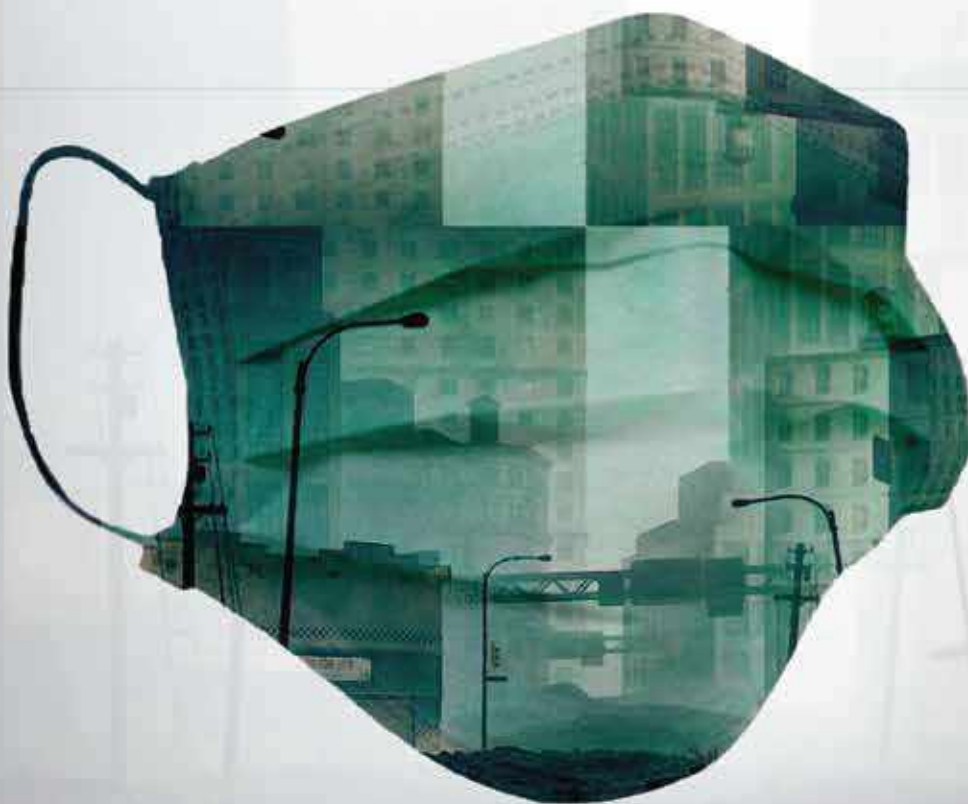


UNMASKING VALUE IN A SCOURGE



H2:2020 REPORT OUTLOOK

MERISTEM RESEARCH | JUNE 2020



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The Great Lockdown Takes Center Stage

At the start of the year, the prevailing themes in the global economy centered around the growing barriers to trade, weakness in global manufacturing, rising geopolitical uncertainty and the U.S – China trade war, but the outbreak of the Coronavirus Disease (COVID-19) in China and its rapid spread across the world, has put these factors in the backseat and significantly altered growth expectations for the year.

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COVID-19 Amplifies Pre-existing Growth Impediments

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Equities End First Half in the Negative as Bears Triumph

The Nigerian equities market soared in the first month of 2020, peaking at 29,710.56pts on the 20th of January and ranking as one of the best performing markets at the time. The excitement was, however, short-lived as the reality of the COVID-19 pandemic across major economies triggered a wave of bearish sentiment in the equities market.

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An Eventful Half of the Year

The weak investor sentiment in the equities space has induced buying pressures in the fixed income market, as investors continue to seek safety in treasuries. This led to average T-bills and Bond yields reaching record lows, with the latter falling below double digits in the first half of the year. With impending maturities outweighing government's financing needs in the second half of the year, we expect yields to remain depressed.

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FX Futures Premium Widen as Local Interest Rates Slump

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accretion to external reserves and the ability of the CBN to keep supporting the Naira in the face of mounting liquidity pressures.

H2:2020 Strategy57

Scout for Dividends and take Advantage of Investment Grade Commercial Papers

For the rest of the year, there are still a lot of uncertainties in the equities market, but we are keeping our faith with selected dividend aristocrats. For fixed income, we advise investors to take advantage of investment grade commercial papers, combined with a mix of long and short dated bonds which have attractive yield income.

Overview

Global and Domestic Economy

The global environment has changed significantly from initial expectations at the start of the year, as the effects of the COVID-19 pandemic continue to reverberate across the world. After first occurrences of the virus were discovered in China in late December, the virus quickly spread across the country and by March, cases of the virus were confirmed in most countries across the world. This resulted in the imposition of lockdown measures at an unprecedented scale from March, which negatively impacted global economic growth, weakened global supply chains, and dampened aggregate demand. Although fiscal and monetary authorities across the world have moved swiftly to cushion the impact of the pandemic with record levels of interventions, the economic fallout from the virus is expected to persist throughout the year.

Already, the IMF and World Bank have significantly cut growth projections for 2020 as, for the first time, they predict that all economic regions will slump into a recession at the same time. China is the only major economy expected to record growth in 2020, after a successful implementation of lockdown measures in the first quarter.

While the domestic economy witnessed growth during the first quarter of the year, the outlook for the year is now less benign due to the considerable shocks to the global oil environment which spell major implications for the exchange rate, external reserves, fiscal revenue and the broader economy. Weakness in the current account balance along with significant capital flow reversals tested the CBN's ability to defend the currency in the first half of the year, eventually leading to a loss in value of the Naira at the various exchange rate windows.

Although we had expected the economy to grow by 2.47% this year on the back of CBN's increased credit drive to the real sector and an increased channeling of investments to the agricultural space, we now expect domestic output to fall by 3.03%. Inflation has continued to trend upward since the implementation of the land border closure in August last year. Our expectations for inflation remain unchanged, as we expect the supply and demand side shocks from the pandemic to pile further pressure on consumer wallets.

The equities market witnessed a wave of excitement in the first few weeks in January, shrugging off bearish sentiment from the previous year. The performance of the market at the start of the year was partly boosted by the unattractive yield in the fixed income space coupled with the robust liquidity in the financial system. In no time, the reality of the COVID-19 pandemic began to set in, moderating the activities of the bulls and triggering selloffs across counters. Investors cared less about the defensiveness of traditional stalwarts but sought for refuge in stocks in the telecommunication and healthcare industries.

Despite yields in the fixed income space falling to record lows, investors' participation remained strong in the face of a downbeat equities market and

high system liquidity. In the first half of the year, we saw Investors take advantage of investment grade commercial papers and corporate bonds, to compensate for the unattractive sovereign yields. Likewise, the issue of a Sukuk bond by the Federal Government in H1:2020, lit up investors' interest with the offer being 446% oversubscribed. In the OMO market, the scarcity of FX inhibited repatriation of funds, leaving offshore players with no choice other than to re-invest their funds. Yields are expected to remain depressed in the second half of the year as impending maturities continue to add to the existing liquidity surfeit.

Global Economy

The Great Lockdown Takes Center Stage

At the onset of the year, much of the prevailing themes in the global economy were centered around the growing barriers to trade, weakness in global manufacturing, rising geopolitical uncertainty and the U.S – China trade war. Although the monetary policy environment as we emerged from 2019 was largely accommodative, the weight of these headwinds pegged the world output in 2019 to 2.9%, from 3.6% in 2018. Nonetheless, the IMF had projected a rebound in global growth in 2020 to 3.3%, to be aided by the roll back of trade tariffs after the signing of the Phase 1 trade deal, a return to growth trend in key emerging markets, and a largely supportive monetary policy environment.

However, the outbreak of the Coronavirus Disease (COVID-19) in China and its rapid spread across the world, put these factors in the backseat and has significantly altered growth expectations for the year. Starting as a health crisis, the spread of the virus quickly evolved into an economic crisis, with the magnitude of its impact expected to be worse than during the Global Financial Crisis (GFC). The speed at which the virus spread prompted the imposition of unprecedented containment measures worldwide, including a halt in international travel and a pause in non-essential economic activities. Nonetheless, the number of Coronavirus cases across the world continued to climb and are now in excess of 11 million, while deaths have surpassed five hundred thousand globally, implying a fatality rate of about 5%.

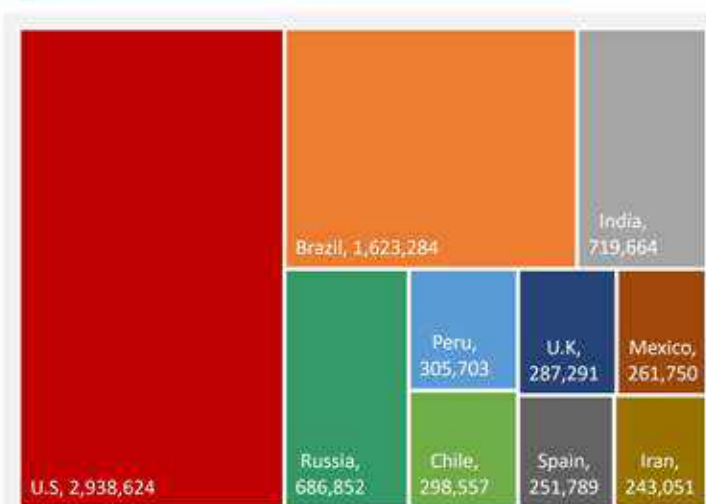
Chart 1: Confirmed Coronavirus cases across the world



*Data correct as at 7th July 2020.

Total Confirmed cases of Coronavirus stand at 11,633,678. The top 10 countries with the most Coronavirus cases account for 65.51% of Total Global Cases

Chart 2: Top 10 countries with most Coronavirus Cases

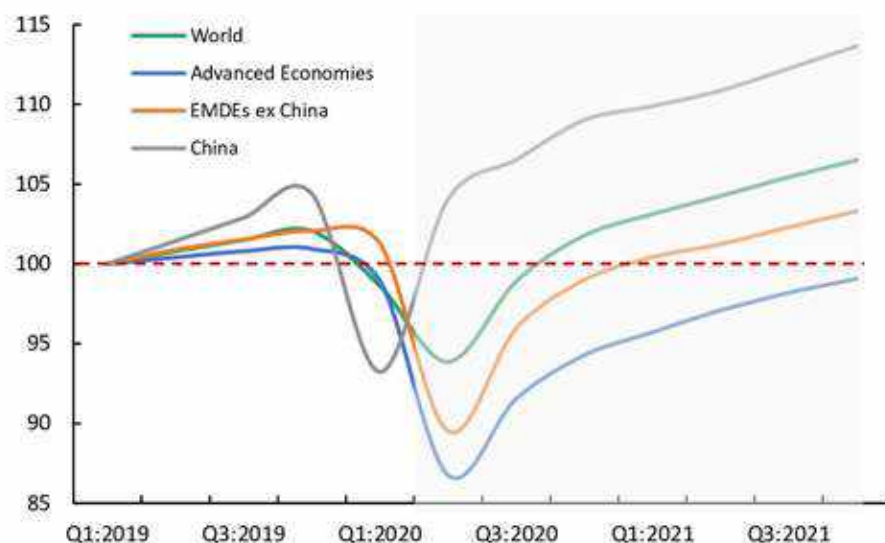


Source: John Hopkins University CSSE, Meristem Research

Recent economic data have begun to reveal the extent of the economic fallout from the pandemic. Global Manufacturing PMI fell to its lowest level since the GFC in April, while the trend in unemployment across major economies have risen since March. Similarly, GDP data across the E.U (-2.60%), U.S (-5.0%), U.K (-1.6%) and China (-6.8%) revealed a contraction in the first quarter of the year, and asides from China, expectations of a second quarter recession are rife.

Although most countries began lifting lockdown measures in the second quarter, the magnitude of the damage dealt has nullified expectations for a swift economic recovery in the second half of the year. With the successful development of potent treatments and vaccines for the virus not expected until at least early 2021, a lot of reliance will be placed on social distancing and contact tracing measures. Thus, the pace of economic recovery will rest on factors which include – the efficacy of social distancing measures in preventing a second wave of new infections and the extent of recovery in global productivity. Also, behavioral changes and a shift in consumer spending patterns caused by these measures might add another layer of uncertainty to the recovery.

Chart 3: Quarterly World GDP Projections (Q1:2019 = 100)



Source: IMF, Meristem Research

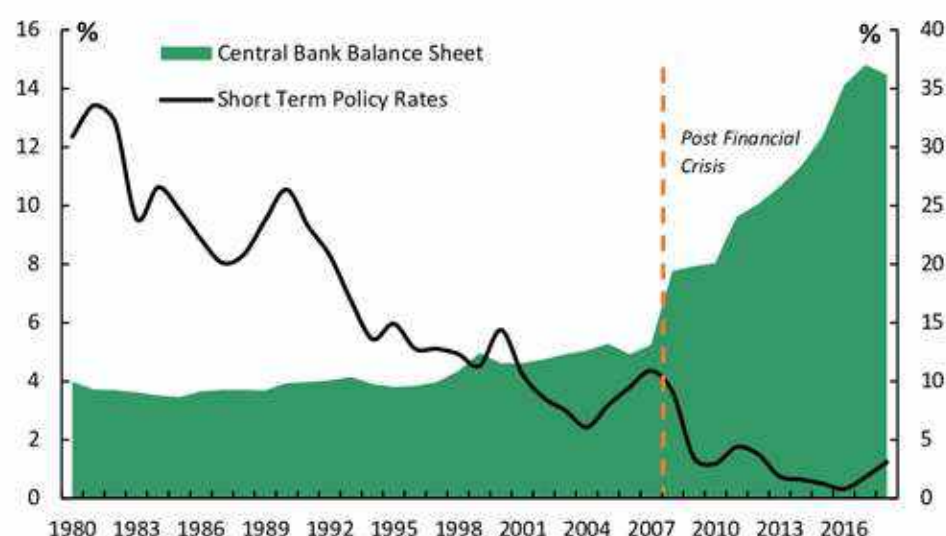
In its June World Economic Outlook, the IMF made further revisions to its global growth forecasts from April, necessitated by the larger than anticipated impact of the pandemic on global output in the first half of the year. As such, growth in world output for 2020 is now estimated to decline by 4.9%, due to an expected decline of 8.0% in the Advanced economies, 3.0% in Emerging and Developing economies, 9.4% in Latin America and 3.2% in Sub-Saharan Africa. Global output has however been projected to recover by 5.8% in 2021 under a baseline scenario which assumes a fading of the pandemic from the second half of 2020, which would support lifting of lockdown measures, an easing of financial conditions and a subsequent recovery in commodity prices. In the same vein,

the World Bank puts its global growth forecast for 2020 at -5.2%, although it anticipates a weaker recovery of 4.2% in 2021 under its base case scenario.

Monetary Policy: Bracing for Impact

Although containment measures implemented across most countries were necessary to prevent further spread of the pandemic, the economic fallout of this on labour productivity and aggregate demand is expected to be profound. The IMF has forecasted a loss of between five to eight percent of working days in 2020, while the World Bank estimates GDP per Capita in 2020 to contract by 6.2% (more than two times the contraction during the GFC).

Chart 4: Policy Rates and Central Bank Balance Sheets in Advanced Economies



Note: Short term policy rates used are the median Short-Term Policy rates for the selected sample of Central Banks in 35 Advanced Economies. The Central Bank Balance sheet figures are the ratios of central bank balance sheets to nominal GDP.

Source: IMF, Meristem Research

Monetary authorities in advanced economies have moved swiftly in trying to combat the negative impact of the virus on their various economies. However, they enter this pandemic with rising balance sheets, policy rates at historically low levels and with inflation rates persistently below target. As such, this pandemic poses a new challenge for the authorities, considering that they have limited headroom to maneuver by way of conventional monetary policy tools. In Emerging Markets and Developing Economies (EMDEs), whilst monetary authorities may have broader room to ease monetary policy via traditional means, its effectiveness will be limited as long as containment measures remain in force, while also considering that structural issues such as large informal sectors and lower levels of financial inclusion may further weaken the transmission pathway of conventional rate cuts in the face of the pandemic.

Thus, monetary easing across the world in 2020 has largely been implemented by a mix of conventional rate cuts and unconventional monetary tools. For instance, in advanced economies, monetary authorities such as the U.S Fed, European Central Bank, Bank of England and Bank of Japan have implemented series of targeted monetary stimulus, along with large scale asset purchases of government and corporate bonds. The use of these unconventional policies has become imperative in order to preserve the functioning of financial markets and prevent the crystallization of a financial crisis, while also supporting aggregate demand by sustaining the flow of credit to the real economy.

