Monthly Financial Markets Update – September 2020

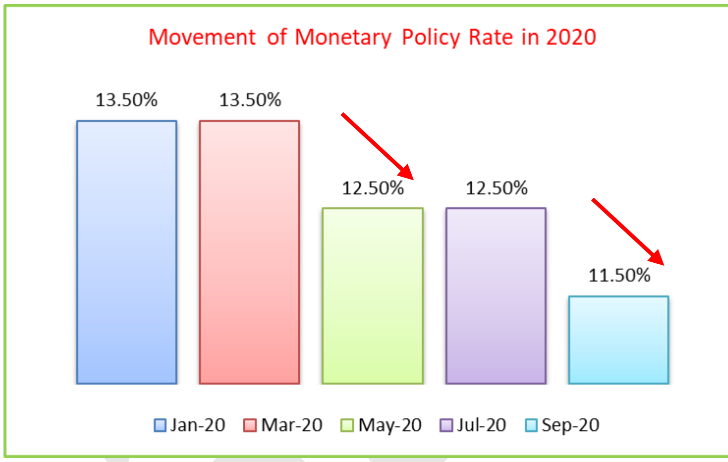
MPC eases rate to a four-year low

- The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) met on the 21st and 22nd of September 2020, amidst elevated uncertainties associated with COVID-19 and downturn in crude oil prices.

- The Committee reviewed the developments in the global and domestic economic and financial environments in the first three quarters of 2020, as well as the risks and outlook for the rest of the year.

- The key considerations that influenced the Committee's decisions are:
  - ✓ Low crude oil price
  - ✓ Possibility of an economic recession in Q3:2020
  - ✓ Heightened inflationary pressure
  - ✓ Exchange rate adjustment
  - ✓ Dwindling capital inflows in the financial markets
  - ✓ Rising public debt
  - ✓ Adverse weather conditions which could affect agricultural output and prices of commodities
  - ✓ Security challenges in the country
  - ✓ The increase in petroleum pump price
  - ✓ Deregulation in electricity tariff
  - ✓ The need for Deposit Money Banks to lower the cost of credit
  - ✓ The need to stimulate local production, support the recovery of the economy and stimulate aggregate demand

- At the end of the meeting, the Committee voted to:
  - ✓ Reduce the MPR by 100 basis points from 12.50% to 11.50%;
  - ✓ Adjust the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR;
  - ✓ Retain the CRR at 27.50%; and
  - ✓ Retain the Liquidity Ratio at 30.00%.



Implications of the rate cut

- From the existing market liquidity, the rate cut by the MPC could result in a further suppression of bond yields, which have remained higher when compared with yields on short term instruments.

- Besides the CBN's proactive measures in improving lending such as the LDR and reduction of interest rate on CBN loans, the MPR cut could encourage banks to reduce lending rates. This could therefore support businesses and overall economic growth. However, key structural factors including deficient power supply, poor road infrastructure and supply chain disruption, will need to be addressed for maximum impact.

- As noted by the MPC, inflation is mainly driven by structural factors which are mostly beyond the control of the Committee. A reduction in the MPR is expected to have little to no effect on movement of prices.

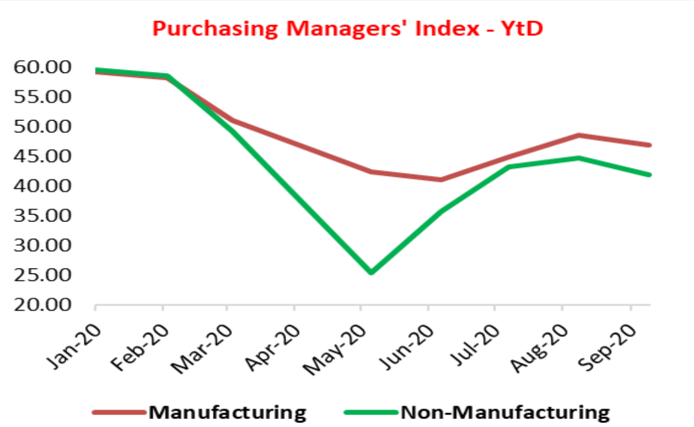
- The cut in rate could lead to increase funds inflow from other investment windows to the equities market due to the expected crash in yields that will further deepen the negative returns in the fixed income windows.

