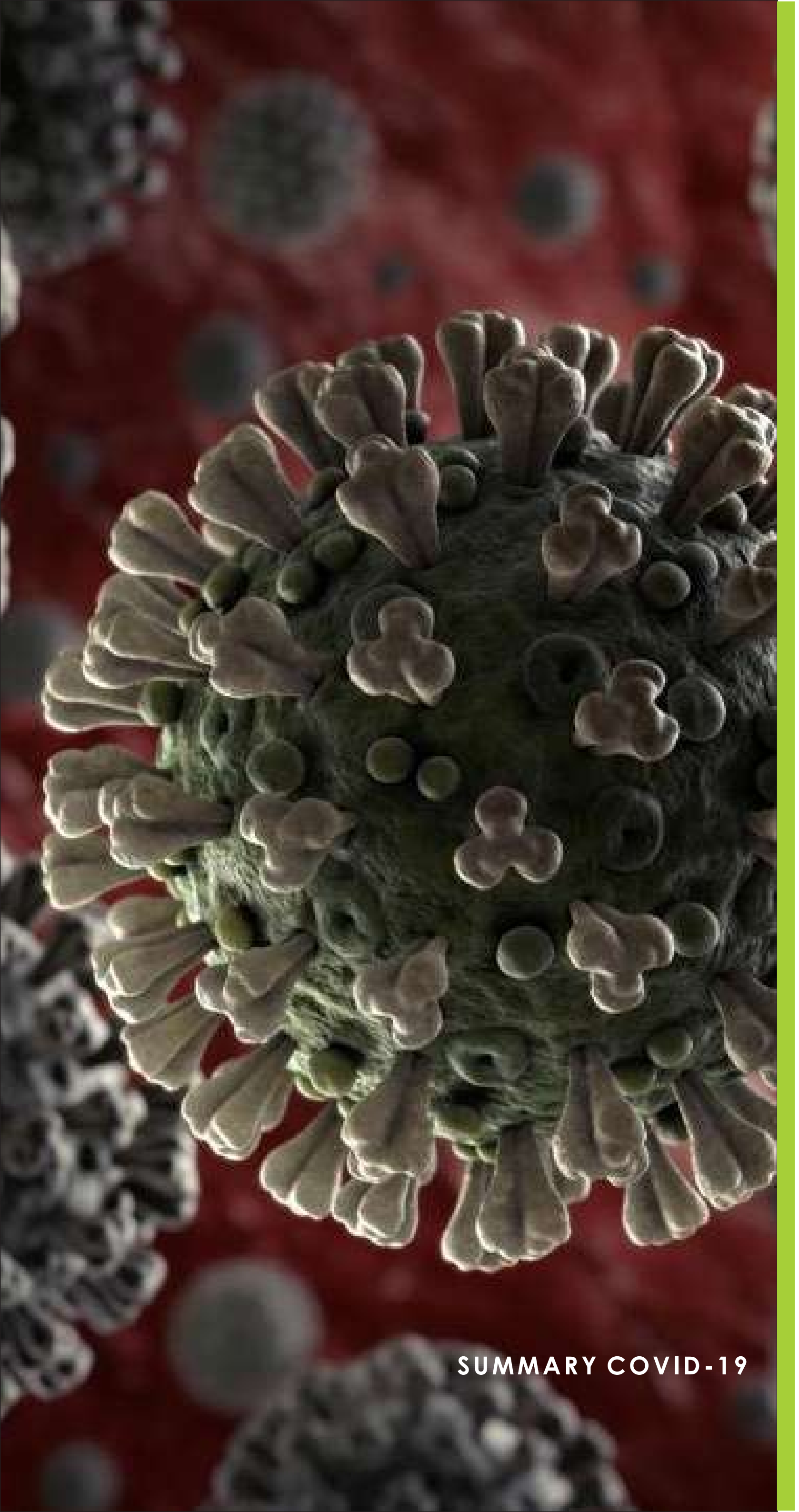
Fidelity Pension Managers Limited

Summary

March
2020 Edition



Coronanomics:

Will the Economy Survive the Bug?