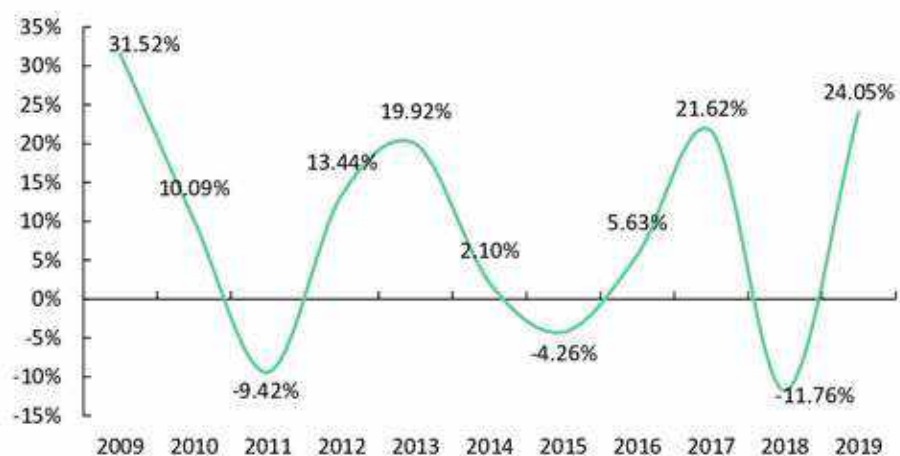
However, while these unconventional tools may prove more effective in dealing with the pandemic in the short term, in our opinion, an extended use of these measures may cause new risks to crystallize. Firstly, systemic risks to the financial system may begin to build up as excess liquidity in the economy will cause an inflation of asset prices. Furthermore, debt levels and central bank balance sheets will continue to rise to unprecedented levels and may become unsustainable. Therefore, it is important for monetary authorities to use these tools prudently and gradually begin to wind down interventions as soon as the effects of the pandemic begin to subside.

Global Financial Markets

Covid-19 Outbreak Rattles Global Market Performance

Global equities markets closed out 2019 on a strong footing as investors shrugged off concerns about mounting trade tensions and the IMF's signal of slowing growth in major economies. The MSCI World Index, which tracks stocks across developed markets gained 24% in 2019 – its strongest performance since the 2009 financial crisis.

Chart 5: MSCI World Index (2009 - 2019)



Source: Bloomberg, MCSI, Meristem Research

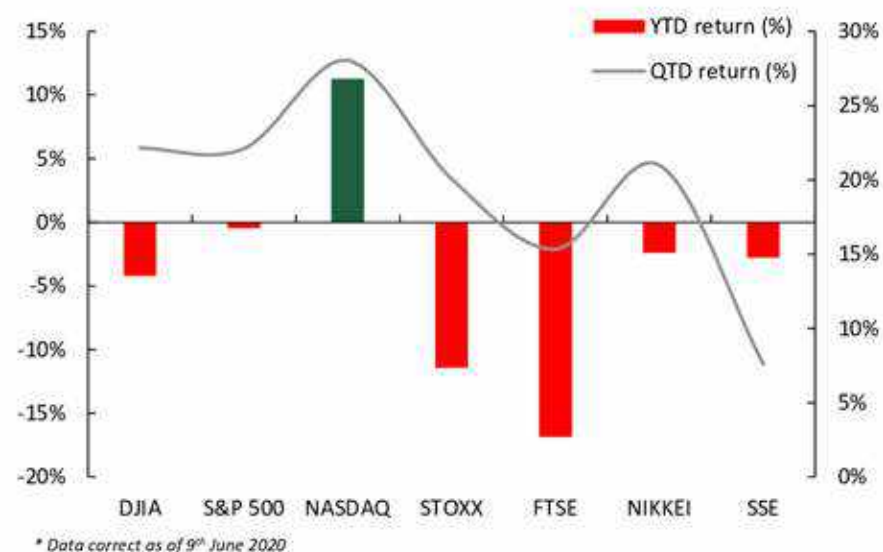
Against this backdrop, investors charged into 2020, taking positions across sectors and edging major indices including the DJIA: 29551.42pts., NASDAQ:

9817.18pts. and S&P 500: 3386.15pts. to record-highs as at mid-February. However, as concerns around the containment of the Coronavirus pandemic took center stage across the world, governments imposed varying degrees of restrictions including lockdown measures and shutting down businesses. The widespread impact of these measures, coupled with the oil price war between Saudi Arabia and Russia disrupted demand-supply dynamics for many commodities, and eventually led to a crash in crude oil prices in April.

Global equities markets were not spared from the onslaught that ensued, as investors reassessed the impact of the global shutdown on corporate earnings. Companies whose business models stood to benefit from the situation (*i.e. healthcare, telecoms and technology stocks*) saw their share price appreciate while firms operating in sectors projected to be the worst hit (*i.e. oil & gas, aviation and hospitality*) witnessed massive sell-offs. All of this realignment happened between late February and March 2020. In April however, markets rallied (DJIA: +9.04%, NASDAQ: +14.35% and S&P 500: +10.88%) supported by the intervention of central banks and renewed investor confidence feeding off plans by various countries to reopen their economies. The equities market has however remained volatile, swinging in either direction in response to reports of progress with a Covid-19 vaccine and hopes of a looming economic recovery.

In emerging markets, the narrative is similar. At the height of the panic, there was a flurry of selloffs (*amounting to USD100bn or 0.4% of emerging market GDP*) as investors repatriated their funds, seeking safety instead in US and Japanese treasury instruments. At the end of the first quarter, emerging markets return, as measured by the MSCI Emerging markets index, stood at -23.87%.

Chart 6: Market Return of Selected Global Stock Indices



Source: Bloomberg, Meristem Research

First Quarter Earnings: Less Gloomy than Expected

Earnings released in the first quarter of 2020 was a tale of mixed fortunes; reflecting the transition to a virtual-world, impact of lockdowns and the temporary shutdown of non-essential businesses. International oil companies like *Total*, *Shell*, *British Petroleum*, *Exxon Mobil* and Industrial companies like *Boeing*, *General Electric*, *Caterpillar Inc.* and *Cummins Inc.* all reported a decline in earnings. Twenty-three of the top 25 publicly traded global retailers, saw a falloff in earnings (including *Alibaba*, *Walmart*, *Home Depot*, *Target* and *Costco*). On the flipside, large-cap technology stocks such as *Amazon*, *Apple*, *Microsoft* and *Google* showed resilience, although earnings also moderated slightly during the period. Investors seemed to remain optimistic, averting a further dip in the equities market going into the second quarter of 2020.

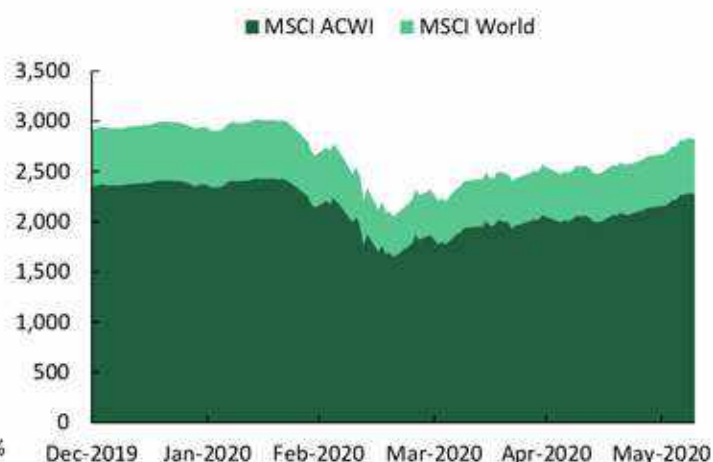
More recently, most equity markets have begun on the path to recovery, reacting to recovering oil prices (currently above USD40pb), easing of economic shutdowns, and have been impacted by the liquidity from asset purchase by central banks in most developed markets. The MSCI ACWI Index has also rebounded from its year low, posting a gain of 36.29% as at 9th June 2020 since the recovery began at the tail end of March. The United States which accounts for about 55% of the MSCI World Index has fuelled the bullish run with the S&P 500 returning 22.10% quarter to date.

In the short-term, we expect the sentiment driven rally observed in the market to be sustained, driven by the intervention of monetary authorities, gradual recovery in oil prices and phased reopening of economies around the world. A steep drop in earnings in Q2:2020 and the emergence of a second wave of infections which would force the global economy back into a shutdown however constitutes significant downside risk to this expectation. In the long run however, we are less optimistic. This is because equity market returns depend largely on realized and expected earnings, which are in turn tied to economic growth (most forecasts point to a contraction in 2020). Also, the market is awash with inflated asset prices in several markets and a correction is on the cards. We however note that a discovery of a vaccine earlier than anticipated might avert a prolonged global recession, positively influencing our outlook.

Chart 7: YtD Returns in Select Emerging markets



Chart 8: MSCI ACWI vs. MSCI World (H1:2020)



* The MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large and mid-cap stocks across 23 developed and 26 emerging markets.

Source: Bloomberg, Meristem Research

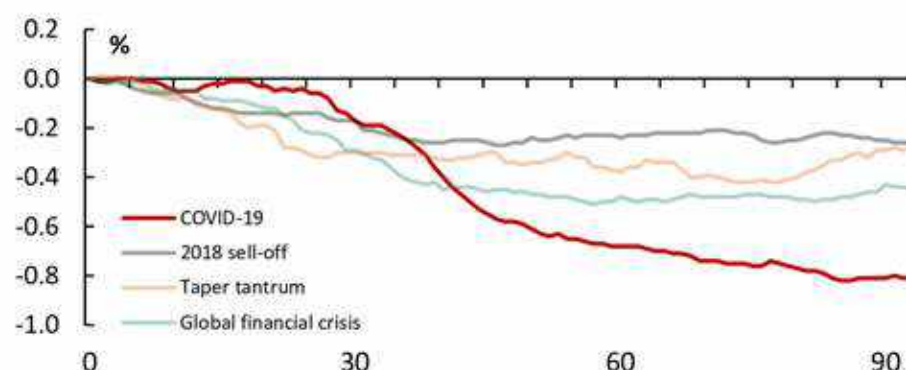
Source: MSCI, Bloomberg, Meristem Research

The Great Exodus

Emerging Markets Suffer Unprecedented Capital Shocks

Having previously enjoyed significant capital influx from yield-seeking investors due to their positive carry return profile, EMDEs have suffered unprecedented levels of capital outflows in the wake of the COVID-19 pandemic. The spread of the pandemic triggered waves of flight to safety by investors and at its peak in late March, capital outflows totaled c. USD100bn (approximately four times the outflows experienced during the Global Financial Crisis).

Chart 9: EMDE Portfolio Outflows (Percent of GDP) Exceed the GFC Period



Note: The dates for the start of each episode are as follows: COVID-19, January 20, 2020; 2018 sell-off, May 2, 2018; Taper tantrum, May 21, 2013; Global financial crisis, September 7, 2008. Sample includes 10 EMDEs due to data availability. Data are calculated using nominal U.S. dollar GDP for the corresponding year of each episode. Last observation is May 28, 2020.

Source: IIF, World Bank, Meristem Research

Consequently, the effect of the capital flight on financial markets has been pronounced as the MSCI EM index, MSCI FM index and the Bloomberg Barclays EM Bond index recorded significant losses in March. Furthermore, the impact of these capital outflows on the balance of payment for most EMDE countries has been exacerbated by the significant weakness in commodity prices and a sharp decline in remittances. As such, countries with wide current account deficits and weak external reserve levels have witnessed significant pressures on their currencies. Credit downgrades have swiftly followed for both sovereigns and corporates, leading to increased cost of debt, and have forced some countries to seek financing from multilateral organizations in order to support their fiscal deficits and balance of payments. For instance, Fitch downgraded a record number of 26 sovereigns during the first half of the year, largely centered in the Latin America and Middle East & Africa regions.

Chart 10: Financial Market Performance in Emerging and Frontier Markets



Source: Bloomberg, Meristem Research

Although capital outflows have eased somewhat with the gradual easing of lockdown measures and EM financial markets have gradually recovered, the possibility of a second wave of new virus cases could tilt risks further to the downside and spur another wave of capital flight from these economies.

Global Outlook

United States

The outlook for the U.S economy in 2020 has changed drastically since the outbreak of the Coronavirus pandemic on its shores in March. Much of the economic boost expected to be derived from the signing of the Phase One Trade deal with China, alongside the USMCA trade agreement with its North American allies has not been realized due to the adverse impact of the virus. Instead, its GDP fell by 5.0% in Q1:2020, down from a growth of 2.1% in Q4:2019, which represents the steepest quarterly GDP decline in over 10 years. Furthermore, unemployment rate rose to its highest ever level of 14.7% in April, from 4.4% in March, as about 20 million jobs were lost due to the pandemic.

The fiscal and money authorities have moved swiftly to combat the effect of the pandemic on the economy. The U.S Fed cut policy rates by 150bps to near zero in March and launched a series of targeted monetary easing programs worth over USD2.3trn, to support liquidity in financial markets and provide credit to the real economy. Furthermore, it temporarily relaxed regulatory requirements for commercial banks in order to encourage lending to the real economy during the crisis. The U.S government has also adopted the same approach, implementing various forms of fiscal stimuli worth over USD3trn via direct payments to citizens, tax deferrals and intervention funds.

Although economic growth is expected to rebound from the third quarter of 2020 due to a gradual reopening of the economy, the pace of recovery is less certain due to the far-reaching effect of the virus. The U.S has seen a gradual spike in new cases of the virus in recent weeks which already threatens forecasts of economic recovery in forthcoming quarters. Furthermore, consumer spending is expected to remain sluggish, due to the prolonged lockdown in some regions and the impact of social distancing measures on restaurants, travel, and retailers.

Also, the Presidential elections scheduled to hold in November adds another element of uncertainty over the economy. Overall, the U.S GDP is forecasted to decline by 6.1% and 8.0% by the World Bank and IMF, respectively.

United Kingdom

COVID-19 Worsens Post-Brexit Outlook

The U.K officially left the E.U at the end of January after newly elected Prime Minister, Boris Johnson, was able get his revised withdrawal agreement through Parliament. Under the agreement, the U.K would still be a member of the E.U Customs Union and single market in an 11-month transition period, during which new trade agreements are expected to be negotiated with the E.U.

With the new transition period set to expire in December 2020, the region is in a race to negotiate favorable trade agreements with the E.U and other major non-E.U trade partners like the U.S, Canada, Japan, Turkey and Australia. These

countries collectively account for the bulk of U.K's international trade thus, a failure to secure favorable trade agreements would mean that the U.K's exports to some of these countries would be subject to higher tariffs and full border checks for goods, in line with the basic World Trade Organization (WTO) agreement. Also, the U.K service industry would lose guaranteed access to E.U markets while travel relationship with the E.U would be a lot more cumbersome

The long-awaited Brexit deal was delivered at an inauspicious time for the U.K as the outbreak of the COVID-19 pandemic in the region is expected to amplify underlying economic weakness caused by Brexit. With confirmed cases of the virus above 300,000 in June, the region has recorded the largest number of cases in Europe and has led to the imposition of stringent lockdown measures in March. Recent economic data already paint a grim outlook for the U.K, as it suffered its worst ever monthly GDP decline of 20.4% in April, off the heels of a 1.6% YoY GDP decline in Q1:2020. Unemployment has also trended upwards, as the number of workers on payroll fell by more than 600,000 between March and May.

In response, the Bank of England reduced interest rates to an historical low of 0.1% and has already injected over GBP700bn into the economy under its asset purchase program. Similarly, the UK government has implemented fiscal stimuli worth over GBP500bn via various channels such as direct fiscal spending, tax deferrals, liquidity support and credit guarantees. '

Despite these palliatives, the outlook for the U.K economy in 2020 is bleak, pressured by headwinds such as the rising number COVID-19 cases and the ability of government officials to negotiate favorable trade deals with the E.U and major non-E.U trade partners before the expiration of the transition period. The Bank of England expects the U.K to shrink by 14% in 2020, which would mark its deepest recession in over three centuries, while its growth forecast of 15% in 2021 is highly dependent on the absence of a second wave of the virus and an orderly transition to a comprehensive E.U-free trade deal.

Euro-Zone

COVID-19 Containment Measures Inhibit Economic Activities

The Eurozone has not been spared in the Coronavirus scourge as economic activities across the region continue to slump. GDP in the Euro area and EU decreased by 3.20% YoY and 2.60% YoY in Q1:2020 respectively, with the largest contractions seen in France (-5.40% YoY), Italy (-4.80% YoY), and Spain (-4.10% YoY). Germany, however, has now slipped into a recession, having recorded a contraction for the second consecutive quarter, at -2.20% QoQ (vs -0.10% QoQ in Q4:2019). As with most advanced economies, the GDP decline in the Euro area was reflective of a sharp drop in industrial production (-12.90% YoY) and retail sales (-9.20% YoY) amid a pressured external sector. The largest production volume declines were recorded on consumer durables (-24.20% YoY) and capital goods (-21.50% YoY), as COVID-19 containment measures impacted industrial activities and supply chains. This impacted the performance

of financial markets with the EURO STOXX 50 Index (an index of Europe's blue-chip companies) losing 25.59% in Q1:2020 (although recent gains have moderated the return to -11.99% by H1:2020). Even though economies have begun to reopen gradually following a period of lockdown, concerns over a second wave of infections and the speed of economic recovery has kept expectations down. Thus, the IMF has put its 2020 growth forecast for the Euro area and EU at -7.50% and -7.10% respectively.

ECB Goes All Out in War Against Pandemic

To cushion the impact of the pandemic on the Euro area, the European Central Bank (ECB) launched a EUR750bn Pandemic Emergency Purchase Programme (PEPP) in March 2020, which was subsequently expanded to EUR1.35trn at the June Monetary Policy meeting. This is coming on the back of the ECB's resolve to support funding conditions in the real economy through the PEPP till the crisis phase of the COVID-19 pandemic is over. In sustaining its accommodative posture on all fronts, the ECB's Governing Council, at its June meeting, maintained rates on the main refinancing operations, marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.50% respectively.