- *We are of the opinion that the CBN and fiscal authority's abilities to effectively manage the country's foreign exchange challenges are crucial in suppressing inflation and preventing a deep recession in 2020.*

Purchasing Manager's Index Report

- The Purchasing Manager's Index (PMI) survey published by the Central Bank of Nigeria (CBN) for the month of September 2020 shows a contraction for the fifth consecutive month. The **Manufacturing PMI** in the month of September stood at 46.90 index points down from 48.50 index points recorded in August 2020. Continuous weaker domestic demand dampened growth in New Order (-2.8 points), which had a negative passthrough effect on Production levels (-1.9 points), Employment levels (-0.5 points), and Raw materials (-3.1 points). The weak consumer spending, low level of business activities, high cost of procurement brought about by currency weakness and limited access to foreign exchange, continued to dampen the country's macroeconomic environment.

- Similarly, the **Non-Manufacturing PMI** also recorded 41.90 points, declining from 44.70 points recorded the previous month. Business activity, new orders, employment level and inventories all declined at a faster rate in September 2020.



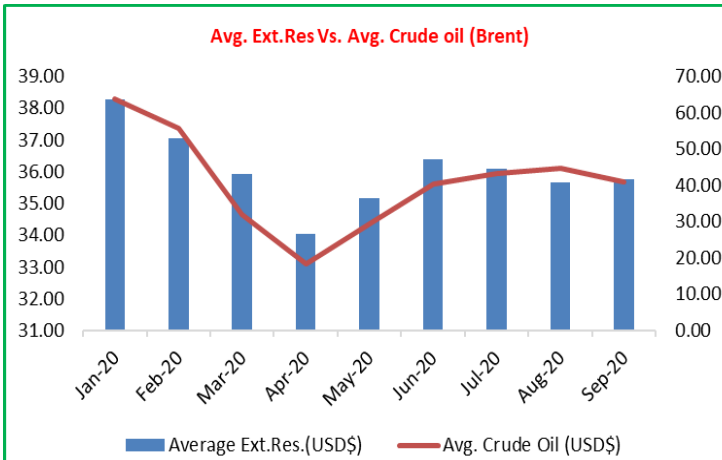
- A cursory look at the Non-Manufacturing sub-sectors showed that while the Agriculture sectors declined at a faster rate by 13.41 points. This could be attributable to the floods that washed away farms in several parts of the country and security challenges. The Finance and Health sectors also declined at faster rates. However, the Construction, Educational and entertainment sub-sectors emerged from contraction but grew slowly by 0.30, 0.60 and 6.50 index points respectively

- *The weak PMI indicates a slowing in the pace of economic recovery even as the rate of COVID-19 infections declines, and as restrictions are eased. Activities are expected to remain under pressure amidst weak household consumption, rising inflation, and forex exchange weakness and illiquidity.*

External Reserves Vs. Oil Price Movement

- In spite of the decline in the global crude oil prices, the nation's external reserves as at September 30th, 2020 rose by USD$67.58 million MtD to USD$35.74 billion from USD$35.67 billion recorded in August 2020. YtD, the external reserve has depreciated by 7.40% (USD$2.86 billion). The accretion into the reserve could be attributable to a USD$200 million received into the account following an order of the London Commercial court on the P&ID case. As the CBN struggles to clear backlogs of unmet FX demand, the widening Current Account (CA) position which has seen a constant deterioration in its position since 2017 has also continued to pose a problem to Nigeria's FX position.

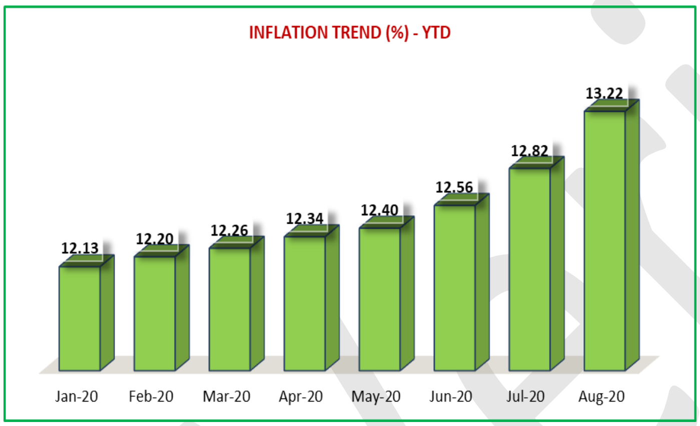
- New data from OPEC showed that rising global output threatens to destroy the weak price recovery. During the month of September, OPEC's production increased from 17.53 million bpd in August to 18.21 million bpd – resulting into a decline in the global oil prices. The International Benchmark Brent crude closed at USD$42.30 from USD$45.28 recorded at the end of August. West Texas Intermediate (WTI) also finished the month on a negative note, as it closed at USD$40.18 per barrel with an 5.70% monthly loss, after starting the month at USD$42.61 per barrel.



