **As the Main board is recovering but still in the loss territory, so also are the major sectors on the NSE. The oil & gas index was the most hit sub-index losing 25.17% YtD, followed by Consumer goods (-22.26%) and Banking (-20.98%).**

NSE ASI	YtD Mar-31	YtD Jun-30
Open	26,842.07	26,842.07
Close	21,300.47	24,479.16
% Change	-20.65	-8.80
% Change (Quarterly)	Q1 (-20.65)	Q2 (14.92)

MARKET CAP (N'Bn)	YtD Mar-31	YtD Jun-30
Open	12,958.38	12,958.38
Close	11,100.80	12,796.81
% Change	-14.33	-1.25
% Change (Quarterly)	Q1 (-14.33)	Q2 (15.28)

SECTOR PERFORMANCE	YtD Mar-31	YtD Jun-30
NSE30	-23.39%	-10.68%
Banking	-33.90%	-20.98%
Insurance	-5.10%	3.10%
Consumer Goods	-37.29%	-22.26%
Industrial	-3.28%	2.63%
Oil and Gas	-18.01%	-25.17%

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Equities Market reversed gains in the wake of the year

TOP GAINERS	YTD (%) MAR-31	YTD (%) JUN-30	PRICE (N) JUN-30	TOP LAGGERS	YTD (%) MAR-31	YTD (%) JUN-30	PRICE (N) JUN-30
NEIMETH	-0.23	166.13	1.65	INTBREW	-	-56.84	4.10
LAWUNION	0.11	106.00	1.03	GUINNESS	-0.48	-51.75	14.50
MAYBAKER	0.00	48.70	2.87	OANDO	-0.38	-42.36	2.30
OKOMUOIL	-0.20	39.21	77.40	TRANSCORP	-0.16	-39.25	0.65
MOBIL	0.06	30.22	192.60	NB	-0.33	-38.81	36.10

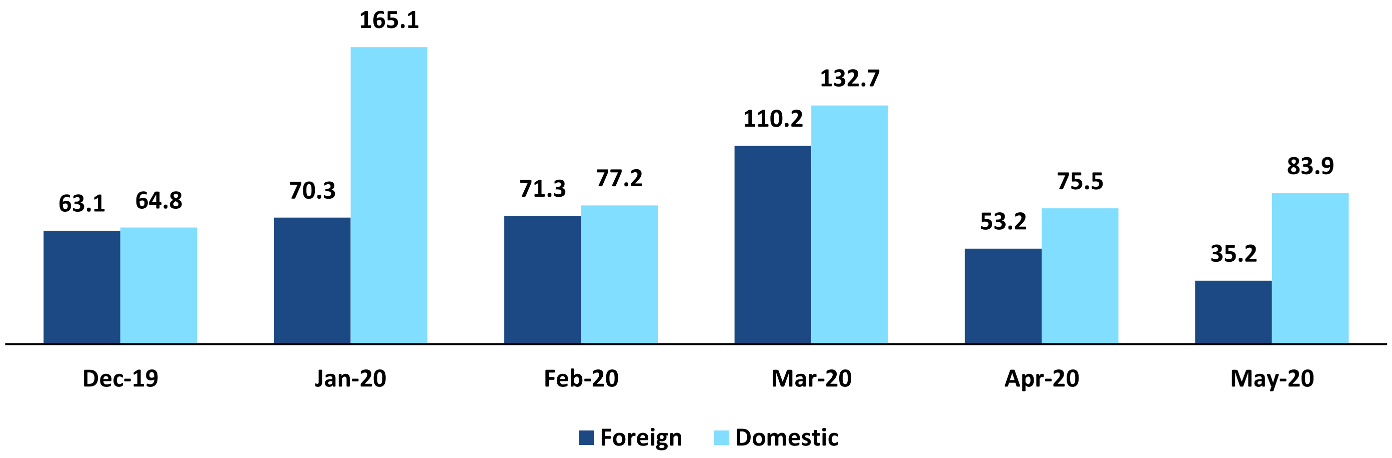
PERFORMANCE OF LARGE CAP STOCKS 2020 YTD

STOCK	MARKET CAP (N'Bn)	OUTSTANDING SHARE (Bn)	MARKET PRICE (N)	YTD (%)	PAT (N'Bn) 2019 (2018)	DIVIDEND (N)	DIVIDEND YIELD (%)
DANGCEM	2,164.08	17.04	127.00	-10.56	200.52 (390.33)	16.00	12.34
MTNN	2,391.13	20.35	117.50	7.8	202.11 (145.69)	4.97	4.83
ARTELAFRI	857.28	3.76	228.00	9.97			
NESTLE	992.87	0.79	1256.80	-14.5	45.68 (43.01)	45.00	5.29
GUARANTY	648.93	29.43	22.05	-24.49	196.85 (184.71)	2.50	13.44
ZENITHBANK	487.03	30.25	16.10	-13.9	208.84 (193.42)	2.50	21.10
STANBIC	344.40	10.50	32.80	-26.22	75.04 (74.44)	2.00	7.55
NB	288.80	8.00	36.10	-38.81	16.12 (16.10)	1.51	5.03
ACCESS	232.85	35.55	6.55	-35.15	97.51 (94.98)	0.40	6.84
UBA	213.75	34.20	6.25	-13.19	89.09 (78.61)	0.80	16.00