While the ECB's measures towards providing liquidity to the real sector and the various fiscal responses by Euro-zone member States should support amid the economy, weakened consumer spending and weaker corporate balance sheets remain significant downside risks for the region.

Emerging Markets and Developing Economies (EMDEs)

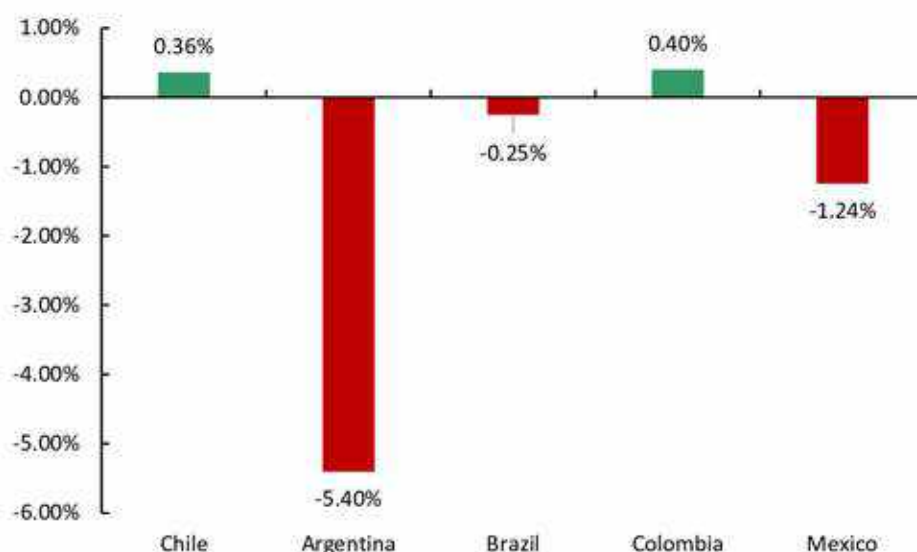
EMDEs Embattled Following Lockdowns and Slump in Commodity Prices

Following the confirmation of the world's first Coronavirus case in Wuhan, China, economic activities were ground to a halt as stringent lockdown measures were put in place to contain the spread of the virus. As a result, growth in China declined by 6.80% in Q1:2020, reflecting declines in industrial production (-1.10%) and retail sales of consumer goods (-19.00%). Nonetheless, the pandemic control measures have proven effective thus far, as GDP figures for Q2:2020 revealed a modest recovery of 3.2% as portions of its economy reopen. Furthermore, China is widely expected to be the only economy to experience growth in 2020 due to a gradual recovery in domestic demand, industrial output, government stimulus and exports. However, the country's leadership has abandoned its legacy growth targeting for 2020, given the high level of uncertainty associated with the economic effect of COVID-19.

In Latin America, the situation is grim for Argentina's already ailing economy. Economic activity in the country slumped further by 11.50% YoY in March 2020 (vs. -2.40% YoY in February) marking the worst contraction since May 2009. In Brazil, the 1.70% YoY expansion in Q4:2019 was eroded as the economy contracted by 0.30% YoY in Q1:2020. However, in Russia and Turkey, economic growth remains in positive territory (albeit at a slower pace) at 1.60% YoY and 4.50% YoY in Q1:2020, respectively. The growth seen in these countries are

largely due to robust government expenditure and resilient household spending, despite social distancing measures. Importantly, the growth expectation for Q2:2020 is grim given the battering impact of COVID-19 on these economies.

Chart 11: Q1:2020 GDP growth rate of Key Latin American Countries



Source: Bloomberg, Meristem Research

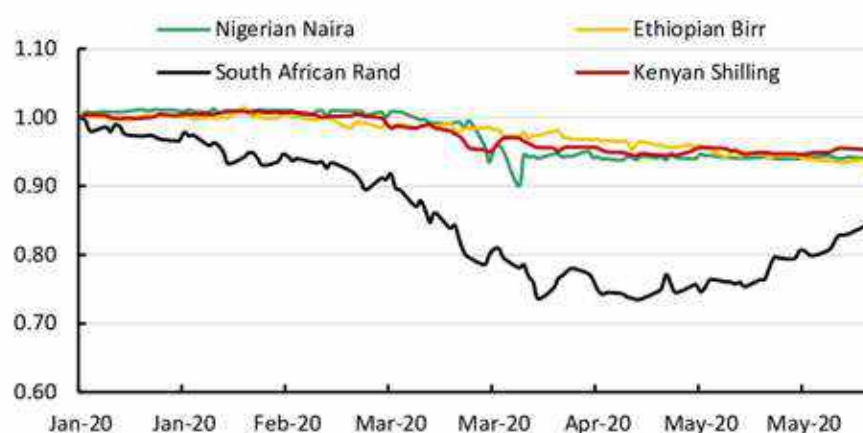
The IMF has projected EMDEs to contract by 1.00% in 2020FY with Latin America and the Caribbean (-5.20%) and Emerging and Developing Europe (-5.20%) to be the worst hit. Amidst the crisis, Emerging and Developing economies have been plagued with capital flow reversals as investors repatriate funds to more resilient economies. Commodity-reliant economies in Latin America and Sub-Saharan Africa have also had to grapple with the fall in commodity prices and consequently worsening fiscal deficits. Although the accommodative stance of many central banks, together with the various fiscal stimulus packages (supported by loans from multinational development finance institutions), are expected to lessen the blow on the region's economy and induce a faster recovery, much is still dependent on a recovery in commodity prices and demand. Ultimately, the successful development of a vaccine has become very crucial for full economic activities to resume and avert crises. The recent developments have necessitated the restructuring of extant fiscal frameworks to accommodate more stimulus, while central banks stretch their balance sheets further. Going forward, we expect that the accommodative posture of monetary authorities and the series of social interventions to persist, till a significant headway is made in the development of a COVID-19 vaccine.

Sub-Saharan Africa

Multi-Layered Effects of the Pandemic

Despite Sub-Saharan Africa accounting for only about 2.75% of the total number of global COVID-19 cases, its economies are facing severe economic fallout due to the virus. As most of the countries in Sub-Saharan Africa are commodity exporting economies, the disruption in global supply chains has worsened economic conditions in the region. Furthermore, the pandemic has put much pressure on health systems, hampered agricultural productivity, increased unemployment rates, and weakened supply chains. The resulting elevated risk assessments have triggered capital outflows from the continent, subsequently leading to declines in equities markets, foreign exchange reserves and depreciating currencies. Countries such as Angola and Nigeria, the major crude exporters from the region, have come under huge pressures due to the headwinds in the crude oil market. Nations with significant exposure to the tourism industry like Mauritius and Seychelles have also been hit hard due to the restriction in air travel, while agricultural commodity exporters like Ivory Coast and Ghana have been impacted by logistic challenges and lower demand from the disruptive effects of the pandemic.

Chart 12: Select SSA Currencies against the U.S Dollar



Source: Bloomberg, Meristem Research

Like the rest of the world, containing the COVID-19 remains a hurdle in the way of leaping back to growth. The challenge of providing fiscal support amid the weakened government revenue and capital flow reversals are huge during this difficult period. The World Bank expects the region's largest economies, Nigeria and South Africa, to record a GDP contraction of 3.2% and 7.1% respectively in 2020.

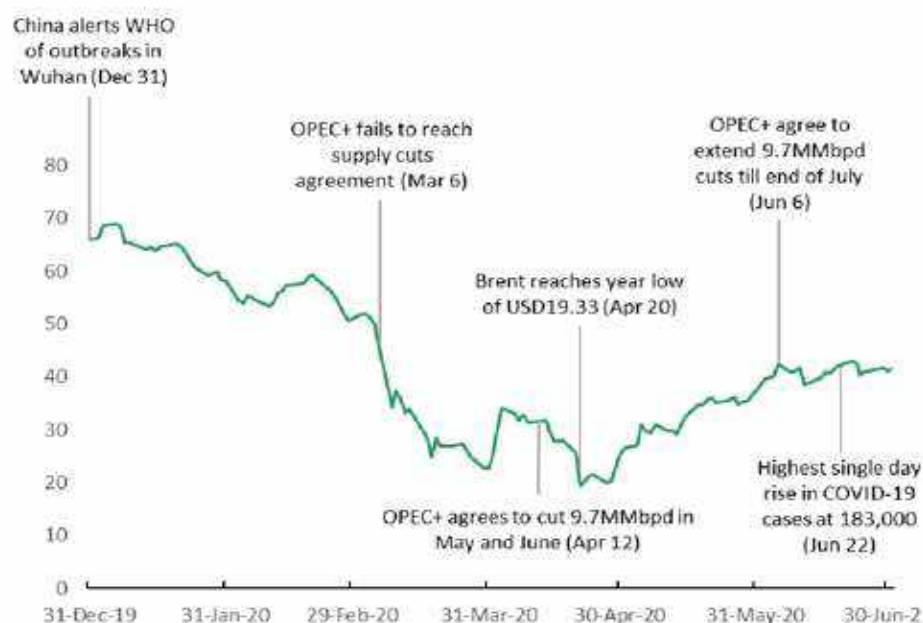
Commodities: Oil

A Year of Unprecedented Events

The year has been quite eventful for the oil market with unprecedented outcomes in the first half of the year. Projections for the year were disrupted by shocks to the demand and supply segments of the market. Demand shocks were immediately triggered by the impact of the COVID-19 outbreak on the world's largest oil importer, China. Furthermore, with OPEC and its allies unable to reach an agreement to curb supply in early March, oil prices fell further, causing Brent to suffer its worst one-day performance since 1991 on the 9th of March, when it shed 24.10%.

The downward spiral in oil prices was sustained throughout March and dragged into April as air travel was shut, causing a dent in jet fuel sales, while lockdowns imposed across the world led to reduced demand for other fuels. The stringent containment measures led to a significant plummet in fuel consumption and petroleum product inventory builds which subsequently drove petroleum products margins into the ground. The decline in global demand became further evident when WTI futures turned negative for the first time in April to close at minus USD37.63pb. This occurred as May-dated future contracts were to expire and would require buyers of the WTI futures contracts to either take on the barrels physically or settle the contract by selling it to another buyer. With a shortage of storage space limiting the capacity to receive the physical delivery, traders were forced to dump the contracts by paying off takers to close contracts.

Chart 13: Timeline of Events in the Crude Oil Market



Source: Bloomberg, Meristem Research

A Long Road Ahead to a Full Recovery

Demand is still expected to shrink by 9.08MMbpd in 2020 with OPEC forecasting oil demand for 2020 at 90.59MMbpd (vs. 99.67MMbpd in 2019). The impact of the cuts is still dampened by the huge drop in demand, and even with an improbable compliance with the cuts, an estimated 20MMbpd will remain lost in the short term as long as the lockdown measures persist. It is also important to consider extent of the supply glut. The IEA estimates that by end of June, inventory builds would have reached c. 12MMbpd, placing a strain on global storage capacity. Furthermore, the prospects of the world's oil logistics capacity becoming overwhelmed shows it will take time for the output cuts to have substantial effects on the market.

Now that lockdowns are easing across Europe, North America, China and the rest of the globe, demand levels have gradually begun ticking upwards. The downside, however, comes in the rising number of new cases across the world, which may require the re-imposition of lockdown measures.

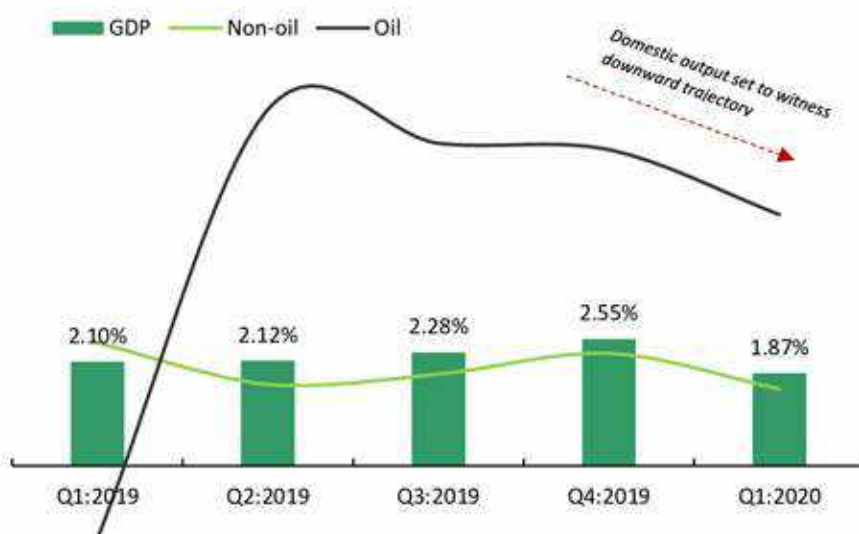
We expect recovery in the crude oil market to be slow despite the actions of OPEC and its allies; high levels of inventory, coupled with the fall in demand amidst reduced economic activities across key markets will remain as headwinds for oil prices. Thus, we expect average oil prices in 2020 to range between USD32pb – USD42pb, an upward revision to our previous forecast of USD28pb – USD35pb.

Domestic Economy

COVID-19 Amplifies Pre-existing Growth Impediments

The Nigerian economy maintained its slow pace of growth since the exit from recession, at 1.87% in Q1:2020. This represents the slowest pace of output growth since Q3:2018. Growth continues to be constrained by significantly lower crude oil output, restricted access to foreign exchange (forex) for the importation of critical raw materials, and insecurity in major agricultural production areas in the North. The outbreak of the COVID-19 pandemic has only exacerbated the downside risks to output growth, particularly through its impact on trade (which accounts for 16% of Nigeria's GDP) and foreign exchange earnings. Accordingly, the International Monetary Fund (IMF) anticipates that the economy could slip into its worst recession in three decades with an estimated 5.40% contraction in Gross Domestic Product (GDP) in 2020.

Chart 14: GDP Growth Trend Since Q1:2019



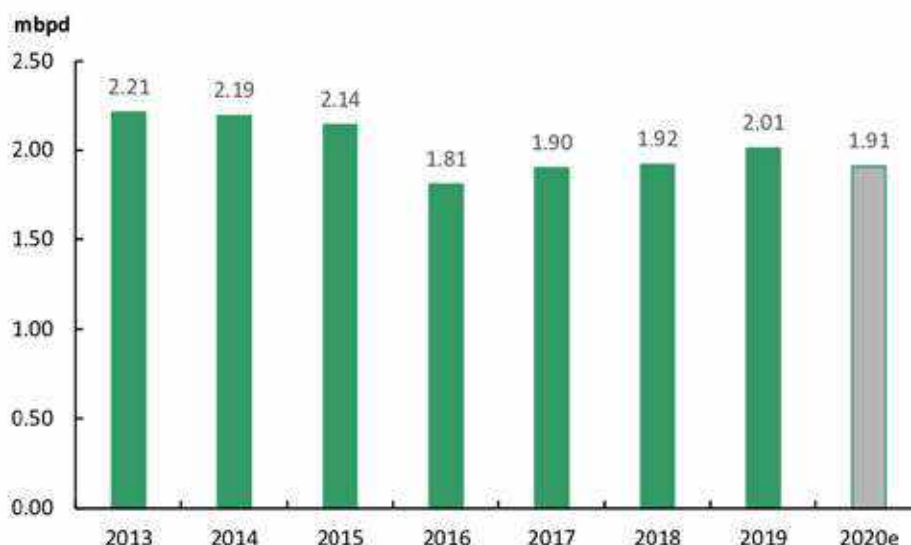
Source: NBS, Meristem Research

No Respite from the Black Gold

Oil GDP grew by 5.06% YoY in Q1:2020 (vs. 6.36% in Q4:2019 and -1.45% in Q1:2019), driven by improved crude oil production which averaged 2.07mbpd (vs. 1.99mbpd in Q1:2019). In Q2:2020 however, oil production was impacted by the slump in global demand due to the imposition of lockdowns in several countries to curb the spread of the COVID-19 pandemic. In addition, the implementation of the supply cut agreement reached by OPEC and other major oil producers in April further dampened oil production in H1:2020 as oil output declined to 1.59mbpd in May from 1.78mbpd in April. It is instructive

to note that this level of output was last recorded in 2016 and was partly responsible for the 2016 economic recession.

Chart 15: Average Daily Crude Oil Production



Source: NBS, Meristem Research

For the second half of the year, oil production, less condensates, is expected to be kept at 1.50mbpd as stipulated by the supply agreement. This is significantly less than the adjusted oil production of 1.76mbpd in H1:2019. **Thus, while the gradual easing of lockdowns and resumption of economic activities globally is expected to drive demand for crude oil, compliance with the new production quota should lower oil GDP by an estimated 4.50% YoY.**

...Much Less from the Non-oil Sector

The non-oil sector which makes up at least 90% of GDP grew by 1.55% YoY in Q1:2020. This is slower than 2.48% in Q1:2019 and 2.27% in the previous quarter (Q4:2019). Key drivers of non-oil sector growth were agriculture, manufacturing, and ICT sectors as they jointly accounted for over 40% of total GDP. Growth in agricultural GDP slowed to 2.20% in Q1:2020 (vs. 3.17% in Q1:2019) due to the persistent security challenges in the food producing areas in Northern Nigeria and inadequacy of storage and distribution infrastructure. Although the Presidential Fertilizer Initiative by the Federal Government, aimed at improving farmers' access to fertilizers is commendable, it is yet to translate to output gains in the sector. **The outlook for the agricultural sector for the rest of the year remains challenging, with inadequate budgetary funding compounded by the COVID-19 pandemic; increased banditry and general insecurity in the Northeast and some parts of the Northwest particularly Kaduna and Katsina. Sustained intervention by the CBN through provision of credit to farmers (particularly under the Anchor Borrowers' Programme and the Nigerian Incentive-Based Risk Sharing in Agricultural Lending), the establishment of CBN's Infrastructural Fund – Infracore,**

increased investment in road infrastructure, and the implementation of ‘The Green Imperative’ Programme by the FGN may however improve the fortunes of the sector in H2:2020.