- *In its monthly Short-Term Energy Outlook (STEO) report for September, the United States Energy Information Administration (EIA) projected oil price to average $44 during the fourth quarter of 2020 and rise to an average of $49/b in 2021 as oil markets become more balanced. The projection is based on the assumption that there will be an average global oil consumption of 93.1 million per barrel during the second half of 2020 along with relatively strict compliance to announced OPEC's production quotas.*

Inflation Rate

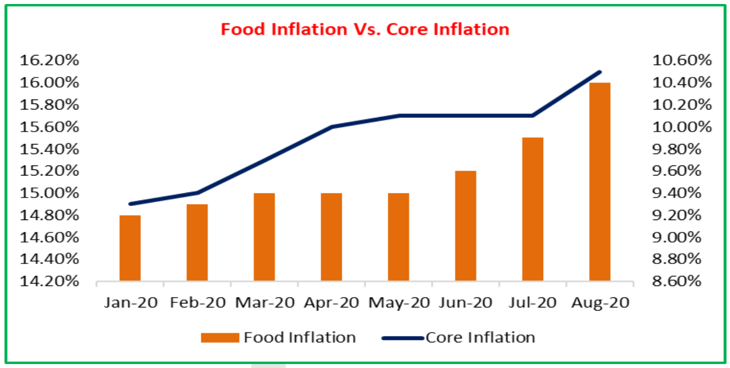
- The recently published Consumer Price Index (CPI) report for August 2020 by NBS showed that inflationary pressures intensified in the month as supply chains came under pressure. The headline inflation rate surged to 13.22%, a 40 basis points increase from 12.82% in July 2020.



- Inflation rate has increased consistently since August 2019 following the effect of the land border closure along with structural challenges. As in previous months, food inflation continued to be the major driver of inflation in Nigeria. In August, average prices rose by 1.34% on a month-on-month basis.

- Issues of insecurity increase in VAT, structural factors relating to infrastructure and power supply deficit as well as exchange rate depreciation continue to drive up average prices in Nigeria.

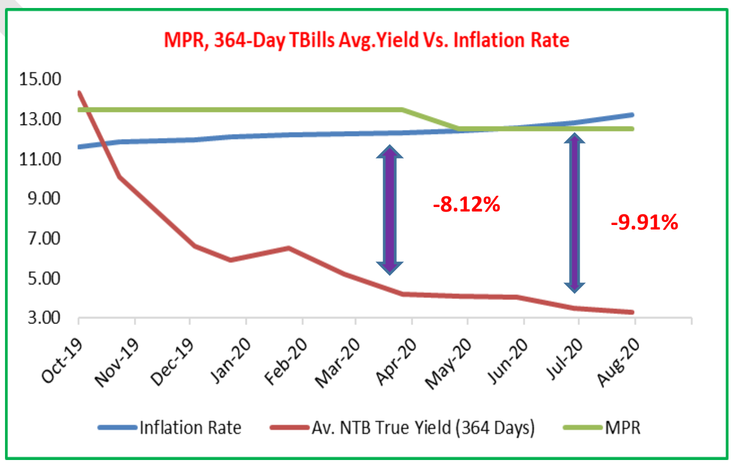
- Non-food inflation rate also rose to 10.5% from 10.1% in July 2020, triggered by rise in prices of transport services, hospital services and pharmaceutical products, among others.



Outlook: *While the 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, we are of the opinion that inflation will continue its upward trajectory as long as these drivers are still present.*

Inflation Rate Vs. NTB Yields

- Measuring the impact on NTB yields, real interest rate maintained its negative trend as it continues to expand. The gap between 1-year Treasury Bill rate and inflation rate expanded to -9.91 percentage point (pp) in August 2020, from -9.32 pp in July 2020. Excess liquidity in the fixed income space has suppressed yields since the last quarter of 2019.