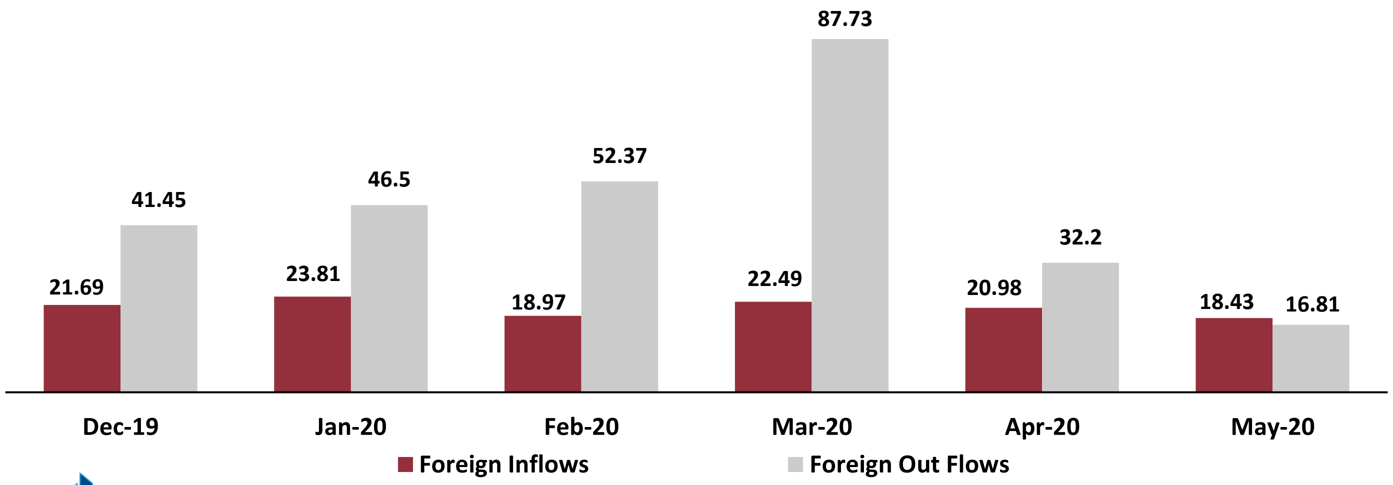
Source: Nigerian Stock Exchange

Equities Market – Capital flight continues to dominate foreign participation

NSE Domestic & Foreign Participation (N'Billion)



Breakdown of foreign participation (N'Billion)



- Relative to the last quarter of 2019, there was increase in investors' participation in the market to N626.87 billion in 2020Q1 from N463.72 billion in 2019Q4. Month on month participation continues to shrink.
- Domestic investment continued to dominate foreign counterparts. Total domestic transaction for 2020Q1 stood at N374.98 billion compared with N251.87 billion from foreign investment. This amount to a share of 60% to 40% while it was 70% to 30% in May 2020 respectively.
- Foreign participation continued to decline. Participation from foreign players is more of capital flight than investments in the exchange, however, this is slowing in recent months.
- The continued capital flight and dampening inflows will impact Nigeria's forex position.
- Improvements in oil price could slow down capital flights in coming months but declining reserves position is concerning.

