

December 31, 2019

2019 IN RETROSPECT

The Nigerian Economy in 2019 was not as many Nigerians expected or anticipated, but in a way was not an “absolute mess” as some good things were reported during the year. Though some policies had not-so-pleasing effect on the economy, others had positive effect. A year accompanied with increased poverty level, dwindling income per capita, negative real return on money market instruments and bearish equity market.

MODERATE GDP GROWTH RATE

The Nigerian Economy this year witnessed a higher growth rate when compared to previous year. GDP grew at a rate of 2.10% in Q1, and rose by 2.12%, 2.28% in Q2 and Q3 respectively. Although, many consumer goods companies expressed weak growth as evident in their performance, we expect GDP for Q4 to manifest about 2.40%, with full year GDP growth rate hovering around 2.2%.

RISING INFLATION

Inflation as measured by the CPI fell to a 3½ year low of 11.02% in August, after three consecutive months of disinflation. The Federal Government announced a partial closure of its land borders in August, which was further moved to a full closure in October. The government claimed this would reduce smuggling into the country and boost local production of food items, however consumers paid the price as inflation rose to 11.24% in September and surged to 11.61% in October. November inflation rate was 11.85%, while December inflation is expected print at 12.05%.

CAPITAL IMPORTATION

As at Q3 2019, capital importation figure stood at US\$19.67Bn, estimated to be US\$25.23Bn for the year, indicating an estimated 50% growth over the previous year. Capital Inflow grew by 22% from 2014 to 2019, driven largely by rising inflow of short term funds as long term investments contracted. Foreign investments in the country's money market instruments is expected to grow by 75.31%. Foreign Direct Investment through equity and other capital to the country has tumbled by 62% over the past 5 years. Foreign Portfolio Investments through equity and bonds also nosedived by 85% and 54% respectively, with only the short term investments (money market instruments maturing in a year or less) surging by over 1300% in 5 years. This shows foreign investors' long term expectation for the country's economy is currently unclear, therefore would rather direct their funds towards securities that could be easily liquidated when unforeseen circumstances arise. “Actual capital” coming into the economy is declining, while short term investments soared as investors take advantage of high yield in the OMO Market.

BEARISH EQUITY MARKET

The NSE All Share Index shed 14.60% year-to-date. Few securities were listed on the NSE this year as some were delisted. MTN Nigeria was listed in May, followed by Airtel Africa in July. Diamond Bank was removed from the exchange, following the completion of the merger between Access Bank and Diamond Bank which was finalized in April. Likewise, Dangote Flour was delisted following its acquisition by OLAM in November. All sectors closed in the red for the year as Consumer Goods Index led with a depreciation of 20.83%. The Oil % Gas Index also shed 13.13%, while the Industrial Index declined by 13.11% during the year. The Banking Index and the Insurance Index also lost 10.55% and 0.52% respectively. Year to date return on most fundamentally sound stocks remained negative, with the exception of Access Bank's 46.32% appreciation over the year. Expectations of inflow of investible funds into the equity market after the OMO Auction restriction did not materialise, as investors' lack of confidence in the equity market and their risk averse strategies made them settle for lower yields in the fixed income market.

DECLINING YIELD IN THE FIXED INCOME MARKET

The Central Bank of Nigeria's so-called heterodox policies had far-reaching implications in the money market. The CBN's move to restrict participation in its OMO market to foreign investors and Deposit Money Banks (DMBs) sent yields crashing, as non-bank institutional investors with sizeable funds jostled for limited alternatives. On average, yields declined across the Nigerian Treasury Bills curve to 4.85% at the end of the year. Effect of the OMO restriction was also felt in the FGN Bond space, as some of the excess liquidity in the system found its way into the bond market. Significant yield depreciation was witnessed as average yield fell steadily from 14.56% at the introduction of the 26 April, 2049 note, to 11.14% at close of the year.

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