Manufacturing GDP grew by a paltry 0.43% YoY in Q1:2020; the lowest it has been since Q2:2019 even as growth has trended below 1.00% since Q1:2019. Growth continues to be hampered by the challenging business environment among other structural issues. In Q2:2020, the disruption of global and local supply chains following the outbreak of the COVID-19 pandemic was a major drag on the performance of the manufacturing sub-sector. This is further worsened by the difficulty in accessing forex by business owners in the period, induced by the exit of foreign portfolio investors. These challenges are expected to linger for the rest of the year.

We however acknowledge modest improvements recorded by the Federal Government in the area of port logistics and rail transport infrastructure. The subsector is also expected to continue to benefit from the CBN’s drive to improve credit flow to the real sector.

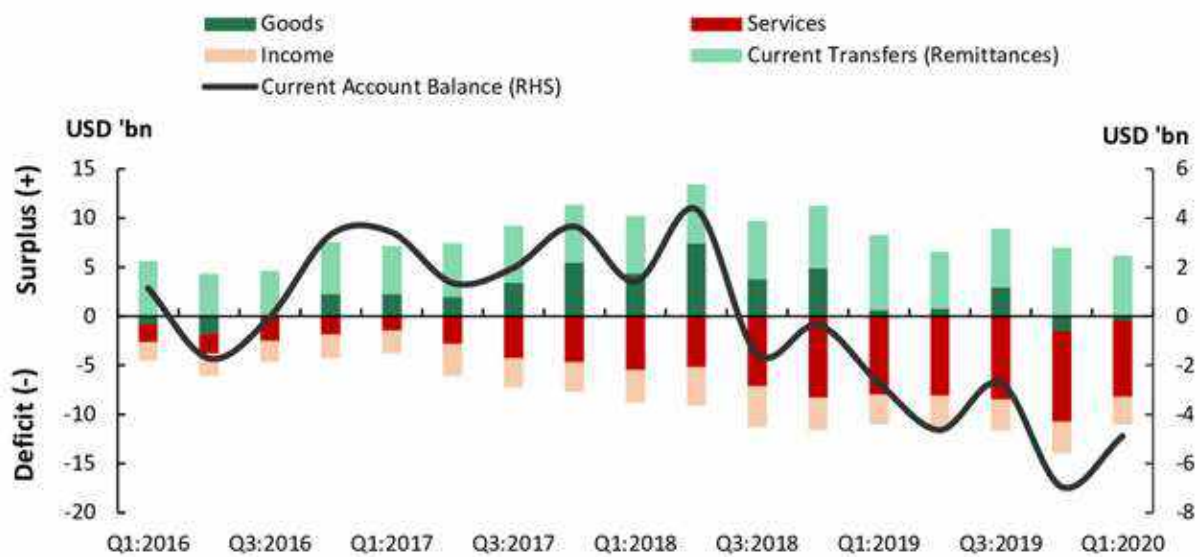
Overall, we expect the Nigerian economy to be broadly impacted by the global disruption in supply chains, especially in the area of raw material importation and the slowdown in economic activities in major sectors of the economy. While the fiscal and monetary measures put in place to mitigate the impact of the pandemic on the economy, rising inflation and weak purchasing power are some of the factors we expect to mute the impact. This is in addition to weaker private investment and foreign trade activities; thus, we expect GDP to decline by 3.03% YoY.

Current Account

Q1:2020 Figures Reveal Familiar Weaknesses

Nigeria’s current account deficit widened to USD4.88bn in Q1:2020, compared to the USD2.72bn deficit recorded in the corresponding period in 2019. This was due to the sharp decline in both *exports* and *remittances* during the period; both of which fell by 12.01% and 19.51% YoY respectively. The fall in export earnings came on the back of depressed oil prices. Remittances on the other hand weakened for the first time since Q2:2019 as both government and workers remittances fell; a situation we attribute to the impact of economic shutdowns on individual incomes. As a positive however, we note the improvement in the deficit position of the *income* and *services* account to USD2.81bn and USD7.78bn respectively (vs. USD3.04bn and USD7.96bn in Q1:2019).

Chart 16: Current Account Balance Edges Deeper into Negative Territory



Source: CBN, Meristem Research

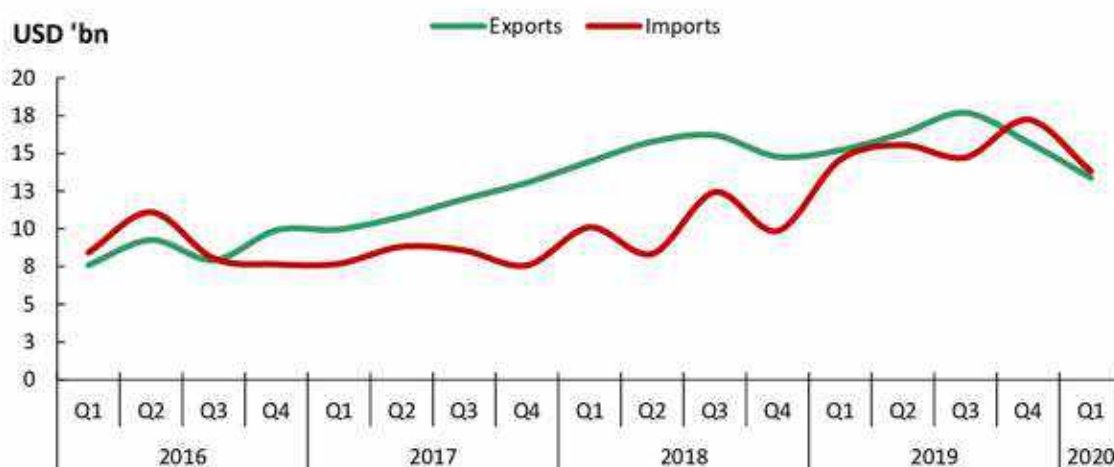
Trade Deficit Carries on into Q1:2020

Nigeria's total exports grew by a meagre 6.14% to USD64.98bn in 2019, bucking the trend of strong double-digit growth observed over the last two years (2017: +32.02%, 2018: +33.62%). Although oil and gas exports which represented 83.89% of total export revenue slowed, the fall was cushioned by a 124.33% surge in non-oil exports (a spike in electricity export to Niger Republic).

Total imports, on the other hand, rose by 52.40% to USD62.11bn, after recording its first deficit in 13 quarters in Q4:2019 (*imports: USD17.24bn vs. exports: USD15.74bn*) despite the implementation of the FG's border closure directive in August. This significantly moderated the country's trade surplus to USD2.87bn, compared to USD20.47bn in 2018.

Foreign trade data published by the National Bureau of Statistics (NBS) for Q1:2020 revealed a continuation of the trend. Nigeria recorded a deficit trade balance of NGN138.99bn following the slowdown in total exports to NGN4.08trn (a 9.98% YoY contraction) and a 13.99% YoY rise in total imports to NGN4.22trn driven by the jump in machineries, transport equipment and mineral fuel imports. **Over the rest of the year, we expect the value of exports to continue to fall; against a backdrop of depressed crude oil prices and as the FG pledges compliance with OPEC+ output cuts.**

Chart 17: Nigeria's Exports vs. Imports (Q1:2016 – Q1:2020)



Source: CBN, NBS, Meristem Research

Weakening Capital Inflows Underline Dwindling Investor Confidence

As the twin shock of *Covid-19* and crashing oil prices hit hard, countries like Nigeria and other emerging markets with heavy reliance on oil for FX earnings witnessed a wave of capital repatriation as investors sought safety in US and Japanese treasury instruments. In Nigeria however, this exodus was met with difficulty as the mounting demand coupled with a slowdown in FX accretion prompted the CBN to hold back on its intervention in the I&E FX window, making it difficult for foreign portfolio investors to exit the country.

According to the Q1:2020 capital importation report, both Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI) declined by 13.39% and 39.36% YoY to USD214.25mn and USD4.31bn, respectively. FDI inflows – constituting equity and other capital accounted for just 3.66% of total capital imported during the period, highlighting the lack of confidence in the economy.

Chart 18: Capital Inflows Gradually Departing from Heydays



Source: NBS, Meristem Research

Current Account Deficit to Persist till 2020FY

In our outlook for the rest of the year, we expect Nigeria's current account deficit to widen. This view is anchored on our assessment of the ongoing shocks to the economy and the anticipated impact on the country's balance of payments. Notwithstanding the modest recovery in oil prices from April's record lows, we expect that FG's compliance with OPEC+ imposed production cuts would limit oil revenues, even as imports continue to grow. We are also wary of the impact of capital outflows on the country's balance of payments. Although, we note the access to aid from multilaterals such as IMF, AfDB and World Bank as positives, it would only serve to cushion the inevitable fall in BOP.

For the services account, the absence of personal and business travel expenses for the greater part of H1:2020 should bring an improvement in its deficit position over 2020 while current transfers which has been supported by workers' remittances over the years might moderate given the shutdown of economic activities and high unemployment in the wake of the pandemic. It is on a balance of these factors that we expect the current account deficit to widen by FY2020.

Fiscal Policy

Adverse Fiscal Conditions to Persist in the Short-to-Medium Term

Nigeria faces an increasingly vulnerable fiscal environment with declining government revenues and growing government spending given the need to mitigate the impacts of the pandemic on the economy. Oil receipts which have historically accounted for over half of total government revenues have remained under pressure since the 2014 slump in oil prices. Also, fiscal buffers such as the Excess Crude Account (ECA) have been severely drawn down to a current balance of USD71.81mn from USD324.97mn in December 2019. The worsening fiscal conditions in H1:2020 also prompted the assignment of a negative outlook and full downgrade on Nigeria's sovereign rating by international credit rating agencies. This makes the international capital market an unattractive source of financing

In H1:2020, Nigeria's oil revenue plunged following oil price wars between Saudi Arabia and Russia, and the global spread of the COVID-19 pandemic as both price and demand for crude oil fell sharply. The price of Brent Crude- the benchmark for Nigeria's crude oil declined by as much as 70.82%, from USD66.25pb in January 2020 to USD19.33pb in April 2020. The decline in global demand for crude oil by up to 30% also impacted crude oil sales. This situation forced the FGN to review its oil revenue projections in the 2020 Appropriation Act downwards by 65.00% to NGN0.92trn. The new oil projections are based on expected crude oil output of 1.96mbpd (vs. an initial 2.30mbpd) and a benchmark crude oil price of USD25pb. **In our opinion, the target daily crude oil production is exaggerated in the light of the continuing threats to general business activities posed by the pandemic and the April 2020 OPEC+ deal, which pegs oil production at no more than 1.50mbpd from May to December 2020. The recent oil price rally which has seen Brent price approach USD40pb should however temper the inevitable shortfall in government revenues.**

More Borrowing to Increase Debt Burden

With the revision of the 2020 budget, 51.05% of the budget will be funded by borrowings while revenue from oil will now fund only 8.78%. The spike in budget deficit remains worrisome as it reflects the government's poor non-oil revenue struggles. **Although the 2019 Finance Act represents a definite and comprehensive attempt at improving non-oil (tax) receipts, the recessionary impact of the COVID-19 pandemic on businesses threatens the actualization of the goals of the Act. The Act also suffers from the absence of clear modalities for the implementation of some of its innovative solutions such as the proposed taxation of non-resident digital service providers. We therefore do not expect a significant improvement in non-oil revenue in H2:2020.**

Government Spending to Remain Elevated

Planned government expenditure was reviewed downwards marginally to NGN10.52trn from NGN10.59trn in the 2020 Appropriation Act, following heightened pressure on planned revenues occasioned by the collapse of oil prices. The cut was minimal as efforts to curtail the spread of the Coronavirus have kept government expenditure elevated. So far, the Federal Government has launched a NGN500bn COVID-19 Crisis Intervention Fund. Although, there are moves towards reducing waste in government spending with the setting up of a Committee to review the Steve Orosanye Report (to eliminate duplicity of functions across government agencies), removal of the problematic petroleum subsidy, and the curtailment of foreign travel by Government officials, it remains to be seen how these will be implemented to free up resources for more important obligations.

Debt Profile

Revenue Shortfalls Highlight FG's Growing Reliance on Borrowing...

There have been growing concerns about the debt profile of the country and the most recent data released by the Debt Management office (DMO) showed that Nigeria's total debt stock as at Q1:2020 stood at NGN28.63trn (vs. NGN27.40trn as at year end 2019). Domestic debt accounted for 65.11% of the total debt while foreign debt made up the remaining 34.89% at NGN9.99trn. While this is an improvement from 2018 where domestic debt accounted for 68.18% of total debt, it still lagged behind the DMO's 2016-2019 target of obtaining an optimal mix of 60:40 (domestic to external). The downgrade in sovereign rating and the implied higher costs of borrowing from the international capital market has led to a review of the debt mix to 70:30 (domestic to external) as set out in the Debt Management Strategy for 2020-2023. Hence, given the need for cheaper debt, the planned NGN850bn external borrowing in the 2020 Appropriation Act will now be raised locally. While the current macroeconomic condition presents a case for a tilt towards domestic borrowing, the crowding out effect as a result of this policy remains a key risk to economic growth.

...But Debt Servicing Costs May Spiral out of Control

Nigeria's Debt to GDP ratio stood at 19.85% as at Q1:2020 (vs. 2019: 19.00%, 2018: 19.09%), comfortably within the 25% upper limit provision of the Fiscal Responsibility Act, and below the World Bank - IMF recommended threshold of 56% for her peer countries. Debt service to revenue ratio however tells a much starker story, hovering above 50% since 2016, much higher than the 22.5% prescribed by the World Bank. In the recently released Medium-Term Expenditure Framework and Fiscal Strategy (MTEF/FSP) Paper, the rising costs of the country's debt hit a new milestone in Q1:2020. During the period, the debt service to revenue ratio rose to 99.20% as the country spent

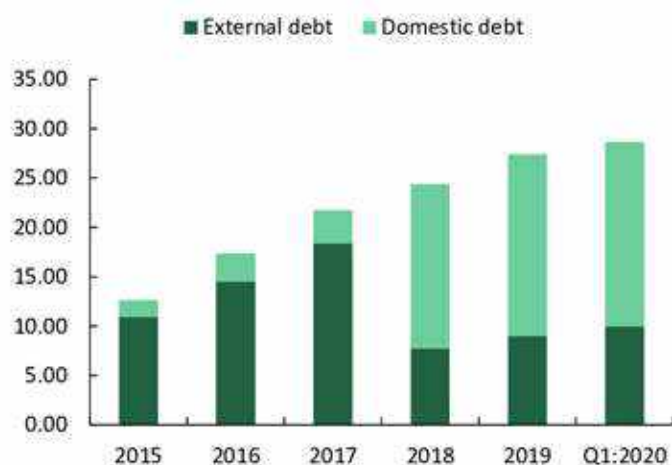
NGN943.12bn of total revenue (NGN950.56bn) on debt servicing. Both oil and non-oil revenues underperformed budget expectations – with a joint shortfall of 52% as the impact of the Covid-19 pandemic hit hard.

In line with current realities, the FG has reviewed its spending plan for the year. Total expenditure was cut from NGN10.59trn to NGN10.51trn, while debt servicing costs and non-debt recurrent expenditure rose to NGN2.68trn and NGN4.93trn respectively (from NGN2.45trn and NGN4.84trn). Finally, the budget's deficit widened to NGN5.19trn – to be funded largely by borrowing. However, the budget version approved by the legislature (which still requires the President's assent) increased total expenditure by NGN300bn to NGN10.80trn.

True to the FG's reliance on borrowing, the IMF in April extended a USD3.4bn loan to Nigeria to help tackle the twin impact of the Covid-19 shock and the sharp drop in oil prices on its economy. It has also received USD288.8mn from the AfDB while there is a pending application to raise USD1.5bn from the World Bank, which could rise to USD3bn.