Data Source: Nigerian Stock Exchange

SECTION 04

COVID-19 and its implication on the economy

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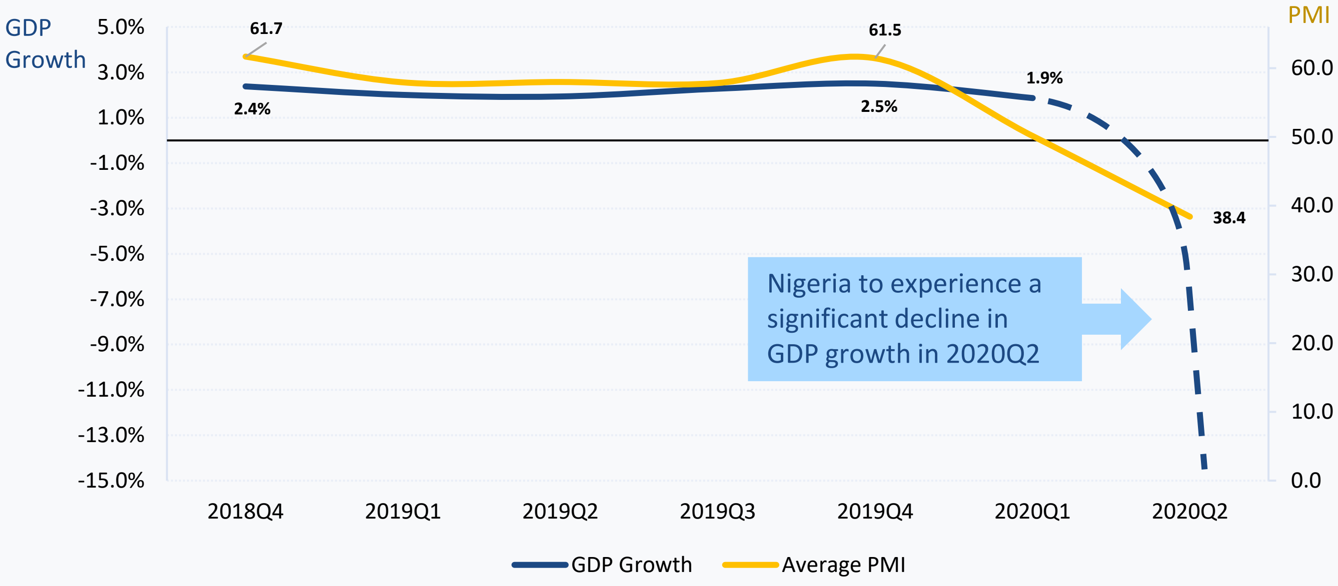
PMI in June records consecutive contraction; economic activities pick up gradually

GDP Growth (%) and Purchasing Managers Index (PMI)



**PMI below 50 represents a contraction in business activities*

- **PMI contracted in the month of June as the economy gradually picks up from the lockdown in April.**
- **While the manufacturing PMI contracted in June to 41.1 point, non-manufacturing PMI contracted but at a slower pace relative to May.**
- **The contraction of PMI in the second quarter is a pointer that the economy (GDP) will record a significant decline in the quarter.**

	Manufacturing PMI	Non-Manufacturing PMI
May →	42.4	25.3
June →	41.1	35.7

- *Manufacturing PMI fell from 51.1 in March to 42.4 in May and 41.1 in June*
- *Non-Manufacturing PMI fell from 49.2 in March to 25.3 in May and 35.7 in June.*

	PMI Sub Indices	March	May	June
Manufacturing PMI	Production level	54.4	44.5	36.6
	New Order	52.3	42.8	36.4
	Quantity of purchase	55.6	26.3	35.8
Non Manufacturing PMI	Business Activity	52.2	19.5	34.3
	New Order	47.8	19.6	32.5
	Inventory	49.6	30.1	38.5

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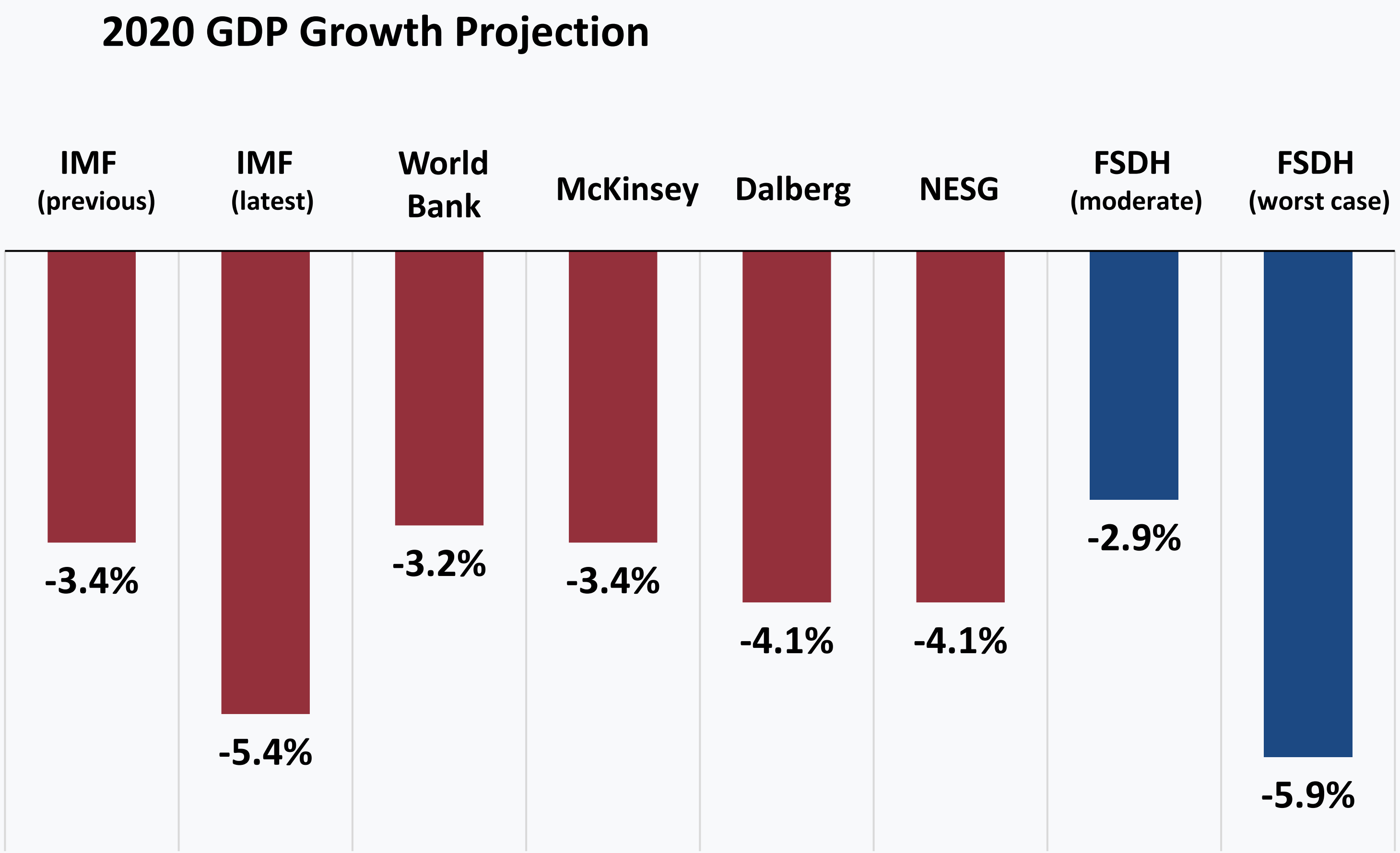
Data Source: CBN, National Bureau of Statistics