Global economic and financial markets have been crushed as the impact of the Coronavirus that started in China at the beginning of 2020 hits economies brutally. Global equity markets have seen Indexes falling and posting double digit negative year-to-date returns as fear, uncertainty and doubt causes pandemonium across the modern globalized economy. Supply chain disruptions and cutbacks in demand and supply, aggravated by inevitable city-wide and country-wide lockdowns paint an ugly picture of inter and intra-sector revenue decline and profit reductions in Q1 2020 and beyond. What's worse? The ripple effects from these events, promulgated by the Black Swan incident that is the COVID-19 Pandemic, has stoked fears of a global recession, with some analysts suggesting a global depression. Fears, which as it appears, happen to be finding some truth in reality.

Coronanomics:

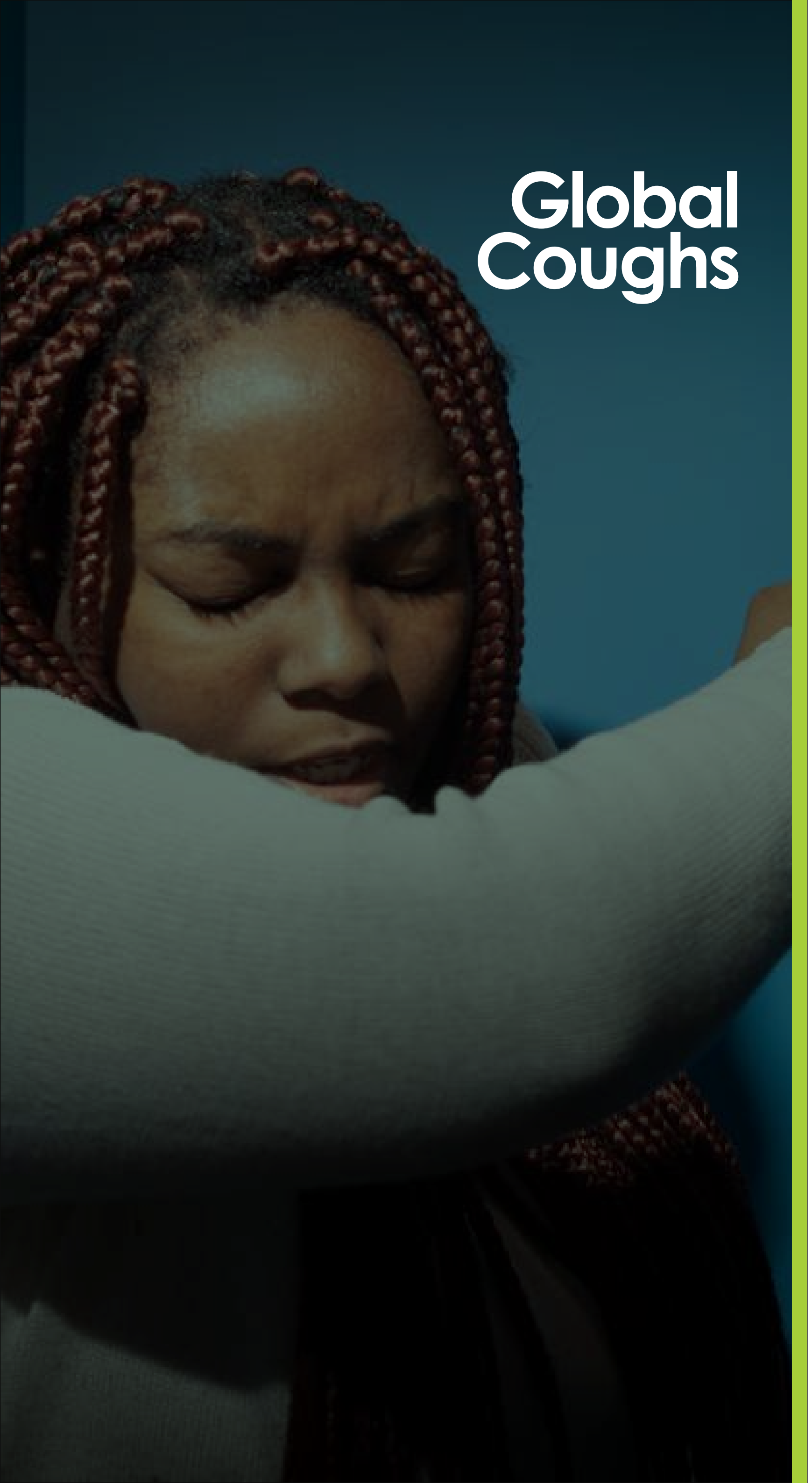
Global equity markets have maintained their nosedive into the red from one continent to another, posting double digit negative YTD returns. Starting from America's Dow Industrial Average which slipped by -23.20%, the largest drop recorded since the 25.3% drop seen during the fourth quarter of 1987, to China's SSE Index which tumbled by -10.35%, and South Korea's KS11 Index which skidded by -23.31%. Japan's Nikkei 225 Index dipped by -23.63% as Italy's FTSE/MIB Index dropped by -27.46% at the end of the March 31 2020 trading week. The Nigerian Stock Exchange All Share Index (NSE ASI) has also been hit hard by the impact of the global sell offs with a depreciation of -20.3%in Q1 2020, the worst quarterly performance since the 37% drop in the Financial crisis of March 2009. The MSCI World Index of Global Stocks has shown a -23% drop in value since the January 23 lockdown of Wuhan, China.