- *With inflation expected to rise further in coming months, we expect a further extension of real interest rate, particularly in relation to the MPR.*

Exchange Rate

- The naira depreciated by 0.09% MoM to NGN386.00/USD at the I&E window but appreciated by 2.52% MoM to NGN465/USD in the parallel market. While the 3-month and 6-month inched up by 0.02% to NGN388.37/USD and 0.08% to NGN391.64/USD respectively at the forwards market, the 1-month and 2-month depreciated by 0.05% to NGN386.71/USD and 0.01% to NGN387.49 respectively.

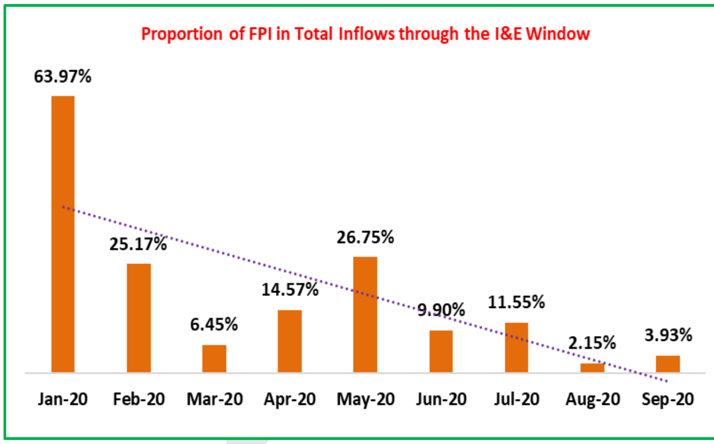
FOREIGN EXCHANGE			
Date	CBN Official Rate	I & E FX Window Spot ($/₦)	
	Spot ($/₦)	Opening (Indicative)	Closing
30-Sep-20	379.00*	386.59	386.00
29-Sep-20	379.00	386.50	385.75
28-Sep-20	379.00	386.25	386.00
25-Sep-20	379.00	386.24	386.00
24-Sep-20	379.00	386.13	386.00
23-Sep-20	379.00	386.44	386.00

- *Though the CBN has embarked on FX rationing and exchange rate adjustments, among other measures, to reduce pressure on the Naira and maintain a stable exchange rate, we are of the opinion that limited availability of FX as well as FX rationing could have unintended consequences on broad economic aggregates such as GDP, Inflation, external reserves and foreign investments.*

Currency Transaction at the I&E Window

- The data obtained from the FMDQ OTC Securities Exchange on the total capital importation through the Investors' and Exporters' Foreign Exchange Window (I&E window) in September 2020 stood at US$0.94bn from the US$0.43bn recorded in August 2020. The capital importation through the window in the month under review was the highest since March 2020.

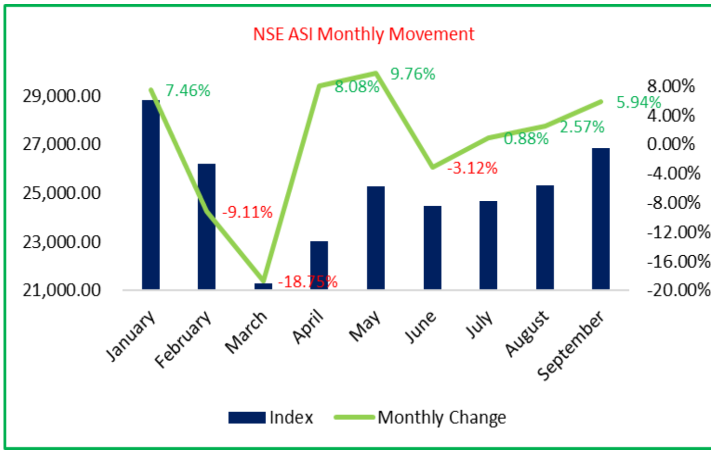
- Foreign Portfolio Investment (FPIs) rose to USD$0.037 billion in September from USD$0.009 billion recorded in August. Proportion of the FPIs to the total inflow which stood at 2.15% in August increased to 3.93% in September. The total capital importation through the I&E in 2020 totaled USD$14.26 billion.



Nigeria Equities Market Update

- The Nigerian equities market ended the month of September 2020 on a positive note as the primary health indicator of the Exchange – the All Share Index (ASI), appreciated by 5.94% (compared to the 2.57% recorded in August 2020) to close at 26,831.76 points. Although the rising incidences of Covid-19 across the world, weak economic conditions and dwindling foreign reserves continue to impact negatively on the Nigeria equities market, the cut in the MPR Rate to 11.50% led to increase funds inflow from other investment windows to the equities market due to the crash in yields. The relatively stable crude oil prices at the international market also supported the positive sentiments that drove the market in the month.