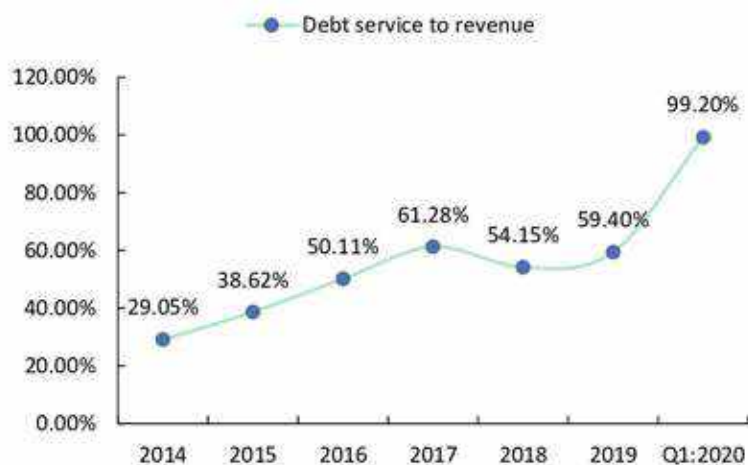
These loans appear necessary to fund the fiscal responses in the wake of the pandemic. Although, the rates on these loans are low, they will add to the debt burden of the country given the implied exchange rate risk. **We have always maintained that Nigeria has a revenue problem, part of which the Finance Act seeks to address. The removal of inefficient subsidies on petroleum products should also help to ease the nation's fiscal struggles. In the long run, structural issues impeding development of other key sectors with the potential to grow export earnings remain top challenges which must be tackled to escape the quagmire.**

Chart 19: Trend in Total Debt Stock (2015-Q1:2020)



Source: DMO, Meristem Research

Chart 20: Debt Service to Revenue (2014 – Q1:2020)



Source: DMO, Meristem Research

Amplified Reliance on Borrowing Clouds Outlook

With the economy likely headed for a recession, and the depressed outlook for both oil and non-oil revenues, we expect the FG to rely heavily on borrowing to plug the gap in the revised budget. While the recent recovery in crude oil prices provide some form of succour, compliance with OPEC+ production cuts are expected to moderate oil revenues going forward.

On the other hand, while it is still too early to assess the effect of the newly implemented Finance Act on non-oil revenue, expectations are that key changes such as the VAT increase and the FG's plan to tax foreign digital service providers would cushion the fall in oil revenue.

Thus, we expect Nigeria's reliance on borrowing to keep its debt stock and servicing costs elevated in 2020. Without a significant improvement in its revenues, government's capacity to stimulate economic growth through capital expenditure would be constrained, thus slowing the pace of growth. Therefore, we reiterate the need to significantly cut down the cost of governance and eliminate inefficient subsidies on fuel and electricity. The Government should also embrace public-private partnership as a means of financing long-term capital-intensive projects.

Inflation

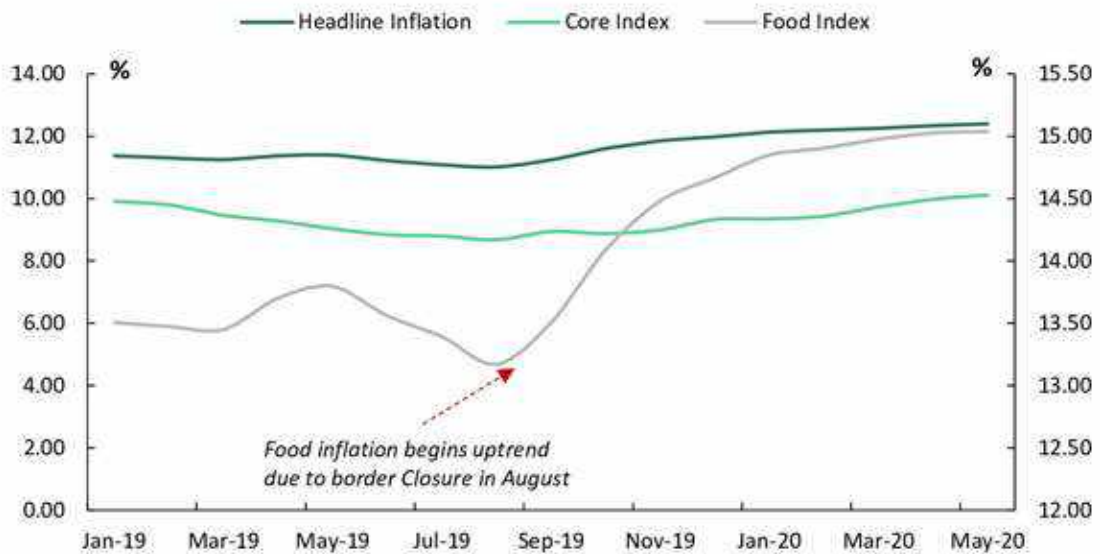
Uncertainty Roils Global Food Prices

Data from the Food and Agriculture Organization (FAO) which tracks monthly changes in the international prices of selected food commodities, revealed an 11.30% YoY uptick in January 2020 as the *Food Price Index* averaged 182.5pts. However, the outbreak of Covid-19 and its resultant disruption of global trade and supply chains have seen the *FAO Food Price Index* fall sharply by 4.30% in March. Major indices tracked by the FAO such as the Sugar Price Index (-19%), Vegetable Oil Price Index (-12%) and Dairy Price Index (-3%) revealed a significant descent month on month.

Locally, headline inflation has remained well above the CBN's single digit target band of 6.00% - 9.00%. Since the start of the year, the inflation rate has maintained its uptrend since the closure of the land borders in October 2019 as land borders remained shut and the new VAT regime became effective.

By April, the CPI recorded its highest increase in twenty-four months, with headline inflation at 12.34%. The Food sub-index, at 15.03% remained the chief driver of inflation as the land border closure continued to pressure the prices of food products.

Chart 21: Headline and Food Inflation



Source: NBS, Meristem Research

The existing inflationary pressure in the country was further exacerbated by the spread of the COVID-19 pandemic. The impact of the pandemic has been felt across all levels of the value chain as global restriction in the movement of goods resulted in logistical challenges, pressuring the costs of importing raw materials.

The Purchasing Managers Index (PMI) indicated a deterioration in manufacturing activities as it fell from 58.2pts in January to 42.4pts in May, its first contraction in 36 months, which was followed by even lower reading in June at 41.1pts. On the demand side, increased buying activity ahead of and during the lockdown sent prices spiralling upwards while limited inter-State movement and the continued closure of the borders kept prices elevated.

The nation's foreign reserves also gave in to the demand pressures for FX and slow accretion due to dwindling oil prices, prompting a technical devaluation of the CBN's official exchange rate from NGN306/USD to NGN360/USD. Core inflation, thus, trended upwards to 9.98% in April, the highest increase since August 2018.

Upside Risks to Inflation Remain on the Horizon

Going into the second half, inflation risks associated with the domestic economy remain tilted to the upside. The land border closure continues to impact food prices as domestic production capacity remains grossly below demand levels. Another key consideration is the planned review of electricity tariff in the second half of the year, which is expected to influence input prices and consequently, prices of goods and services.

We also expect the upcoming festivities in H2:2020 to trigger demand-pull inflation driven by the insufficiency of domestic production capacity and the typical price gouging practices associated with the period.

Premised on the above mentioned, we expect inflation to remain relatively high in the second half of the year, even after discounting the postponement of the scheduled electricity tariffs review, lower global energy costs (*supported by recovering crude oil prices*) and high base effect. **Hence, we project a year end headline inflation of 12.71% with an average of 12.45% in 2020FY, up from our initial projection of 12.28%.**

Monetary Policy

MPC Cuts MPR in the first Half of the Year

In light of the various global developments, particularly the spread and impact of COVID-19, monetary authorities across major economies have adopted an accommodative stance in order to stimulate growth. In the same vein, the MPC reduced the MPR by 100bps to 12.50% in May (the first cut since March 2019), four (4) months after increasing the Cash Reserve Ratio (CRR) to 27.5% from 22.5%. The Committee reviewed the adverse effect of the pandemic on oil prices, capital flow reversals, exchange rate volatilities, negative shocks to commodity prices and disruptions to global supply chains.

The Committee acknowledged the expected slow output growth in the coming quarters, restating its commitment to supporting the economy to avoid slipping into a recession. The MPC also showed optimism that the stimulus packages such as the concessionary rates, loan restructuring, and target loans to the agriculture, manufacturing and healthcare sectors, will provide desired impetus to boost economic recovery if properly utilized.

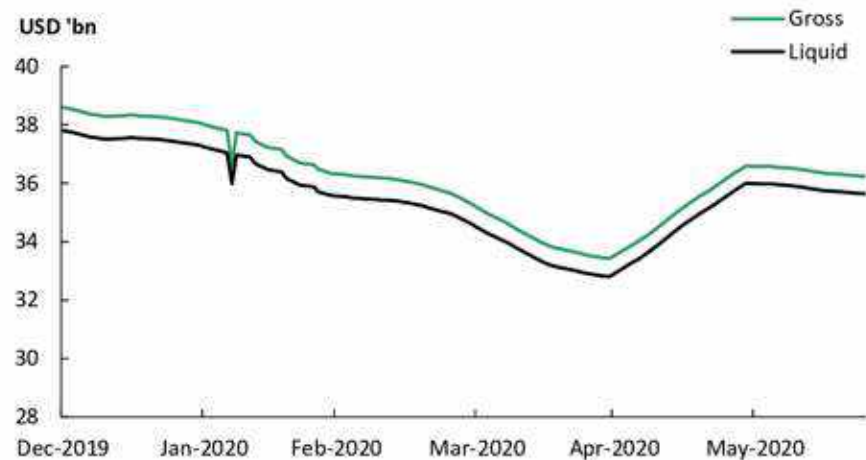
The weakening of the macroeconomic environment due to the adverse effect of the pandemic, has made it imperative to support the recovery of output growth by stimulating aggregate demand and supply. However, we expect the impact of the rate cut especially in respect to credit delivery to the real sector to be negligible, given the weakened signalling effect of the MPR to interest rates movements in the capital markets. Furthermore, the use of other monetary tools such as the increase in Loan to Deposit Ratio (LDR) to 65%, and the recent upward adjustment of the CRR to 27.5% have so far proven to have far-reaching impact in encouraging credit expansion. While we do not doubt the possibility of further rate cuts in the rest of the year, we note that there seems to be no escape from the persistent rise in headline inflation, which negates the CBN's mandate of achieving price stability. Therefore, in the base case scenario, we expect the MPC to retain the MPR at current levels for the rest of the year.

Exchange Rate

Inflows from Foreign Loans to Support Exchange Rate Management

The ability of the Central Bank of Nigeria (CBN) to maintain the exchange rate in H1:2020 was pressured by the decline in foreign exchange inflows. This was induced by sharp drop in crude oil export earnings which account for at least 90% of Nigeria's total export earnings.

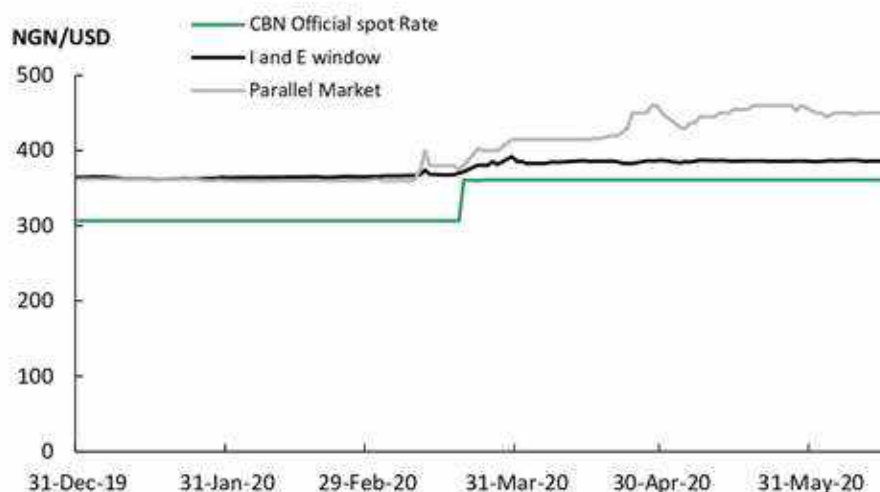
Chart 22: Movement in Foreign Exchange Reserve Balances (H1:2020)



Source: CBN, Meristem Research

Consequently, the CBN effected a 'technical adjustment' of the official exchange rate from NGN306/USD to NGN360/USD. In the same vein, the Investors' and Exporters' (I&E) exchange rate was adjusted to NGN380/USD from NGN364.41/USD. However, in line with calls for exchange rate convergence by multilateral institutions such as the IMF and World Bank, the CBN further adjusted the official rate to NGN380/USD and the Secondary Market Intervention Sales (SMIS) rate to NGN380/USD from NGN360/USD. The technical adjustment of rates across all windows coupled with limited FX intervention sales by CBN triggered a depreciation of the parallel market rate to NGN450/USD from NGN362/USD. **We note that the disparity across windows has been minimized with rates within the NGN380/USD to NGN387/USD band. Ultimately, we expect FX rates at the official windows to hover between NGN380-NGN400/USD by 2020FY.**

Chart 23: Movement in Official, I & E and Parallel FX Rates (H1:2020)



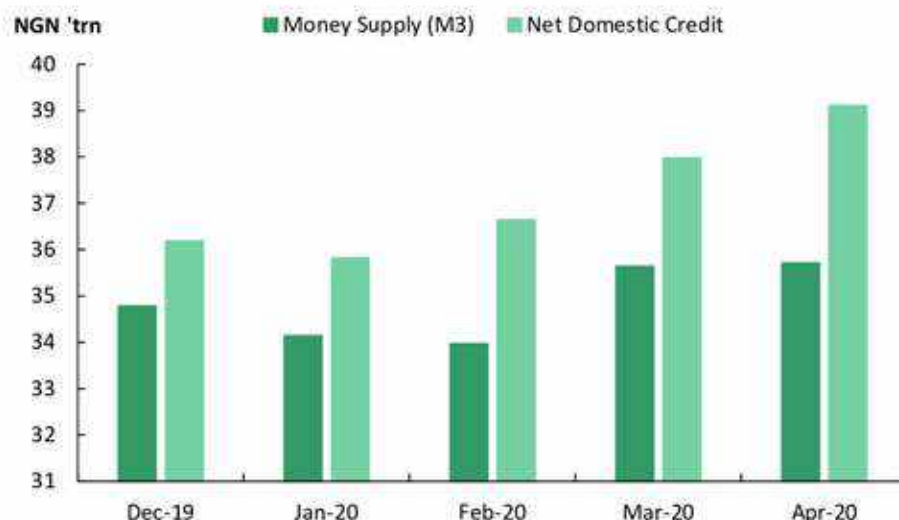
Source: CBN, Meristem Research

The receipt of USD3.4bn Rapid Financing Instrument (RFI) from the International Monetary Fund in May 2020 boosted FX reserves by 9.17% between April and May 2020. It is expected that the actualization of planned multilateral borrowing by Federal Government and relatively higher oil prices in H2:2020 should ease this pressure. We however do not rule out further adjustments if the external earnings expectation worsens.

Money and Credit

Pro-Growth Policies Drive Money Supply and Credit Growth

So far in 2020, the Central Bank of Nigeria (CBN) has maintained a largely expansionary stance with respect to monetary policy. At all sessions of Monetary Policy Committee (MPC) meetings which have held in H1:2020, the overriding consideration has been the need to stimulate and sustain economic growth via the supply of credit to the real sector. Consequently, the economy's monetary aggregates have trended upwards. Money Supply (M3) increased by 2.66% from NGN34.77trn in December 2019 to 35.70trn in April 2020, while M2 expanded by 10.36% to NGN31.76trn over the same period driven by growth across all components.

Chart 24: Money Supply & Net Domestic Credit Trend Since December 2019


Source: CBN, Meristem Research

The expansionary monetary drive of the CBN has been implemented through various policies, including maintaining the Loan-to-Deposit ratio for Deposits Money Banks at 65% and providing direct intervention funds in selected sectors of the economy particularly agriculture, manufacturing, and healthcare. Other interventions in the economy include the NGN1.10trn fund set up by CBN to support local manufacturing and the health sector in COVID-19 related research and development and the NGN50bn COVID-19 relief fund for individuals and businesses severely impacted by the pandemic. These efforts have yielded appreciable growth (8.07%) in overall Net Domestic Credit between December 2019 and April 2020. CBN monetary aggregate data however show that growth in Net Domestic Credit has been significantly tilted towards government as Credit to the Government increased by 9.95% while private sector credit declined by 0.64%. This is as a result of increased spending by the government in the wake of the COVID-19 pandemic, coupled with increased default risk on private sector loans and significantly reduced private sector activity levels.

To further signal its resolve to support the economy, the Monetary Policy Rate (MPR) was reduced by 100bps to 12.50% by the MPC at its May 2020 meeting. We are of the view that the signaling effect of the MPR has been weakened over time and expect instead the CBN's policy on loan to deposit ratio of DMBs to continue to drive credit to the private sector. The MPC at its May 2020 meeting also hinted at the existence of further room for monetary expansion based on its indicative benchmark for money supply in 2020. We therefore expect monetary conditions to remain loose in the second half of the year as CBN focuses on mitigating the impact of the COVID-19 pandemic on businesses through improved access to credit. Although inflationary pressures remain heightened, we expect the CBN's loose stance to remain

given the recessionary pressures while it deploys other policy tools such as the cash reserves ratio to stem the threat of inflationary.

Polity and Security

COVID-19 Drowns out Political Indifferences

The political landscape has been relatively calm for most of the year. Since the country recorded its first case of *Covid-19* in February 2020, the focus of the polity has shifted to the Federal Government's efforts at managing the impending health crisis. As of 6th July 2020, the number of confirmed cases has climbed to over 29,000, with about 654 deaths – including former Chief of Staff to the President, Abba Kyari, who died in mid-April. This prompted the appointment of Professor Ibrahim Gambari, a respected diplomat as the new Chief of Staff; a move that is widely expected to steady the affairs of State.