In the face of growing possibility of negative economic growth, the continual drop in oil prices, the bearish pressure on equities, reduction in both supply and demand from the Chinese economy, the developing economic crisis in the USA, potential mass layoffs, bailouts and rising COVID-19 infections across the globe , it becomes necessary to ask: Will the Economy survive the Bug?

CoronaVirus (COVID19)
The Virus

According to the World Health Organization (WHO), "Coronaviruses (CoV) are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV)." The new virus wreaking havoc across the globe is considered a novel coronavirus (nCoV) which is a new strain that was not previously identifiable in humans.

The Coronavirus pandemic, which emanated from China, has spread rapidly across the globe. Almost all countries in the world have reported cases of coronavirus infections. It has become clear that the virus will have serious negative effects on the global economy, with backlash experienced within the month being the worst since 2008 and even 1987 in some countries.
As Global Health Organizations and Countries clamber to control the spread of the virus and to buffer their economies against the heavy pressure being faced, revenue projections and growth outlooks are also being modified downwards to reflect their general expectations.

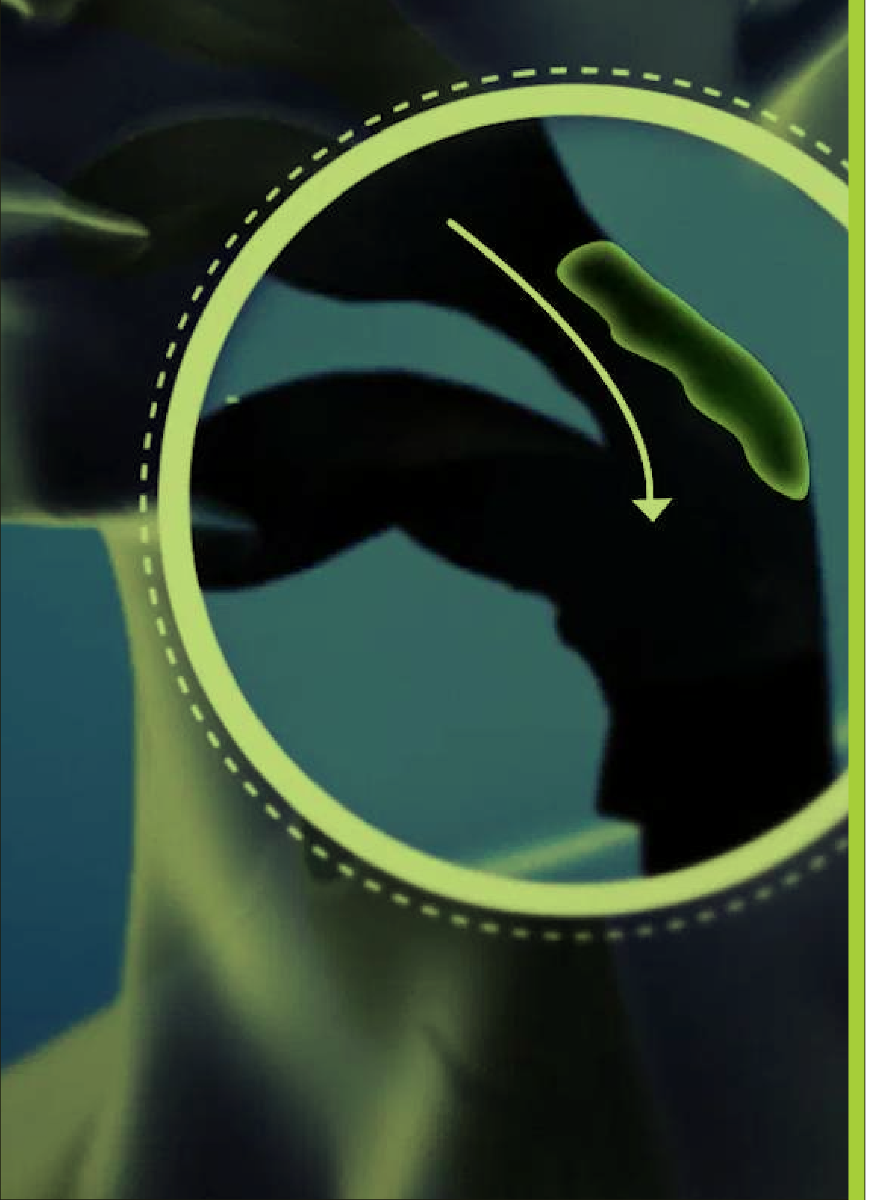


Global Coughs

The Coronavirus has now infected more than 890,000 people in over 200 countries. Significant selloffs have been maintained across global markets as cases of the virus have seen a steady increase. The S&P 500 which reached a record high in recent times has crashed 20% Year-To-Date as the United States Government records the highest number of confirmed cases of infections. However, splitting global stocks into diverse sectors, the negative