- Year-to-Date (YtD) loss has improved from -5.64% recorded in the previous month to -0.04% in September 2020.



- All NSE Indices closed in the green zone in September with NSE Pension appreciating by 8.21% and was closely followed by NSE Premium with a gain of 7.94%. However, Year-to-Date (YtD) NSE Oil & Gas index led on the losers' chart with a loss of 25.67% and was closely followed by NSE Consumer Goods Index with a loss of 23.45%.

Index	31-Dec-19	30-Sep-20	YtD Change
NSE Premium	2,116.22	2,370.26	12.00%
NSE 30	1,177.83	1,148.54	-2.49%
NSE Banking	356.84	310.39	-13.02%
NSE Consumer Goods	592.85	453.82	-23.45%
NSE Oil & Gas	262.54	195.14	-25.67%
NSE Lotus	1,834.76	1,933.41	5.38%
NSE Insurance	125.82	138.81	10.32%
NSE Industrial Goods	1,075.60	1,193.76	10.99%
NSE Pension	1,054.06	1,051.48	-0.24%

- On the price movement chart, forty-three (43) equities appreciated in price during the month, while thirty-one (31) equities depreciated in price.

S/N	STOCK	PPrice (N)	Close (N)	% CHANGE
1	ETERNA	1.90	2.74	44.21%
2	NB	37.00	49.00	32.43%
3	WAPCO	11.95	15.00	25.52%
4	UACN	5.70	6.95	21.93%
5	TOTAL	80.00	96.80	21.00%

S/N	STOCK	PPrice (N)	Close (N)	% CHANGE
1	UPL	1.65	1.24	-24.85%
2	ABCTRANS	0.39	0.30	-23.08%
3	REDSTAREX	3.65	3.00	-17.81%
4	ARDOVA	12.60	11.00	-12.70%
5	NNFM	4.50	4.05	-10.00%

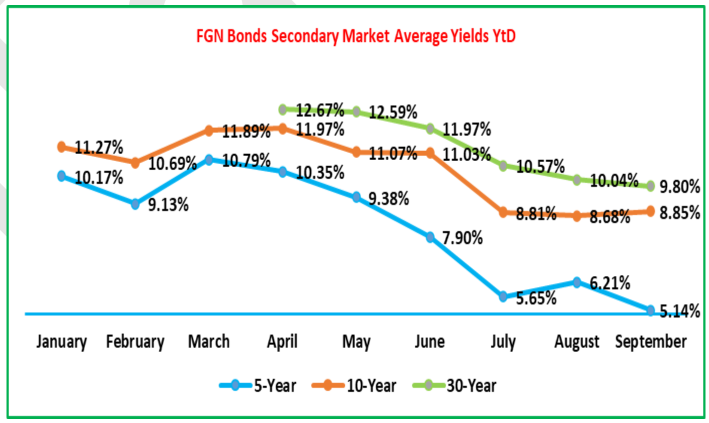
- *Though we envisage some profit taking by investors, we are of the opinion that the market might continue to benefit as domestic investors seek alpha-yielding opportunities in the face of increasingly negative real returns in the fixed income market. However, we advise investors to continue to trade cautiously and invest in fundamentally sound stocks.*

FIXED INCOME MARKET UPDATE

FGN BONDS:

- During the month of September, the Debt Management Office (DMO) conducted the monthly bond auction offering a total of ₦145.00bn across the 12.50% FGN JAN 2026 (₦25.00bn), 12.50% FGN MAR 2035 (₦40.00bn), 9.80% FGN JUL 2045 (₦40.00bn) and 12.98% FGN MAR 2050 (₦40.00bn). Overall, the auction was oversubscribed at a bid to offer ratio of 2.48x while the DMO allotted a total of ₦103.81bn across all instruments -with the short-dated (₦66.97bn) and long-dated terms - (₦25.43bn), (₦6.81bn) and (₦4.60bn) respectively. The respective marginal rates of the instruments were 6.00% (Previous: 6.70%), 8.52% (Previous:9.35%), 8.90% (Previous:9.75%) and 8.94% (Previous:9.90%).

- Activities in the secondary bond market were bullish this month as investors continued to hunt for better yields. Average yields contracted by 127bps to 6.71%. Yields contractions were noticed across the entire curve following huge buying interests especially in the short-dated instruments - MAR-25 and MAR-24 bonds declining by 215bps and 214bps, respectively. Investors also showed buying interests in the long-dated instruments as yields in APR-37 and MAR-36 bonds fell by 127bps and 120bps to close at 8.80% and 8.71% respectively.