Also, in the wake of the pandemic, the two chambers of the National Assembly introduced and are currently deliberating the passage of a new Infectious Diseases Bill. The introduction of the Bill which aims to provide a legal backing to the management of infectious diseases and pandemics in the country has been trailed by controversy. Critics are sceptical about the uncontrollable powers some provisions of the Bill confer on the Nigeria Centre for Disease Control (NCDC) and what it would mean for fundamental human rights. While we agree that the current law may constrain the ability of both the FG and the NCDC to manage public health emergencies when they occur, we advise that full consideration be given to basic human rights and extensive consultation be carried out before the new law is passed.

On the security front, the leaders in the Southwest came together and launched *Operation Amotekun* – an independent security outfit established to complement the national security apparatus in the Southwest region. Although the move was met with resistance by the FG on grounds of legality and fears of upsetting the country's security landscape, the paramilitary outfit was established anyway. In the North East, the Nigerian Army continues to lead the fight against insurgency even as pockets of violence have festered in other areas of the North as well as in the middle belt region.

Overall, we expect both the political and security landscape to remain relatively calm in the second half of the year. On the political front, developments around the gubernatorial elections in Edo and Ondo States in the third quarter should throw up some fireworks, we however do not expect such to heat up the political space at a national scale.

Domestic Equities

Local Bourse Powers on to Recovery

The Nigerian equities market soared in the first month of 2020, peaking at 29,710.56 pts on the 20th of January. The local bourse was one of the best performing markets at the time, having gained 10.69% between 1st and the 20th of January 2020. The market outperformed the frontier (MXFM) and emerging equities (MXEF) markets, both of which advanced by 1.88% and 3.11% respectively during the period.

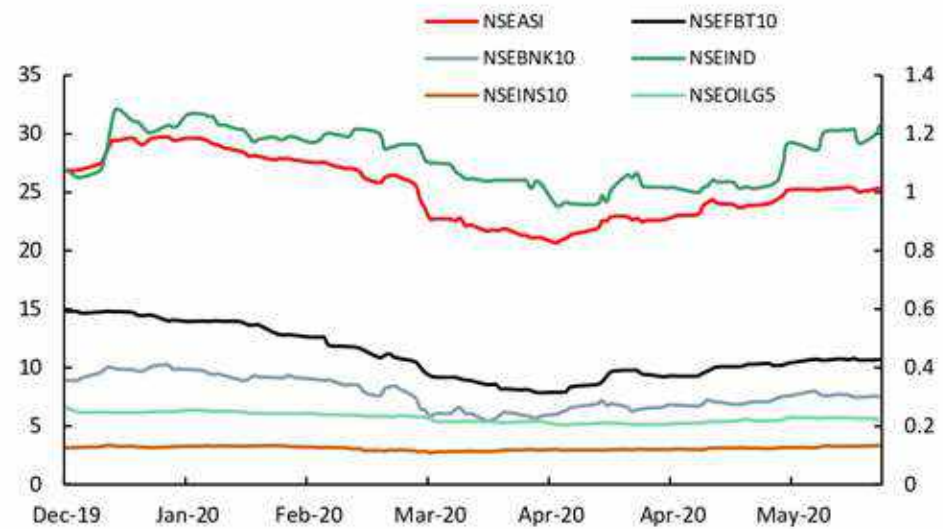
This bullish performance was partly boosted by the unattractive fixed income space and high level of system liquidity following the segmentation of the OMO market. The excitement was, however, short-lived as the reality of the COVID-19 pandemic across major economies deepened negative sentiment in the market. This was further compounded by the announcement of the index case of COVID-19 in Nigeria, on the 27th of February 2020. The market reacted with a 4.35% loss but recovering by the end of the following week. However, the breakout of the price war between Saudi Arabia and Russia on the 8th of March triggered much deeper selloffs in the market with the NSEASI declining by a combined 14.38% in the week that followed. In April, the All Share Index settled 21,098.57pts, the lowest since the 19th of July 2012.

While new cases of the virus were rising geometrically, investors were taking advantage of the cheap valuation and attractive dividend yields in the market. The positive sentiment consequently moderated the Year to Date loss to -6.18% as at 11th of June 2020.

Consumer Goods Index Drags NSEASI

Major indices under our coverage have largely mirrored the performance of the broad market index. Apart from the Industrial Goods and Insurance sectors, returns on all sectoral indices currently sit firmly in the negative territory. The Consumer Goods Index has been the worst hit (-26.98% YtD) as at 30th of June 2020, following the selloffs on **NESTLE** at the start of the year and the subsequent dividend mark down in May. Following closely after this is the Banking Index, down YtD by 16.32% and the Oil & Gas index which has lost 14.21%.

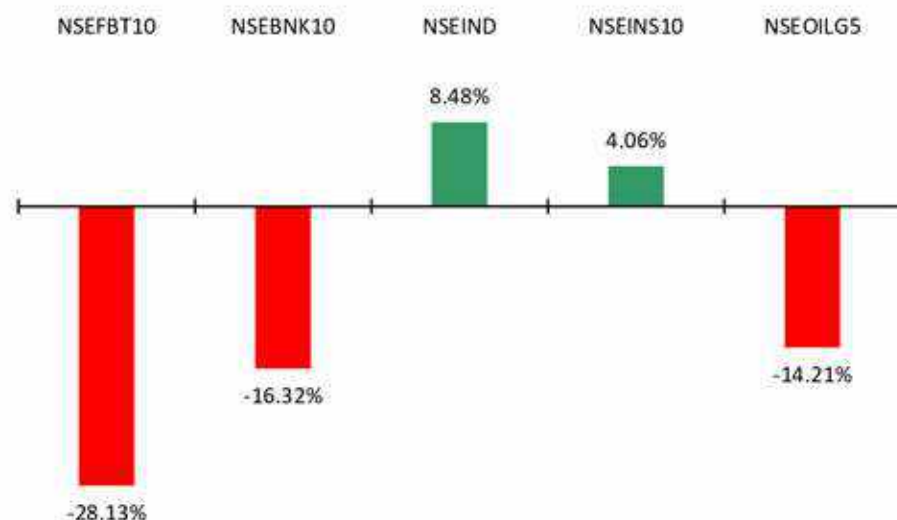
Chart 25: Sectoral Trend During H1:2020



Source: Bloomberg, Meristem Research

The traditionally defensive consumer staples sector barely participated in the rally trading flat during the period as investors' focus tilted to other defensive sectors like the healthcare and telecommunication sectors. **MTNN** rallied briefly on the back of the improved market sentiment, triggered by the anticipated positive impact of increased internet usage on the firm's revenue. Likewise, investors sought for value in healthcare stocks prompting unusual rally on typically quiet counters such as **EKOCORP** (YtD +41.18%), **GLAXOSMITH** (YtD +22.95%), **MAYBAKER** (YtD +58.03%), **MORRISON** (YtD +20.00%) and **NEIMETH** (YtD +314.25%).

Chart 26: Sectoral Performance for the period



Source: Bloomberg, Meristem Research

NASD-USI Riding Against the Wind

The NASD Unlisted Security Index (USI), after the January rally has followed a similar trajectory to the NSE so far in H1:2019. The market has witnessed its share of volatility responding to the uncertainties trailing the impact of COVID-19. In the first half of the year, the index has returned -2.16% YtD. Nevertheless, total market capitalization improved to NGN501.34bn (vs. NGN501.10bn as at December 31, 2019) as at June 10th, 2020.

NSE Demutualization: Charting a New Course

With a view to strengthen the local bourse – the management of the Nigerian Stock Exchange initiated the demutualization process about 19 years ago. After intense deliberation, the scheme of arrangement was approved by the Federal high court on the 15th of May 2020 leaving the regulatory approval of the SEC and re-registration of the exchange as a public limited liability company as the only hurdles to cross. We expect this to steady and chart the exchange towards increased efficiency as it aims to compete favourably.

In Q1:2020, BUA cement's listed 33.86bn units of share at NGN35 per share, making it the third most capitalized company on the exchange with a market capitalization of NGN1.1trn on the 9th of January 2020. Since its listing, BUA cement has returned 18.57% year to date, increasing its market capitalization to NGN1.41trn on the 10th of June 2020. This was fuelled by investors sentiment which trailed its earnings release, heralded by a 25.12% and 26.19% improvement in revenue and profit after tax respectively.

Table 1: Sectoral Earnings Outlook Summary

Expectation Key

Bearish	
Moderate	
Positive	

Sector	Our Expectation	Earnings Summary
Banking		The impact of weaker interest income on Net Interest Margin was partly offset by lower funding costs which mirrored the interest rate environment. Banks also managed funding costs through strong deposits growth and improved CASA mix. Industry cost efficiency was however pressured by elevated impairment charges which spiked by 58.97% YoY in Q1:2020 for our coverage banks, as a result of lower recoveries and COVID-19-induced obligor default risk. Funding costs are expected to trend lower in H2:2020 given the Federal Government's renewed focus on the domestic debt market and high system liquidity. The reduction in MPR to 12.50% will also keep industry funding costs low in H2:2020. Modest growth in operating expenses (OPEX) is expected on the back of reduced in-branch operations. Increased spending to curb the expected increase cyber-attacks as digital transactions grow may however keep OPEX

		elevated. High impairment provisioning as a result of anticipated economic recession is expected to bear on profitability
Brewers		<p>First quarter results for most of the consumer goods companies were underwhelming, revealing the impact of eroding disposable income of consumers and the intense industry competition on performance. We observed mixed performance, with NB and GUINNESS recording revenue declines of 0.09% and 17.60% while INTBREW's topline inched up by 0.72%. However, earnings plunged significantly with NB and GUINNESS recording declines of 31.40% and 97.22%, while INTBREW remained firmly in a loss position.</p> <p>We expect earnings performance for the rest of the year to remain downbeat; slow demand for alcoholic beverages in the absence of social gatherings, FX scarcity and elevated costs of production amidst other persistent operating challenges remain growth constraints.</p>
Consumer Goods		<p>The above narrative was quite similar for NESTLE and UNILEVER as both their revenues contracted by 0.90% and 30.71% respectively. Conversely, NASCON and DANGSUGAR recorded improvements in topline as revenue edged higher by 0.83% and 24.90%. For the rest of the year, we see scope for modest earnings growth, supported by healthy demand due to the non-discretionary nature of their products. We expect companies with flexible packaging options to benefit significantly from increased demand from individual households, government (via relief packages) and civil society groups.</p> <p>Although the flour millers are yet to release their full year results (<i>full year ends March</i>), we are optimistic about earnings as we expect benefits from heightened demand during the period to impact sales. Barring the reopening of Nigeria's land borders, we expect flour millers to benefit from increased patronage amidst muted competition from smuggled alternatives. We however identify the impact of higher costs of raw material imports (i.e. wheat), port congestion & distribution challenges as constraints to growth.</p>
Healthcare and Pharmaceuticals		<p>The listed pharmaceutical players kicked off the 2020 financial year on a relatively good note. FIDSON (Q1:2020) and NEIMETH (H1:2020) reported impressive growth in revenue in the first quarter- up by 6.04% and 167% respectively. An expansion in costs, however, remained the <i>Achilles heel</i>, resulting in a moderation in margins for GLAXOSMITH and NEIMETH.</p> <p>In the second half of the year, the essential nature of these firms' products amidst the Coronavirus pandemic puts them at a vantage point to grow sales volume. Coupled with that is the potential for capacity expansion off the back of concessionary credit and intervention funds made available by the Central Bank for pharmaceutical firms. Overall, we anticipate solid 2020FY revenue growth in the sector. Costs, however, remain a sore spot and the lockdown measures employed worldwide could impede the ease of importing raw materials in the sector. This will drive logistics costs</p>

		<p>higher, lending credence to our expectation of an increase in direct costs. While costs remain a major headwind for actors in the sector, we expect the combination of an expanded topline, and access to concessionary facilities to improve the overall performance of these firms.</p>
Energy		<p>The upstream subsector experienced a decline in liquid sales following the fall in crude oil demand, as SEPLAT recorded a 13.35% YoY decline in revenue in Q1:2020. Operating profit margin declined significantly (-389.69%) majorly due to the recorded impairment loss, following a re-assessment of future cash flows from the oil and gas properties amidst the depressed oil market environment. We expect that Brent crude price will average USD32pb – USD42pb in 2020FY. This should rejuvenate revenues for upstream players in the medium to long term.</p> <p>In the downstream space, we expect that players will battle with high costs as they strive for stronger market penetration, by boosting their supply and distribution networks. The impacts of the COVID-19 pandemic have taken its toll on the oil marketers as is evident in their first quarter financial scorecards. TOTAL, MOBIL, ARDOVA and ETERNA and all recorded YoY declines in net income, which dropped by 65.57%, 37.03%, 85.03% and 204.93% respectively. Also, Q1:2020 average operating profit margin in the downstream subsector dipped to 0.69% (vs. 2.83% in Q1:2019), while average net income margin dipped to -0.88% (vs. 1.60% in Q1:2019).</p> <p>As the lockdown eases, we expect more companies to strive for enhanced operational efficiency and diversify earnings across non-regulated products which would produce a better second half of 2020 for the downstream subsector.</p>
Insurance		<p>In the latter half of 2020, we expect the insurance industry to defy the current economic situation to record a modest growth in top-line performance. This is expected to reflect the mild impact that the COVID-19 situation has had on demand for insurance policies among the middle to upper income class, which contributes the largest chunk of patronage in the industry.</p> <p>On the earnings front, the depressed yield environment, and the increasing level of management expenses in the industry are expected to drag earnings performance. Hence, we expect a moderation in bottom-line performance</p>
Materials		<p>Cement makers had a good start to the year with all players recording significant topline growth at the end of the first quarter. Although we expect the current price levels to be sustained in subsequent quarters, our outlook on operating earnings is dampened by expectations of lower demand from the public and private sectors, amid high direct costs (an offshoot of the CBN's FX adjustment). However, the approval of the pioneer status on some lines should shore up bottom-line.</p> <p>For DANGCEM, the completion of the Obajana line 5 and commencement of operations at the Apapa and Onne export terminals</p>

		<p>are tailwinds expected to support the company's performance for the year. More so, we expect earnings to be buffed up should a pioneer status be granted on the just completed Obajana line 5. Meanwhile, BUACEMENT and WAPCO are poised to enjoy benefits of the approved pioneer status on their respective plants.</p> <p>As part of its costs optimization plans, BUACEMENT has reconfigured its Kalambaina line II plant to run fully on coal (a cheaper fuel option compared to LPFO). However, the company's exports are not helped by the sustained closure of the land borders amid the slowdown in construction and real estate activities.</p> <p>WAPCO, having successfully divested from its South African subsidiary bears a lighter interest expense burden- a development that bodes well for bottom-line. However, the company's earnings is not insulated from the highlighted industry headwinds.</p>
Telecommunications		<p>The listed telco entities (MTNN and AIRTELAFRICA) reported double-digit revenue growth and impressive subscriber additions between January and March, albeit this was not completely reflective of the impact of the pandemic which began in mid-March. Notwithstanding, our outlook for the sector is largely positive, given that the implementation of social distancing and remote working policies required to curb the spread of the pandemic has accelerated the adoption of technological solutions across the country. We expect this to positively impact data revenue in subsequent periods. However, the growth in topline will be tempered by weaker voice revenue (which contributes c.65% to revenue) due to shrinking subscriber wallets, along with growing adoption of cheaper VoIP (Voice over Internet Protocol) alternatives like WhatsApp calls. Furthermore, risks arising from further devaluation of the currency will heighten cost pressures and slow down bottom line growth.</p>

Sector Outlook

Banking Sector

The events of the first half of the year have generally been unfavorable to the banking sector. The year began with the implementation of the regulatory reduction in electronic transaction fees which adversely affected e-business income of most players in Q1:2020, although the impact was mitigated to some extent by appreciable growth in transaction volumes. Other non-interest incomes such as trading income and FX revaluation gains however provided strong support for overall topline performance. Trading gains in Q1:2020 were supported by the prevailing low interest rate environment relative to Q1:2019 while the 'technical adjustment' of the official exchange rate to NGN360/USD from NGN306/USD translated to significant FX gains for most banks. Interest income on the other hand, which accounts for c.70% of gross earnings was a major drag to overall topline performance as yields on interest earning assets (loans and investment securities) were constrained by the depressed interest rate environment. Furthermore, the Monetary Policy Committee increased and retained the CRR at 27.50% since its January 2020 meeting, with current effective CRR estimated at 58%-60% of Naira deposits of banks; thus, constraining banks' capacity to earn. We expect Q2:2020 topline performance to reflect the impact the COVID-19 pandemic through lower transaction volumes as a result of slowdown in business activities, and reduced interest income due to the implementation of regulatory forbearance towards vulnerable obligors. **A gradual recovery is expected in H2:2020 as business activities gain momentum, however, regulatory challenges especially discretionary CRR debits and the generally depressed economic outlook undermine the sector's earnings outlook in the near term. Also, the planned restructuring of 33% of industry loans is expected to bear on interest income in H2:2020. Non-interest income on the other hand will continue to support topline growth through increased digital transactions driven by the need to maintain social distancing.**

The CBN's real sector credit drive continues to impact aggregate bank lending as industry net domestic credit increased by 7.47% to NGN38.88trn between December 2019 and May 2020. Expectedly, asset quality deteriorated as non-performing loan ratio trended upwards in H1:2020, from 6.10% in December 2019 to 6.40% in June 2020. **A further deterioration in asset quality is likely to occur, particularly for vulnerable sectors like Oil and Gas, Manufacturing and Agriculture. This may however be mitigated by the planned restructuring of 33% of industry loans. Although some banks showed increased pressure on their liquidity position in Q1:2020, we do not expect this to constitute a major threat to the sector in H2:2020 as system liquidity is expected to stay elevated. We do not expect credit losses to significantly impact capital adequacy during the rest of the year as most players are currently adequately capitalized.**

Consumer Goods Sector

The performance of the consumer goods sector has remained underwhelming. Among the companies under our coverage, only **DANGSUGAR** had a strong start to the year, having recorded a 24.90% YoY growth in revenue, as it leveraged improved demand across its regional markets to push more sugar volumes. Other industry players like **NESTLE**, **UNILEVER** and **CADBURY** all recorded revenue declines of 0.90%, 30.71% and 7.97% in Q1:2020 respectively. With the weakening purchasing power of consumers being eroded and inflation on the rise, we opine that companies such as **NESTLE** and **FLOURMILL** with favourable price-volume mixes and packaging that offers an option for the value end of the market would thrive in the current situation. For the rest of the year, we maintain a modest outlook for topline performance as the demand for discretionary items presents an opportunity to increase volumes and drive growth, but, the prevailing cost pressures including production, marketing and distribution costs could moderate these gains and dampen earnings. However, we posit that optimizing supply chains to ensure product availability will be crucial to their operations at this time.