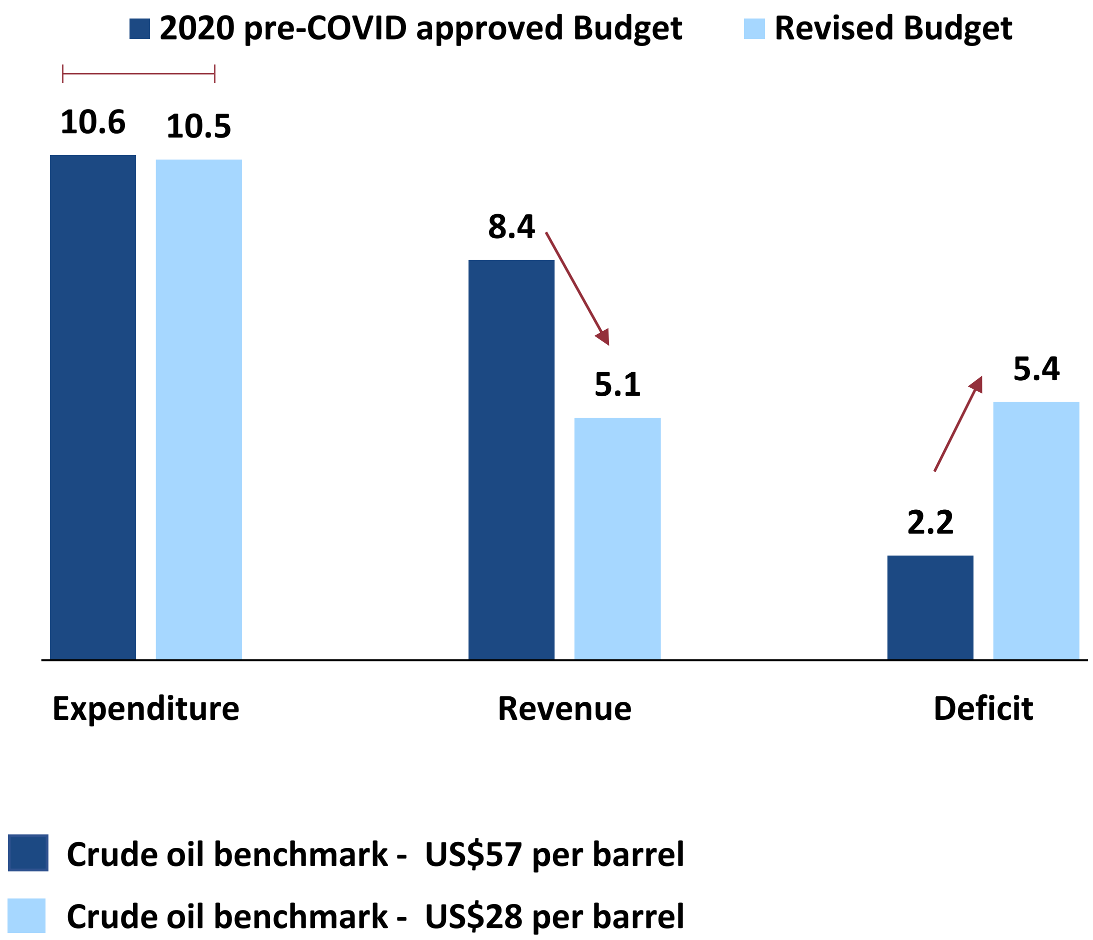
Nigeria's Growth: Wide forecast range suggests huge uncertainty



