Global Economy

The United Kingdom recorded a budget deficit of £81.36 billion in April 2020 compared to a £10.2 billion gap in the corresponding period of 2019, according to the National Statistics (ONS). It is a record budget deficit as spending increased due to the coronavirus although the effects of the pandemic were not fully captured and will only be clear in the coming months. Excluding public sector-owned banks, despite was £6.2 billion, £8.1 billion more than in April 2019, and the highest budgets in records. Borrowing in the latest full financial year was £62.7 billion, £22.5 billion more than in the previous financial year. In a statement, the Reserve Bank of India unexpectedly reduced its benchmark repo rate by 40 basis points to 4% in an emergency meeting last week amid an ongoing nationwide lockdown to prevent the spread of the coronavirus. The reverse repo rate was also lowered by 40 basis points to 3.15% and the marginal standing facility rate to 4.25%. The committee also decided to continue with the accommodative stance of monetary policy aiming to achieve the medium-term inflation target of 4%, plus or minus 2%, and mitigate the impact of COVID-19 on the economy, while supporting growth. Elsewhere, the Bank of Japan (BOJ) lifted its short-term interest rate unchanged at -0.1% during an emergency meeting last week. Decision maintained to buy Exchange-Traded Funds and Japan Real Estate Investment Trusts (J-REITs) so that amounts outstanding will rise at an annual pace of ¥12 trillion and about ¥180 billion, respectively, but launched a new lending program worth ¥50 trillion (¥27 billion) to support small businesses by linking with the flow from the COVID-19 pandemic. Under the new program, which will remain in place through the end of June 2021, the BOJ provides 0% loans to commercial banks that extend interest-free lending to clients and improve the government’s virus relief package. These banks will be given 0.1% interest on their current account deposits at the BOJ in proportion to the amounts of interest-free loans they receive from the central bank.

Domestic Economy

The Nigerian Bureau of Statistics reported that the annual inflation rate rose to 12.34% in April 2020, the highest since April 2018, from 12.26% in the prior month. The uptick was largely due to the effects of lockdowns in major states of Nigeria, food supply shortages due to movement restrictions, interstate lockdowns, and supply chain disruptions as well as depreciation of the naira. Food prices rose 15.03%, the most since March 2018, amid the coronavirus crisis. Additional upward pressure came from industrial and fuel prices (10.33% vs 10.21%), transport (9.78% vs 9.49%), furnishings and household equipment (9.64% vs 9.50%) and education (9.16% vs 9.02%). Annual core inflation, which excludes farm produce, hit 9.98% in April, the highest since August 2018. In a separate development, the gross national product (GNP) by the Federal Accounting Allocation Committee (FAAC) to the three tiers of government amounted to N175 billion ($1.57bn) in May (from April revenue). This was a decline of N175 billion on the previous month’s gross payment. The revenue drop is a reflection that receipts from petroleum profit, companies’ income tax, import and export duties, and VAT were probably lower/month last.

Stock Market

The bull gained an upper hand last week as trading indicators trended higher on positive reactions to corporate earnings and actions of highly capitalized stocks that declared dividends despite their poor performances. The gain also followed investors positioning ahead of the release of more Q1 2020 company financials. Consequently, the All Share Index (ASI) and the market capitalization grew by 157.76 points and N13.14 trillion from 23,871.35 points and N12.44 trillion respectively the previous week. This week, the Nigerian stock market to remain bullish as investors and traders position themselves amidst the changing sentiments in the hopes of improved liquidity and positive economic indices will dampen the negative economic indices.

Money Market

The debt market experienced illiquidity as rates closed higher at the end of last week. The spike was due to the debt for cash reserve requirement from banks, bond auction, as well as Retail Secondary Market Intervention Sales ($MS). Short-term rates such as the Open Buy Back (OBB) and Nigerian Interbank Offered Rate (NIBOR) settled at 6.58% and 11.04% from 5.64% and 7.01%, respectively. This week, rates are expected to decline as influxes of Open Market Operations (OMO) maturity of N505 billion hit the system.

Foreign Exchange Market

The Naira depreciated across most market segments as average foreign exchange rates of the Nigerian Autonomous Foreign Exchange Rate (NAFEX) fell to N367.33/$1.00 from N367.30/$1.00. The parallel market also witnessed some losses. The parallel market rate at close to N460/$1.00 while at the CBN official window, the Naira remained stable to close at N360/$1.00 same as previous week. We expect rates to trade around current levels this week supported by the CBN intervention in the IX market.

Bond Market

The Bond market witnessed buying interest for sovereign bonds as rates ease business and social restrictions that were imposed to counter the coronavirus pandemic. Bonyght, Nigeria’s benchmark sovereign curved surged 27.82% to settle at $34.46 per $1.00. In addition, precious metal prices dipped as the dollar strengthened on a quick of economic recovery dented bullish views on economic growth. Consequently, gold prices dropped $0.40 to $1,735.59 per ounce from $1,742.52 per ounce. Silver prices fell 3.08% to $22.23 per ounce due to increased demand for the metal. This week, we expect that oil prices will see lower worries about China growth and fresh friction between Washington and Beijing. Bulls are expected to continue supporting as hostilities between US and China support the market.

Monetary Macro Economic Forecast

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