Breweries Sector

The unhealthy competition that has characterized the brewery industry in recent times is yet to abate and this continues to impact the performance of industry players. Across board, first quarter results were uninspiring, with both industry top and bottom-line dipping by 3.65% and 99.24% respectively. This is coming despite the upward review of prices in H2:2019; a move which has so far proved insufficient to reinvigorate topline performance. In addition, slow demand for alcoholic beverages in line with consumers' shift towards discretionary consumption impacted sales negatively.

Increase in cost of raw materials due to inflationary pressures and elevated operating expenses remain an industry-wide challenge. As most brewers still rely on raw material imports, the official exchange rate adjustment by the CBN from NGN306/USD to NGN360/USD and NGN366/USD to NGN380/USD in the I&E window, is expected to further worsen production costs and hence, earnings. In a bid to take advantage of the low interest rate environment to meet their working capital needs, both **NB** and **GUINNESS** have had to tap the debt market in H1:2020. **NB** raised about NGN91bn via two CP issuances in February and April 2020, while **GUINNESS** recently raised NGN5bn in June 2020.

We remain downbeat about the brewers' performance for the rest of the year. A position reinforced by the adverse impact of the outbreak of Covid-19 on demand for alcoholic beverages. We also expect that the lockdown measures observed from April through May would keep Q2 performance depressed. This, in combination with pre-existing industry challenges (that is, weak sales, intense competition, and excise duties) constitute a significant constraint to growth. We reiterate the need for brewers to increasingly leverage e-commerce and technology to optimize distribution and ensure the availability of their products to consumers.

Healthcare Sector

Across the world, there has been an overwhelming pressure on the healthcare industry due to the COVID-19 pandemic. Manufacturers of medical supplies and other products such as face masks, hand sanitizers and other pharmaceutical products have experienced a surge in demand amidst the ongoing race to develop a vaccine and treatment regimen for the viral disease.

In the domestic health sector, most drug manufacturers have also recorded improved volumes, especially on Over-The-Counter (OTCs) medicines such as *flu and pain relievers*, which typically contributes over 50% to topline.

Also, the outbreak of the virus exposed the paucity of funds in the healthcare system. Over the years, the budgetary allocation to the sector has consistently fallen short of the WHO recommendation (*13% of annual budget*) and the 15% pledge made by countries in the African Union. However, since the outbreak of the pandemic, Government, regulatory authorities and private institutions alike have been forced to invest more resources in the health care sector. The CBN has made available a NGN100bn concessionary fund even as private institutions continue to make donations to support the sector. In the near term, while the economy continue to battle with the deadly disease and its adverse consequences (*lockdowns and layoffs amongst others*), we expect the continued disbursement of the CBN concessionary facility to healthcare product manufacturers and service providers to stimulate growth and expansion in the face of rising demand.

Following the downward review of national budget, the healthcare sector allocation was reviewed downwards, in spite of the far-reaching impact of the virus on the economy. Despite the anticipation of renewed investment in the healthcare sector, the reduction in budgetary allocation to the sector, dashes all hope of progress and development during the second half of the year.

However, going forward, we expect to see an increase in public private partnerships in the healthcare space. Earlier in March, **MAYBAKER** was approached by NAFDAC to produce an emergency batch of Chloroquine for testing. Over fifty private institutions have so far, come together to set up a Coalition to fight the virus- CACOVID. We expect these partnerships to last beyond H2, as investors begin to take positions on fertile grounds within the industry.

Insurance Sector

The insurance industry in H1:2020 has to a large extent been quiet, save for the recapitalization race as players intensify efforts to meet up with the regulatory deadline. This is evidenced by the series of capital raising activities — the rights issue of WAPIC Insurance Plc — Deposit for Shares in AllCO Insurance Plc by Leapfrog Investment and AllCO Bahamas Limited — the takeover of Law Union and Rock Insurance Plc by Verod Capital — Acquisition of FBN Insurance by Sanlam Emerging Markets — Takeover of ARM Insurance Plc. by Tangerine

Insurance, so far in the Industry. However, given the impact of COVID-19 on the economy, the recapitalization exercise will be conducted in two phases: with a deadline of 31st December 2020 and 30th September 2021 respectively.

Table 2: Segmented Recapitalization Schedule

Class of Business	Existing Minimum Paid-Up Capital (NGN)	Exp. Paid-up Capital by 31st December 2020 (1st Phase) (NGN)	Exp. Paid-up Capital by 30th September 2021 (2nd Phase) (NGN)
Life	2.00bn	4.00bn	8.00bn
Non-Life	3.00bn	6.00bn	10.00bn
Composite	5.00bn	9.00bn	18.00bn
Re-Insurance	10.00bn	12.00bn	20.00bn

Source: NAICOM

From the Q1:2020 financials, only four (4) of the twenty-four (24) listed firms had met the minimum paid-up capital requirement as stated by NAICOM in full. Going by the phased recapitalization however, there are ten (10) firms above the first phase regulatory capital threshold, when the criteria — paid-up capital — share premium, retained earnings — deposit (In Cash or Kind) for shares as stipulated by NAICOM are considered. This portends more capital raising activities, hence, our expectation of a busier H2:2020 as the remaining firms intensify effort at shoring-up their balance sheet to the required regulatory level.

Energy Sector

2020 has been eventful for the oil market to say the least. Oil price wars and a deep fall in demand have taken its toll on oil prices, and oil producing economies around the world. Oil prices reached a year low of USD19.33pb in April as producers raised production levels, in anticipation for OPEC+ cuts which commenced in May. Despite the historic cuts to production of c. 9.7MMbpd from the cartel and its allies, the short-term loss in demand due to the impacts of COVID-19 pandemic are estimated at about 30MMbpd. This can be seen on oil futures trend as traders are still wary and not overly moved by the aggressive cuts. This is proven by the 38.60% decline in Brent to its year low, only eight (8) days after the April agreements. OPEC forecasts that global oil demand in 2020 will decline by 9.07MMbpd, with demand from the world's largest importer, China slowing YoY by 0.95MMbpd.

This year, we also saw the oil industry's logistics capacity tested to the limit as storage and reserves spaces were filled up — another factor impeding traders from rallying on oil despite massive supply cuts. However, this is not the only anchor holding prices from spurring above its current levels of c. USD40pb. Concerns of a re-emergence of the Coronavirus have made traders cautious. The largest single day increase in global COVID-19 cases (183,000 cases) was recorded in late June.

In Nigeria, average oil production in came in at 1.79MMbpd (ex-condensates) in the first half of the year. March saw a 3.13% rise in production to 1.844MMbpd as Nigeria joined in the global oil market battle.

The decline in global crude oil prices and landing costs moved the Federal Government to order the pump price of PMS to be reduced by 13.79%, from NGN145 to NGN125 in March 2020, and to NGN123.50 in April 2020. The Despite the Ministry of Petroleum resources stating that measures would be put in place to introduce a price modulation mechanism, a full deregulation is still yet to be realized. In that light, we expect that downstream players will still endure constricted margins in the near term. Brent crude in the first half of 2020 averaged USD42.10pb. Not even were average oil prices this low in 2008 and 2009 during the financial crisis.

However, with OPEC+ sticking to its cuts and adherence levels improving from member nations like Nigeria and Iraq, oil prices should average above USD40pb in 2020. Our best-case scenario involves the market rebalancing sooner than widely expected, with the COVID-19 pandemic significantly curtailed, and daily new positive cases coming in at below 40,000 towards the end of the year. This also entails a full adherence to the OPEC+ agreements alongside continued pro-active measures from nations like Saudi Arabia. Our expected average prices in this case falls in the range of USD40pb – USD50pb.

Our worst-case scenario involves a second wave of the Coronavirus pandemic following a significant spike in the number of positive cases. This would also entail poor adherence to the April agreements from OPEC+ nations and see US shale producers aggressively accelerate production and boosting drilling activity in the second half of 2020. Our expected average prices in this case falls in the range of USD25pb – USD35pb. With these in consideration, we expect that average oil prices, in our base case scenario should fall in the range of USD32pb – USD42pb.

Materials Sector

In Q1:2020, activities were downbeat in the industrial sector, especially in the real estate and construction sectors despite the COVID-19 pandemic kicking in at the tail end of the quarter. The real estate sector further contracted by -4.75% (vs. -2.36% in 2019FY), while growth in the construction sector moderated to 1.69% (1.81% in 2019FY). Despite the slowdown in activity, the cement GDP for the quarter grew by 1.67% (vs. 2.81% in Q1:2019) as the industry recorded higher cement prices.

The major cement players recorded an aggregate revenue of NGN366.85bn (vs NGN341.31bn in Q1:2019) with **DANGCEM** maintaining leadership with a market share of c.60%. The industry performance was spurred by higher prices realized, introduction of new capacity between Q2:2019 and Q1:2020 and synergistic benefits derived from the merger of CCNN Plc and Obu Cement Plc. However, energy costs remain a persisting problem for margins.

In the paints and coatings space, revenue performance of key players- **CAP** (+10.37%), **BERGER** (+35.26%), **MEYER** (-19.30%) and **PORTPAINT** (-49.78%),

were mixed as the jostle for market share intensified. Also, **BERGER** started the year with a larger capacity -8 million liters per annum (prev. 6 million liters per annum) following the completion of its 7-year long automated plant project.

We expect performance for the rest of the year to duly reflect the extent of the COVID-19 impact. Mostly its impact through lower CAPEX (Private and Public) and higher costs. However, we recognize that the Federal Government's commitment to domestic sourcing of materials (cement as opposed to Bitumen and Asphalt) for road construction presents some bright spot for cement makers. While operating earnings are expected to take a beating from the lock down in Q2:2020, our projection shows that counters like **DANGCEM**, **WAPCO** and **CAP** still present significant upside to their respective 2020FY target prices.

Telecommunications Sector

The telecommunications sector has been quite resilient despite the spread of the pandemic, and network providers are expected to shrug off the adverse financial conditions imposed by COVID-19. The telecommunications sector GDP maintained its upward trajectory in Q1:2020, rising by 9.71% YoY. Also, data from NCC revealed that the industry added 7.57 million subscribers between December and May, bringing total subscribers to 192.27 million. This implies a growth rate of 4.10% and is comparatively larger than the subscriber growth rate (0.46%) experienced over the same period in 2019.

In subsequent quarters, we expect the listed telcos (**MTNN** and **AIRTELAFRICA**) to maintain their double-digit revenue growth, which will be driven by a larger subscriber base and higher data revenues. **MTNN** (39.61%) and **AIRTELAFRICA** (26.83%) collectively account for over two-thirds of total industry subscribers and both possess the largest 4G network coverage across the country. For **AIRTELAFRICA**, alongside Nigeria, revenue growth is also expected to remain robust in the East Africa region, while revenue from Francophone Africa is expected to continue its recovery after the launch of 4G services in the region. Both companies are expected to continue the expansion of their 4G network capacity to meet the increased subscriber demand, albeit capex intensity for **MTNN** in 2020 is expected to be comparatively weaker than 2019 due to supply chain challenges suffered in the first quarter.

We see the major cost headwinds to their respective performances arising from currency risk in operating regions. Nigeria has already suffered a c.6% Naira devaluation in the I&E FX Window during the first quarter, which would cause a spike in network operating expenses, while for **AIRTELAFRICA**, currency weakness in additional markets like Kenya, Uganda, Zambia, and Malawi will further dampen performance. Nonetheless, both companies have moved towards optimizing their leverage profile and as such, we expect finance costs to remain moderate in the near term.

Equities Outlook

At the start of the year, we projected a rebound in the equities market in 2020, to be predominantly driven by the banking and telecoms sectors. The double whammy of the COVID-19 pandemic and the crude oil price war has thwarted these projections. These two shocks also rendered valuations dirt cheap in the market, with the market PE plunging to 6.84x, its lowest level since the last recession (16x) and the Global Financial Crisis (c.14x). The banking sector was one of the worst-hit given the expected impact of increased impairment charges on banks' earnings.

No Catalyst in Sight

The overall outlook of the equities market for the second half of the year largely depends on the resilience of the economy to the ongoing impacts of the pandemic. While the attractive valuation of the bourse presents a compelling case for bargain hunting (and we have seen some of that in the first half of the year), the earnings expectation and the weak macroeconomic backdrop casts a shadow on equities performance for the rest of the year.

Across board, corporate earnings are expected to drop drastically and many of the companies are expected to lower dividend pay-outs, if they pay at all due to COVID-19 induced slowdown in business and economic activities. In our view, fears of a recession and a second wave of COVID-19 infections are factors which have tilted the balance of risks to the downside.

Active Management will be key to drive short term portfolio returns during this period. In the long term, bargain hunting on quality counters with sound business models, strong balance sheet to withstand the prevailing headwinds, and strong market share in their respective sectors to take advantage of the emergent opportunities from the crisis are advised.

We have therefore revised our expected market return to 3.70% by December 2020. This estimate was arrived at using a mix of fundamental, econometric and neural network approaches. The forecast return from each methodology and the weights applied are outlined below.

Table 3: Projected 2020 Equities Market Return – Fundamental Approach

Projected 2020 Equities Market Return			
Sector	Weight	Expected Return	Weighted Return
Financial Services			
Banking	22.2%	15.5%	3.4%
Insurance	1.2%	24.1%	0.3%
Materials and Industrials	26.2%	24.3%	6.4%
Consumer Staples and Consumer	15.5%	3.1%	0.5%
Agricultural Products*	1.0%	-2.5%	0.0%
Energy	3.4%	19.2%	0.6%
Healthcare	0.2%	15.8%	0.0%
Telecommunication	29.8%	27.0%	8.0%
TOTAL	99.35%		
Expected Return			19.26%

**Given our focus on agriculture, we extracted agricultural products from consumer staples and reported it as a separate item*

Econometric Analysis

The NSEASI forecast was obtained using the ARIMA econometric model with quarterly data on the all share index. The ARIMA model is one of the most widely used time series model in forecasting stock market series largely due to its integrated property, which reduces the effect of seasonality inherent in stock market variables. This approach appeals more as it applies a weight on its previous terms based on how recently they occur. This enables the model to capture recent sentiments in the equities market. Hence, we review our initial forecast for the 2020FY index level using the ARIMA model with lags selected based on the Akaike Information Criterion (AIC).

Using this approach, we expect the Index level to settle at 24,974.56 pts by 2020FY, a return of -6.96%YtD.