- With the outbreak of COVID-19, economic activities were constrained due to movement restrictions, social distancing policies and lockdown of key states.
- In April, economic activities for non-essential items were restricted in major states such as Lagos, Ogun, Delta, etc. and the FCT. In addition, the federal and state governments implemented movement restrictions across these states.
- The impact of these policies will be felt directly on key sectors such as Transportation, Manufacturing of non-essentials, Trade, Construction, etc.
- By this, we estimate a significant negative GDP growth in the second quarter of the year.
- We estimate overall growth for 2020 at –2.9% in our moderate case scenario and –5.9% for the worst case.

COVID-19 Impact: Government revenue to decline, deficit to rise

FGN 2020 Budget (N'Trillion)

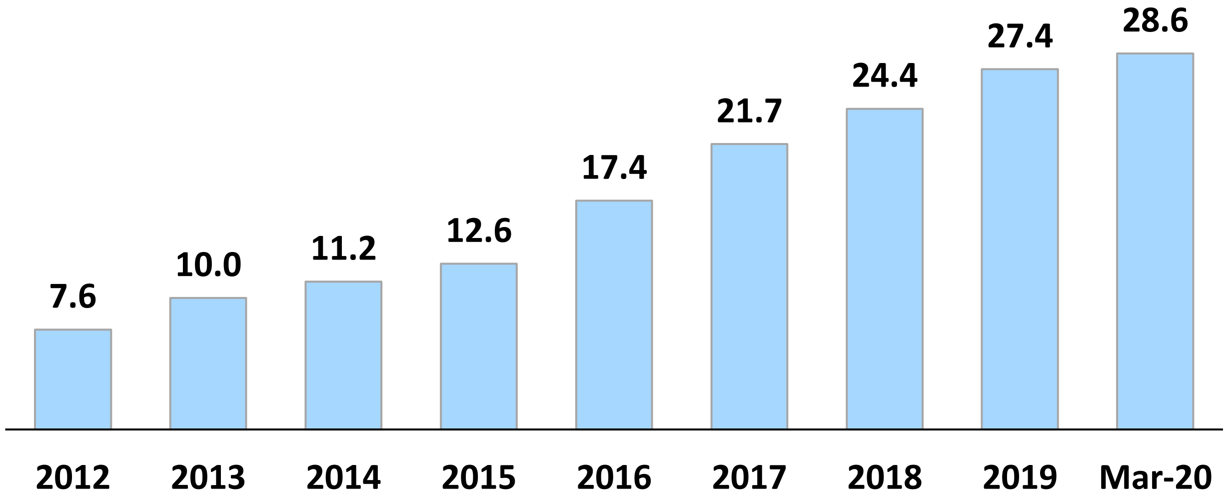


- In response to the impact of the COVID-19 on government fiscal position, the National Assembly approved a revised 2020 budget of N10.6 trillion.
- The budget adopted a crude oil benchmark of US$28 per barrel and a production benchmark of 1.8 million barrels per day.
- The new budget is based on an exchange rate of N360/US$1.
- COVID-19 and its associated features have affected revenue projections in the following ways:
    - Relatively lower oil price for 2020
    - Compliance with OPEC cuts will also lead to a significant decline in crude production by almost 417,000 barrels per day – although higher oil prices will improve revenues
    - Revenue from taxes and other non-oil sources will be severely affected due to lockdowns, restrictions and a relatively lower income and investments.
    - Debt position will worsen significant as budget deficit is projected to reach N5.54 trillion – 3.7% of GDP.

Data Source: Ministry of Budget, Finance and National Planning

COVID-19 Impact: Public Debt expected to rise amidst lower revenue

Total Public Debt (N'Trillion)



- Nigeria's debt stock as at March 31st 2020 stood at N28.6 trillion implying N1.2 trillion debt incurred in 2020Q1 alone.
- In April, the Nigerian government secured a US$3.4 billion loan from the IMF, repayable under five years.
- The loan was secured to address balance of payments challenges amidst the fiscal pressure from COVID-19.
- The sum of US$1.5 billion and US$500 million loans are in the pipeline with the World Bank and African Development Bank (AfDB). These amount to US$5.4 billion (N1.94 trillion) in external borrowing.
- In the first half of 2020, the government has borrowed about N1.54 trillion in Bonds, N1.41 trillion in Treasury Bills and N162.6 billion in Sukuk.
- Total fiscal deficit in the revised budget stood at N5.4 trillion, which is 3.7% of GDP, above the stipulated 3% in the Fiscal Responsibility Act.