impacts were unequal across board. Using the S&P 500 sector classification as a proxy, the best performer YTD (as at 18th March, 2020), was the Consumer staples sector (-11.6%), as consumers are stock piling essential amenities. The Utilities sector (-17.0%) followed suit, due to the fact that consumers are spending more time indoors, increasing the demand for water and electricity. Notable to mention, among the less impacted sectors, was Healthcare (-19.3%), due to the expectation of increased profitability, through the need for governments to ramp up health care expenditure, and the race to develop vaccines to tackle the virus.

On the flip side, a huge blow was dealt to the Oil &Gas services (-67.9%) and Energy (-58.6%) sectors, given lower profit expectations, from the drastic decline seen in crude oil prices and lower demand. Also, Financial (-37.9%) and Industrial (-35.9%) companies have declined on the back of a significant drop in economic activities.

Global Coughs ...cont.



Stock markets in Japan, China and Europe have also been hit badly as investors have massively sold off equity positions in favor of less riskier instruments in an attempt to de-risk their portfolios. With global stocks declining, investors ran into safe assets. As such, global yields declined dramatically, while year to date return on gold prices peaked as high as 9.4% in early March. However, with the enormous volatility observed in financial markets, following the large spike in the number of confirmed cases in developed markets, and the failure of the expressed economic stimuli in fuelling positivity, the risk-off sentiment has spread towards gold, bonds and other safe assets. Clearly, investors are seeking to hold cash or very near-cash instruments, to adjust with the imminent economic disruption sparked by the COVID-19 pandemic.