Neural Networks

The trained neural network was used to predict the index level for 2020 at 26,561pts. *This implies a -1.09% return from the 2019 year-end level of 26,842.07pts.*

Table 4: Weighted 2020 Equities Market Return

	Market Return	Weight
Fundamental Approach	19.26%	33%
Econometric Method	-6.96%	33%
Neural Networks	-1.09%	33%
Forecast Return	3.70%	100%

Fixed Income Market

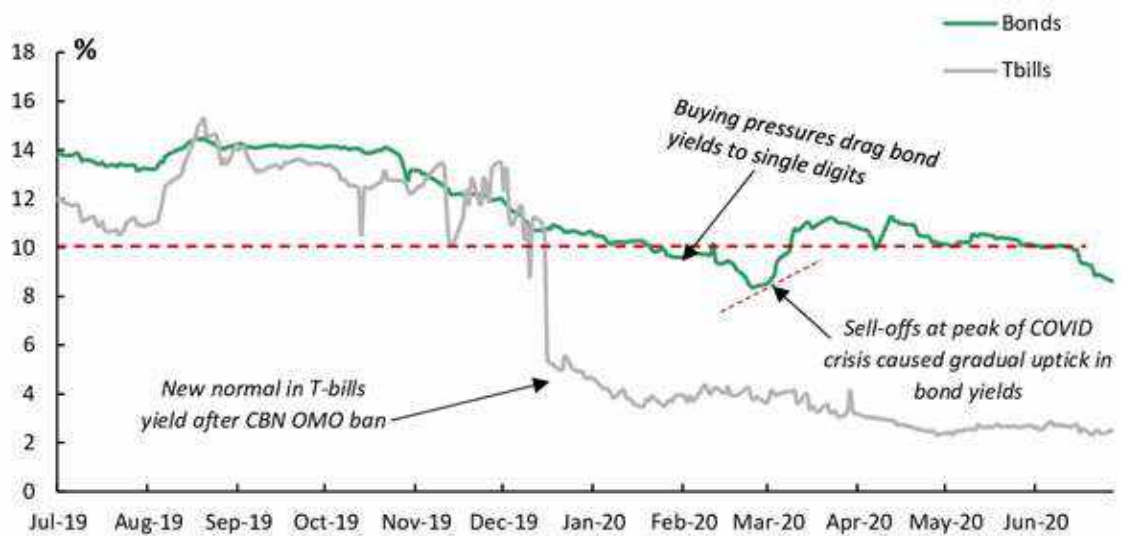
An Eventful Half of the Year

Nothing prepared the world for the series of unfortunate events that have spooked financial markets across economies so far in 2020. The hopes which were laden in 2020 have so far fallen below expectations with the outlook for the rest of the year being uncertain. The first quarter of the year saw a plunge in oil prices induced by the price war between Saudi Arabia and Russia, following the fall-out in supply-cut negotiations. This was further worsened by the outbreak of the Coronavirus (COVID-19) which sent panic and shocks across global markets, leading to price volatilities and shift in global financial order. With stock markets around the world crashing and indices sliding to decade lows, investors began to seek havens, which caused a rally for sovereign debts instruments across major economies. This increased demand for fixed income instruments sent yields to lower than projected points. In the US, the 30-year Treasury yield sunk below 1% in March 2020 - a record low. More so, yields on the US Treasury Inflation Protected Securities (TIPS) fell into and has remained in the negative territory, as investors anticipate a sharp economic downturn.

Events in the domestic space mirrored happenings in global markets, as the dampening economic impact of the pandemic and oil price crash, precipitated selloffs in the equities market and induced buying pressure in the fixed income market. Trading activities indicated investors moving to the safety of Treasuries, reflected by the uptick in bond prices, which dragged the average bond yield to single digit levels in February. This persisted through the month, with average bond yields reaching a record low of 8.37% in February 2020, 227bps lower than the 10.64% at the start of the year. Stronger demand was witnessed on shorter tenured instruments as cash management and liquidity needs weighed heavy on investors' decision in the face of uncertainties. However, this downtrend slowly reversed in March, following the technical devaluation of the naira by the CBN. As at the time of writing this report, the average bond yield had declined by 0.55% to 10.02%, from 10.57% on the 31st December 2019.

Yields in the Treasury Bills market continue their downward trend since the CBN restricted domestic and non-bank entities from participating in the OMO market. Despite the low and unattractive yields, investors' participation has remained strong, reflected by robust subscription levels at Primary Market Auctions (PMA) despite rates hovering between the 2.50% - 4.50% band.

Chart 27: One Year Trend in Average T-Bills and Bond Yields at the Secondary Market (%)



Source: FMDQ, Meristem Research

FX Scarcity Triggers Roll Over of OMO Bills

Amid global disruptions and a bleak economic outlook, the search for havens induced huge capital outflows by foreign investors. This was reflected in the weak investor participation at the OMO auctions in the earlier months of the year, with the CBN recording no sale at some auctions. With offshore players increasingly selling off their holdings, the increasing demand for FX put a strain on Nigeria's reserve position and the exchange rate, thus forcing the CBN to restrict FX liquidity to stifle further repatriation of funds. This left foreign investors who are unable to exit with no choice other than to re-invest their funds in the meantime. Consequently, buying pressures returned to the OMO market, supported by the demand for OMO bills by the banks in the second quarter of the year.

With oversubscriptions recorded across tenors, stop rates dropped lower with the 341-day instrument at 8.99% at the first auction in June 2020 (compared to 13.28% at the start of the year). While this translates to lower costs of borrowing for the Federal Government, the risk of capital flights still abounds. This is so, given the country's increased vulnerabilities to price shocks, compounded by the recent downgrades by credit rating agencies: S&P; B (Negative) to B- (Stable) and Fitch: B+ to B (Negative). Therefore, with the easing of the current FX restriction by the CBN and increased FX accessibility, foreign investors might resume exiting their positions which remains a threat to the external reserves. In the same vein, the CBN's objective of achieving price stability becomes arduous considering the level of liquidity in the system and expected OMO maturities (NGN6.6trillion for the rest of the year). Nonetheless,

we expect continued mopping up of liquidity by the CBN using other unconventional tools.

Yields to Remain Pressured

Average yields have declined further since the 100bps cut in Monetary Policy Rate (MPR) to 12.50%, as issuers and investors have begun to price the rate cut into market activities. Considering that the expected maturities in the second half of the year outweighs the government's financing needs for the rest of the year, we expect that yields will remain depressed, furthering the governments drive to reduce its debt servicing costs.

Economic Realities Support Preference for Short-term Instruments

Compared to the corresponding period in 2019, the corporate bond space saw more activity in the first half of 2020, evidenced by the number of corporate issuances so far. Issuers have taken advantage of the current low yield environment to raise cheap capital for their operations.

The current yield environment has also pushed companies to exercise the embedded options on instruments previously issued at much higher rates. Earlier in the year, UBA Plc. announced the early redemption of its NGN30.50bn 16.45% fixed rate bond (effective June 30, 2020), which was originally due in December 2021. While we attribute this move to the relatively lower interest rate environment, we note that the decision was supported by the bank's solid deposit base and its robust operating cashflows.

The tempo of activities on the shorter end of the Nigerian corporate debt market has been relatively high, with about fifteen (15) Commercial Paper (CP) issuances in H1:2020 (vs. 8 in H1:2019), with an outstanding value of over NGN415.46bn (vs. NGN69.56bn in H1:2019). The Banking sector has been at the forefront with issuers like Sterling, FCMB, Union bank, Stanbic while other big corporates like Dangote Cement Plc, MTN Communications Plc, Nigerian Breweries Plc have also taken advantage of the market to ease their liquidity positions.

With interest rates expected to remain depressed in H2:2020, we expect sustained debt issuances by corporates, as they seek to mitigate the impact of the COVID-19 pandemic on operating cashflows and liquidity levels. However, we expect the corporate debt market to remain biased in favour of short-term instruments in H2:2020, while having an indifferent posture for longer tenured instruments (bonds). Nonetheless, we expect corporates with good credit ratings to continue to leverage on the current low interest rate environment to refinance existing long-term debt obligations which carry significantly higher interest rates.

Sell-offs Precipitate Spike in Eurobond Yields

The Government had planned to fund its budget with a mix of domestic and foreign borrowings, but given current realities, the Debt Management Office reneged on its initial stance. Consequently, the DMO converted the NGN850bn external borrowing in the 2020 appropriation act to domestic borrowing as a relatively cheaper source of funding.

Thus, so far in the year there have been no Eurobond issuance and possibilities of tapping the international debt market in the second half of the year are slim. Bearish sentiment however, permeated the secondary market for Eurobonds in the wake of the COVID-19 pandemic and increased global economic risks, spurring selloffs across tenors and causing a spike in yields to about 13%. Consequently, prices dipped significantly with instruments trading at significant discounts to par, presenting a low hanging fruit for investors.

For the rest of the year, we expect the Federal Government to stick to domestic borrowings and concessionary loans from multilateral organizations, as current realities do not support high cost of external borrowings. The recent downgrade in Nigeria's sovereign ratings (B-) by Standard & Poor (S&P) and Fitch's downgrade of Nigeria's Long Term Foreign-Currency Default Rating (IDR) to Negative, further highlights the rising risk profile of the country.

Activities in the corporate Eurobond space has remained tepid with no new issue since 2019. The availability of cheaper sources of debts given the low yield environment and the heightened exchange rate risk in the economy, have deterred participation and made the Eurobond space unattractive for corporates.

On another hand, Access Bank's Eurobond (Access Bank Plc III 2021) is set to mature next year. The issue has a call option which could be exercised before maturity, to reduce their foreign debt exposure amid currency devaluation. Nevertheless, the closeness of the bond's maturity, and the short dollar position of the firm reduces the likelihood of the bank exercising the call option. **We expect the Corporate Eurobond market to remain quiet for the rest of the year especially in the face of rising uncertainties and FX risks.**

Mixed outcome from the Alternative Fixed Income Market

The alternative bond market has been somewhat quiet in the first half of 2020, except for the recent NGN150bn 7-Year Ijarah Sukuk bond issuance in May 2020. As expected, investor participation was strong, reflected by a bid-to-cover ratio of 4.12x, after the allotment had been upped to NGN162.56bn from the earlier intended NGN150bn. This is the third Sukuk issuance since the DMO started issuing instruments of this nature in 2017.

The Green-bond market has been quiet since 2019, with a total of just four Corporate and FGN issues in the market; **-15.50 ACCESS GB 18-MAR-2024** and

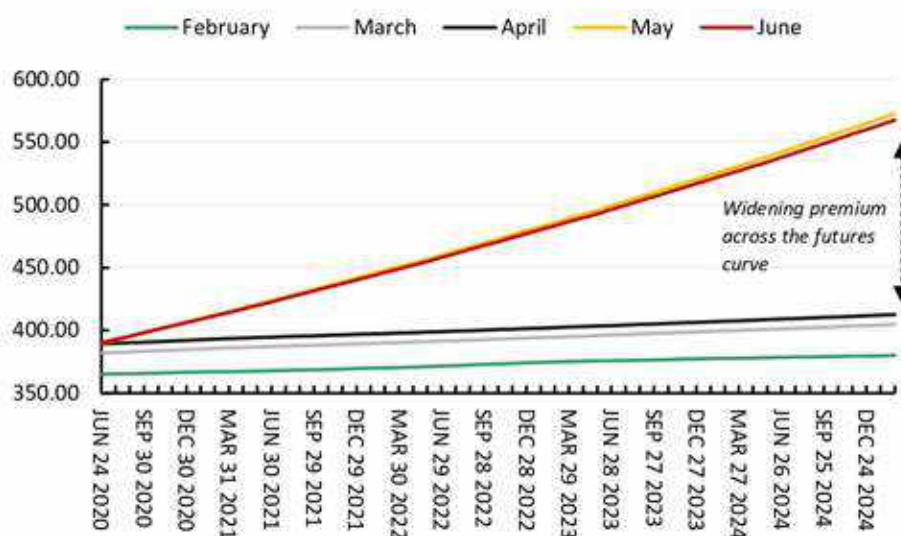
Derivatives and Currencies

FX Futures Premium Widen as local Interest Rates Slump

Shocks to global crude oil prices have cast significant strain on accretion to external reserves and the ability of the CBN to keep supporting the Naira in the face of mounting liquidity pressures. As a result, I&E spot rates were adjusted by the CBN in March 2020 to NGN387/USD in order to properly capture new market realities. Similarly, Interbank rates were moved to NGN360/USD and subsequently to NGN381/USD, while spot rates in the parallel market have continued to widen.

In the futures space, we recall that in February, 47 new monthly OTC futures contracts were added to existing 13, bringing the total number of open contracts at any time to 60. This was a strategic move by the CBN to spur confidence in the Naira, meet pent-up demand for longer dated futures contract and re-position existing Foreign Portfolio Investors (FPIs) on the longer end of the curve.

Chart 28: Monthly FX Futures Contracts Curve



Source: FMDQ, Meristem Research

However, while the curve was flattish at the inauguration of the contracts, rates across the curve have widened significantly due to the weakening macro fundamentals. This is further exacerbated by the fact that domestic short-term interest rates have fallen significantly, whilst inflation has continued to rise. Thus, real rates of return have edged deeper into the negative territory while interest rate differentials have narrowed significantly, making the carry return (the net return Foreign investors earn from investing in Naira assets) for Nigeria comparatively less attractive with other emerging markets.

We observe that compared with February, prices have widened by as much as 50% on the longest dated open futures contract. Also, we observed that the longer dated contracts have not garnered much interest from investors as the

short-term contracts (1 – 12 months) still account for the bulk of the total value of open contracts, at 98.38% in May. This, in our opinion, points towards weak investor confidence in the currency and the economy in general.

We see that the FX adjustment by the CBN has not been met with the desired inflow of foreign capital as foreign investors remains wary of the extent to which the local economy can withstand a pandemic shock. Despite the introduction of longer dated contracts, the extant structural issues stand as a major impediment to the attraction of offshore investors. This is exacerbated by the current low interest rate regime which necessitates the demand for larger premiums on futures contracts. While we expect some improvements in the oil market to provide some respite to the current account balance, we expect the current interest rate regime to keep rates on futures contracts significantly above spot market rates.

H2:2020 Strategy

Equity Strategy

A Review of 2020 Meristem Strategy

Our Dividend Portfolio outperformed the broad market index in the first half to return -5.82%. The best performers in the portfolio were **OKOMUOIL** (+39.21%) and **CONOIL** (+13.51%). On the other hand, our recommended PFA portfolio at the beginning of 2020 underperformed the **NSEASI** (-8.80%), to return -16.22% year to date (vs. 81% projected). All constituents dragged the portfolio into the negative region. The major drags of the portfolio performance were concentrated on **GUARANTY**, **FIDELITY** and **NEM** which returned -26.33%, -17.07% and -14.88% year to date respectively.

H2:2020 Strategic Portfolio

For the second half of the year, our recommendation is consistent with what we gave at the start of the year, despite the disruptions in the market. There are still a lot of uncertainty and moving parts due to the pandemic, but we are keeping faith with our dividend aristocrats. Most of the constituents in our dividend portfolio are leaders in their respective sectors and are well placed to take advantage of opportunities in such sectors.

Dividend Portfolio

This portfolio consists of stocks which have a consistent dividend paying culture. The stocks included in this portfolio have been carefully selected using the following criteria; **fundamentally sound companies which recorded earnings growth in three of the past five years and have paid dividend at least four times in the last five years.**

Table 5: Dividend Strategic Portfolio

	Dividend Strategic Portfolio																			
	Fundamentals					Trailing				Valuation										
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Target PE	Exp. EPS	TP	CP	Exp. Div Yield	UPP	Weighted Return	Portfolio Weights	Total Return		
CONOIL	2.02	1.42%	10.51%	2.87%	3.66	2.86	27.23	7.3x	0.8x	5.60x	4.3	24.08	21	7%	15%	10%	+ 13%	22%		
CUSTODIAN	0.47	9.22%	12.75%	4.30%	2.96	1.01	7.92	5.4x	0.7x	6.58x	1.14	7.50	5.5	5%	36%	14%	+ 19%	41%		
DANGCEM	0.50	22.30%	21.18%	11.17%	1.90	11.79	55.66	10.9x	2.3x	-	-	171.80	127	9%	35%	17%	23%	45%		
GUARANTY	0.11	45.13%	29.89%	4.87%	6.14	6.71	22.46	3.4x	1.0x	3.76x	6.77	25.46	22.05	6%	15%	9%	12%	21%		
NEM	0.73	12.39%	16.96%	9.06%	1.87	0.49	2.87	4.1x	0.7x	3.11x	0.61	1.9	2.06	7%	-8%	2%	3%	-1%		
NESTLE	1.54	15.54%	77.70%	23.86%	3.26	55.55	71.5	21.6x	16.8x	20.00x	60.00	1,200.00	1,256.80	4%	-9%	1%	2%	-1%		
OKOMUOIL	0.45	28.06%	19.45%	12.53%	1.55	6.36	32.72	10.1x	2.0x	9.50x	7.76	73.72	77.4	3%	-5%	1%	1%	-2%		
UBA	0.09	15.74%	14.78%	1.43%	10.37	2.65	17.91	2.4x	0.4x	2.80x	2.65	7.42	6.25	7%	19%	10%	14%	25%		
ZENITHBANK	0.09	31.17%	22.59%	2.93%	7.70	6.66	29.49	2.4x	0.5x	2.86x	6.57	18.79	16.1	8%	17%	11%	+ 14%	25%		
Expected Return																	30%			

* Data Correct as of June 30, 2020

Fixed Income Strategy

In the second half of the year, we expect short-term yields to remain depressed and possibly taper further, barring any externalities which could alter the course of the yield environment. Thus, we advise a strategy which places a focus on playing at the long end of the curve to prevent reinvesting into a low-yield environment.

We do not recommend concentrating on treasury bills at this time, given the extremely low yields on offer. The general investment landscape is already plagued by a high and rising inflation which has kept the real rate of return in the negative for months now. Thus, the low yield on treasury bills will further worsen real return.

In addition, given our expectations for more corporate issues of commercial paper in the second half of the year, we advise investors with a short-term horizon to take advantage of investment grade commercial papers which offer attractive yields.

We believe that an adoption of the strategy mentioned above will do well in generating desired returns for investors, given the current state of the macroeconomic environment.

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