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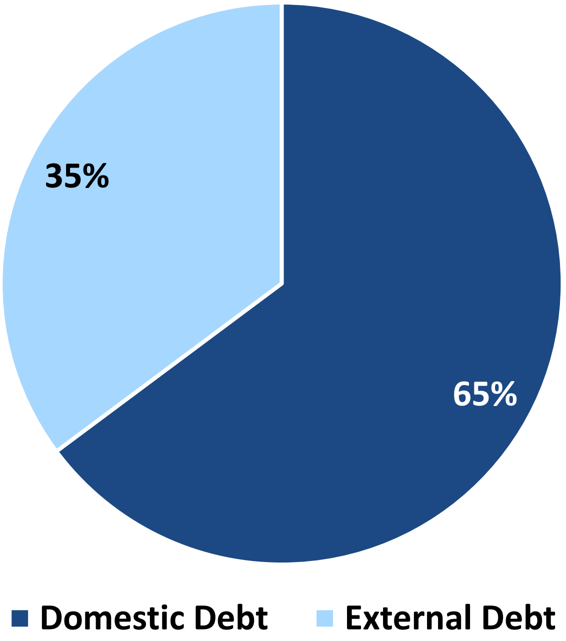
Data Source: Debt Management Office

COVID-19 Impact: Public Debt expected to rise amidst lower revenue

Breakdown of total Public Debt as at March 2020



- All together, total public debt in 2020 is expected to rise to N33 trillion, which is an estimated 23% of GDP.
- In addition to rising debt-to-GDP ratio, debt servicing as a share of revenue will experience a sharp increase, especially given the lower revenue projections in the year.
- As we expect increased activities in the money and capital market, yields across government securities keep suppressing. The surge in liquidity, lack of alternative assets and challenging real sector are factors that kept yields suppressed in the markets.

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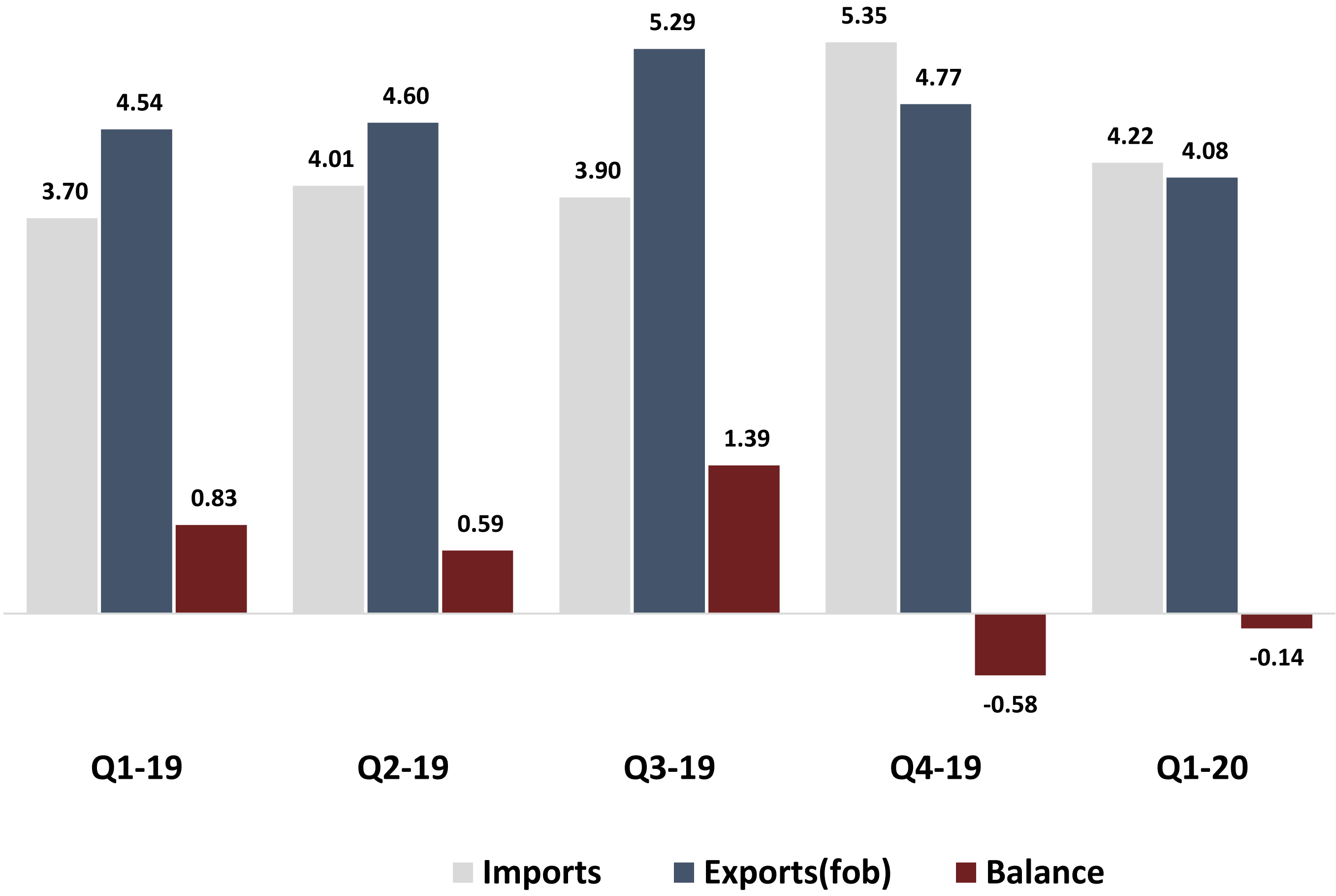
Data Source: Debt Management Office