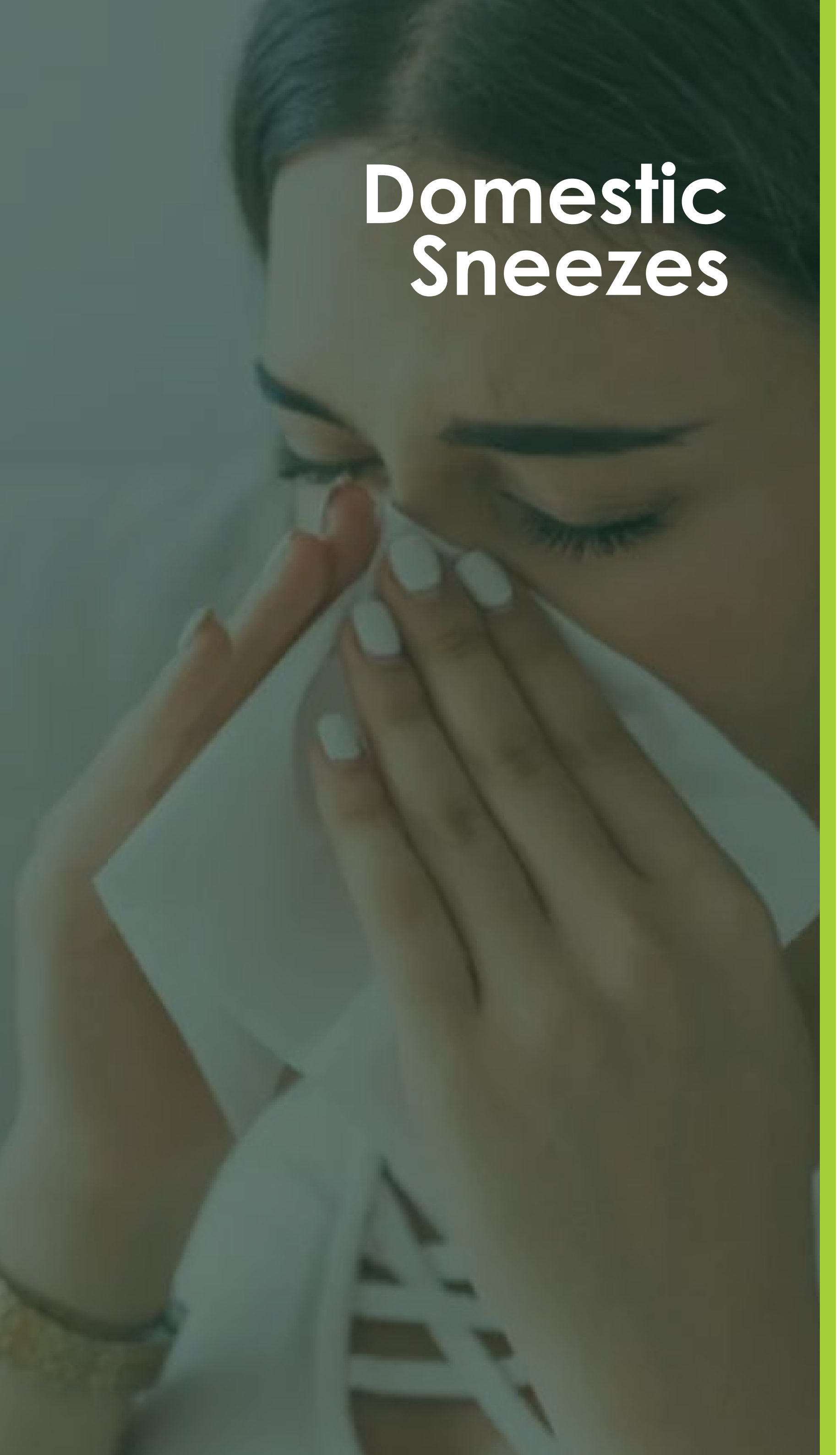
Brent oil prices have been devastated with a combo attack from both economic realities of demand and supply aggravated by the coronavirus effect and a brutal price war spearheaded by Saudi Arabia and Russia, conditions which have led to oil prices slumping heavily to around the $20 mark with the risk of falling even further. As 2020 continues to unravel, the future trajectory of Brent crude oil price is hinged on multiple outcomes involving the outbreak of the Coronavirus on the demand side and the OPEC+'s ruptured relationship on the supply side. On the demand side, uncertainty remains as to how fast the virus is spreading across other economies outside China and the continuation of travel restrictions and city lockdowns. Also, the possibility of a near-term cure remains bleak, with several medical agencies estimating between 12 to 18 months for a substantial breakthrough. Accordingly, the timeline for the global economy to overcome the virus remains unclear, perhaps another 6 to 8 months. On the supply side, the most interesting outcome to watch is the price war between major contenders Russia, Saudi Arabia and other non-OPEC producers. While the major players make moves to increase market share at the expense of prices, a lot remains at stake. On a balance of the above dynamics of supply and demand, crude oil prices are expected be relatively lower for the rest of 2020. However, the outlook for oil prices is hinged mainly on the demand factor, as the spread of the COVID-19 could keep world economies under lock and key, even though the largest oil producers are able to reach an agreement to support prices.**With governments scrambling to protect their citizens from the virus by locking out people (and products) from other countries and lockdowns** within the countries, the consequence has been an inevitable slowdown in global economic growth, a fall in employment (as factories see higher inventories and lower sales), lower consumer income and spending, a drop in new investments in plants and equipment and rampant economic stimuli across board to stave off collapse. In the United States, an emergency fund worth $8.3bn was approved by the legislature and assented to by the President in a bid to combat the spread of the virus. Also, England made a provision of £30bn to cushion the effect of Coronavirus on its economy. In like manner, the IMF set aside $50bn, out of which $10bn is available at zero-interest to low-income and emerging economies, for combating the outbreak.