- *In the coming month, we expect the domestic market to remain bullish as a significant portion of expected maturities is re-invested in the bonds market.*

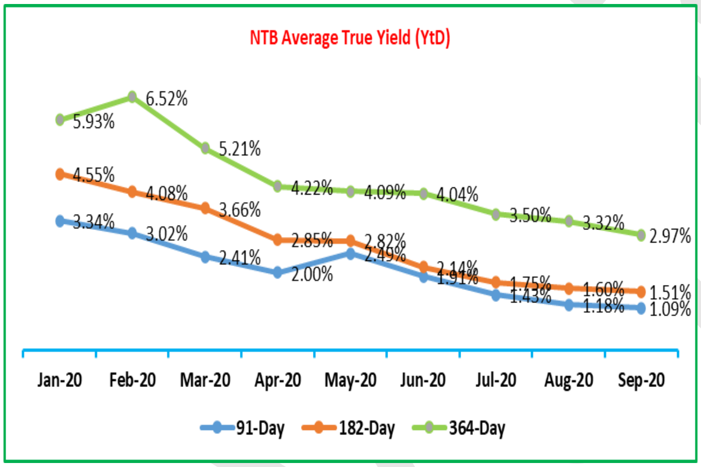
TREASURY BILLS:

- The CBN conducted OMO auction during the month of September - offering N70.00 billion and issued a total of ₦70.00bn across three tenors. The 131-day (Offer: ₦10.0bn; Subscription: ₦58.00bn; Sale: ₦10.00bn), 166-day (Offer: ₦10.0bn; Subscription: ₦38.10bn; Sale: ₦10.00bn) and the 348-day (Offer: ₦50.00bn; Subscription: ₦150.60bn; Sale: ₦50.00bn) bills were all oversubscribed at 5.8x, 3.81x and 3.01x respectively with stop rates of 4.77% (previously 4.86%), 7.60% (previously 7.68%) and 8.70% (previously

8.94%) respectively.

- At the last NTB Auction in September, the CBN offered instruments worth ₦113.97bn, receiving total subscription of ₦348.27bn and selling ₦133.97bn across all tenors. The sale was at stop rates of 1.08%, 1.49% and 2.80% (vs. 1.09%, 1.50% and 3.05% in the previous auction) for the 91, 182 and 364-day instruments, respectively. The 91-day (Offer: ₦10.00bn; Subscription: ₦11.77bn; Sale: ₦10.00bn) and 182-day (Offer: ₦17.60bn; Subscription: ₦19.20bn; Sale: ₦17.60bn) and the 364-day (Offer: ₦86.37bn; Subscription: ₦317.30bn; Sale: ₦106.37bn) instruments recorded a bid-to-cover ratio of 3.06x.

- Meanwhile, activities in both NTB and OMO Segments of the secondary market were bullish during the month of September as average yields contracted by 64bps and 126bps to 1.59% and 1.83% respectively.



- *Though we expect investors' interest in this market segment to wane down considerably in the coming month, trading volumes in the market may improve on the back of expected inflows into the system.*

MONEY MARKET:

- The Overnight (OVN) and Open Buy Back (OBB) rates closed the month of September at 1.75% and 1.00% respectively compared to 9.60% and 9.10% on August 31, 2020. The OVN and OBB averaged 4.12% and 3.24% respectively in the month – depicting massive liquidity in the system.

Tenor	30-Sep-20	31-Aug-20
O/N	1.75	9.60
OBB	1.00	9.10

- *We expect the market to remain at these levels in the coming month. We expect inflows from OMO and NTB maturities (NGN1.84 trillion) to hit the system. Mop-up activities by the CBN is however expected to moderate the OVN rates.*

VG PENSIONS: INVESTMENT PERFORMANCE RETURNS

- Despite the low yield environment, Veritas Glanvills Pensions Limited continues to perform well in all the Fund categories. Please see the table below:

Funds	Unit Price (N)			YTD
	Q1:2020	Q2:2020	Q3:2020	Growth (%)
Fund 1	1.1846	1.3380	1.4295	26.35%
Fund 2	3.1997	3.3971	3.5210	11.93%
Fund 3	1.2291	1.2883	1.3314	10.43%
Fund 4	3.7388	3.9231	4.0398	11.95%

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