Negative Trade balance expected to permeate into 2020 full year

Quarterly Export, Import and Trade Balance (N'Trillion)



Data Source: National Bureau of Statistics

- **Nigeria's trade balance continued in the negative territory in the first quarter of 2020.**
- **Trade balance was -N140 billion in the quarter, although this is an improvement from –N580 billion in previous quarter.**
- **This negative balances were mainly as a result of the closure of land borders, which significantly affected exports. Non-oil exports declined by 44% in 2019Q4 and inched up by just 0.79% in 2020Q1 from a lower base .**
- **With the outbreak of COVID-19, trade figures will continue to suppress deep into the year due to the constrain on global supply chain, decline in oil price as well as oil volume sales.**
- **In April, Nigeria struggled to find buyers for its crude oil due to a contractions in demand following the lockdown impact of COVID-19.**
- **Growth forecasts for Nigeria's major export partners – India, Spain, France and Europe in general- have been cut due to restriction of movements of people and goods as well as shut down of industrial facilities.**
- **With these, trade deficit would increase in full Year 2020.**

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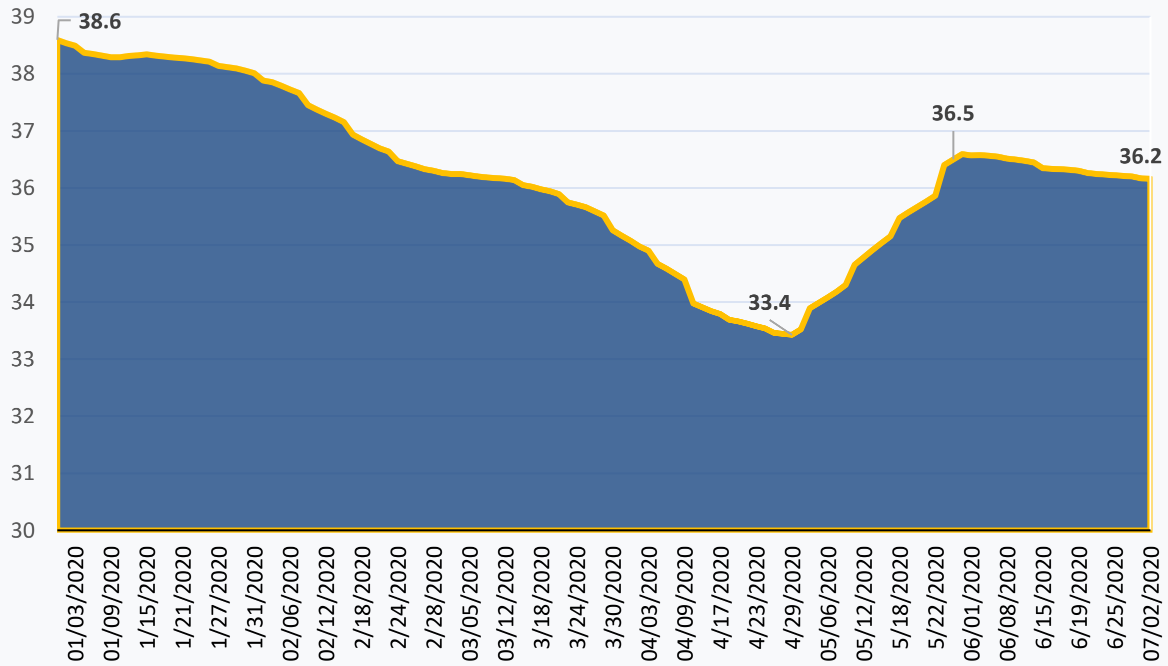
COVID-19 and External Reserves and Forex inflows

External Reserves (US$'Billion)



Data Source: CBN

- **The outlook for external reserves and exchange rate hinges on the movement of crude oil price and improvement in oil sales.**
- **Brent crude price increased by 74% to US$40 per barrel in June from US$22.9 pb at the end of April. As a result, external reserves position improved by 9.2% in May to US$36.6 billion .**
- **External reserves reversed its downward trend in April following improvement in oil prices and the inflow of the IMF's US$3.4 billion loan.**
- **However, from May 29 to June 30, 2020, the reserves have plunged by 1.1% to stand at US$36.2 billion to close 2020H1.**
- **Major downside risks to reserve accretion include:**
  - **Lower oil prices**
  - **Slow growth in oil production and sales**
  - **High foreign exchange demand following the relaxation of restrictions, curfews and the opening up of some sectors.**
  - **Second waive of the spread of COVID-19 as it impacts oil price**
- **Following the above factors, we expect reserve accretion to slowdown in coming months. As economic activities pick up, CBN interventions to keep the exchange rate stable will increase, raising the possibility of an official exchange rate adjustment.**

CBN moves to unify the exchange rate

- In early July, the CBN adjusted exchange rate in the Secondary Market Intervention Sales (SMIS) – a window where importers access foreign currencies – from N360/$1 to N380/$1.

- As contained in the Economic Sustainability Plan (ESP), which was launched in June as government's response to the COVID-19 pandemic, part of the monetary measures to support the economy is the unification of exchange rates to maximise naira returns to FAAC from foreign exchange inflows. This is expected to be implemented in the first 12 months, according to the ESP.

- The recent move, therefore, to unify the exchange rate is in line with the government's agenda as well as with demands for multilateral agencies who are heavy lenders to the government. The IMF and World Bank had requested for a unified and flexible exchange rate from the monetary authority as Nigeria secured foreign loans from both institutions.

Expected Impact

- This upward adjustment of the Naira is expected to have positive implications on government revenue and in turn, reduce pressure on the exchange rate in the short term.

- However, other markets are expected to adjust accordingly- the move would translate to higher pressures in other markets like the parallel market, raising speculative concerns in coming months.

- With the Reserves at US$36 billon and relatively stable oil price, there appears to be a considerable amount of firepower to intervene in the markets. But as economic activities improve, higher imports and lower foreign investment inflows relative to 2019 will add pressure on the reserves. Despite the adjustments, the CBN will continue to intervene to maintain exchange rate stability and prevent large FX fluctuations.

- The move is also expected to trigger a marginal increase in inflation rate, particularly imported food inflation.

Data Source: CBN

SECTION 05

Scenarios and Revised Macroeconomic Projection for 2020

Nigeria's COVID-19 Scenarios Update for 2020

Scenario	Assumptions	Possible Outcome
Best Case (Economy opens up and government fully implements interventions to stimulate the economy)	• Oil price rises above US$40 pb for the remaining part of the year • Economic activities pick up in the third quarter • Demand for Nigerian crude improves as economies recover- Nigeria produces 1.9 million barrels per day • Government capital spending at N1.5 trillion • Full implementation of sectoral support interventions	• GDP Growth at -0.4% • Inflation Rate at 12.5% • External Reserves at US$38bn • Exchange Rate at N380/US$
Moderate Case (Gradual opening of economic activities, partial implementation of business support initiatives)	• Oil price falls between US$30 and US$40pb • Gradual re-opening of cities, schools, airports, businesses, etc. • Sluggish crude production at 1.5 million barrels per day • Government capital spending at N1.1 trillion • Partial implementation of sectoral support interventions	• GDP Growth at -2.9% • Inflation Rate at 12.85% • External Reserves at US$33 billion • Exchange Rate at N420/US$
Worst Case (Death toll from COVID-19 increases rapidly, weak implementation of business support initiatives)	• Oil price below US$30 pb • Lock down of major cities, schools, airports, businesses, etc. • Weak demand for Nigerian crude - Nigeria produces 1.2 million barrels per day • Government capital spending at N500 billion • Weak implementation of sectoral support interventions	• GDP Growth at -5.9% • Inflation Rate at 16% • External Reserves to average US$28 billion • Exchange Rate at N450/US$

Revised Macroeconomic Projection

	2016	2017	2018	2019	2020f
GDP Growth	-1.6%	0.8%	1.9%	2.3%	-2.9%
Average Inflation Rate	15.6%	16.5%	12.1%	11.4%	12.85%
Average Exchange Rate (N/US$)	490	363	358	358	420
Average External Reserves (US$ Billion)	27.0	39.4	43.1	43	33
Monetary Policy Rate	14.0%	14.0%	13.5%	13.5%	12%
Private Investment as a % of GDP	14.9%	14.8%	17.0%	23%	19%