The impact of the so-called "novel" virus on global economic activities could trigger a recession that would slow growth below the International Monetary Fund's (IMF's) outlook for 2020 earlier estimated at +3.3% while emerging markets were forecast to grow at +4.4% (+2.13% higher than Nigeria's recent +2.27% for 2019). Under its best-case scenario, the OECD revised 2020 world growth to be 2.4% in 2020, down from a November projection of 2.9%. Also, the IMF has indicated plans to downgrade its growth forecast across world economies.

Domestic Sneezes

As the number of COVID-19 cases in Nigeria continue to increase at a perpetual rate, and as there appears to be no solution in sight to the multitudinous effects of the global pandemic on the world economy, it becomes clear that this pandemic will have a negative impact on the Nigerian Economy. This implies that domestic economic growth in Q1 and Q2 2020 may come in weaker than expected.

The National Bureau of Statistics recently published Nigeria's foreign trade report for Q4-2019, indicating the country recorded its first quarterly trade deficit since Q3-2016 (recession period) during the period. Also, according to the CBN's economic report for Nov-2019, Nigeria's current account slipped into a deficit position - first since 2015, on account of oil price shocks, foreign exchange (FX) constraints, and a high degree of import dependency. In light of the current global situation, the above highlighted factors do not look like improving in 2020, rather the outbreak of COVID-19 is expected to worsen the situation. This is based on a consideration of the current situation which suggests that a reduction in export revenue as a result of the slump in oil prices and other international constraints. Also, import levels are expected to take a hit as manufacturing in China and other import destinations are stalled as at present. This will most likely have the ripple effect of disrupting trade activities in the country in Q2 and Q3 2020.



Domestic Sneezes

On the Foreign Exchange angle, it could be remembered that at the end of 2019 and in the early part 2020, media reports showed that the CBN Governor had told investors in London that the apex bank would only consider a review of its exchange rate management mechanism if the Nigeria's FX reserves were to fall below $30bn. Also, the governor was quoted to have said that "for as long as oil prices remain in the $50-60/b range, there will be no reason to consider a devaluation." Fast track to the time of writing this report, Brent price ($20.5/b) is now trading way below the CBN's lower band of $50/b. Also, gross FX reserves now stands at a worrisome level of $35.5bn (vs. CBN's devaluation trigger level of $30.0bn). In response to this, the CBN has collapsed the multiple exchange rate policy which was used to determine the value of the Naira and moved to a single exchange rate policy. In the forward markets, it has been observed that the naira has been priced at N515/$1. The non-deliverable forwards market in London priced the naira at N515 to the dollar in a year's time while Naira futures contracts of the same tenor were quoted at N385. Accordingly, this has raised the panic level in the market with foreign investors exiting their exposure to naira assets and local players taking speculative position on the naira.

Outlook and Treatment – Ventilators and Chloroquine

A reduction in International Oil prices and a fall in oil export volume (as global demand tilts downwards) has led to a contractionary fiscal policy regime in Nigeria. In contrast to this, the CBN has decided to take the expansionary monetary policy path, to counter-balance the negative effect of the FG's contractionary fiscal policy stance. Notably, as a policy response to the Coronavirus outbreak, the CBN unveiled six measures to manage the impact of COVID-19 on Nigeria's economy. The measures include;

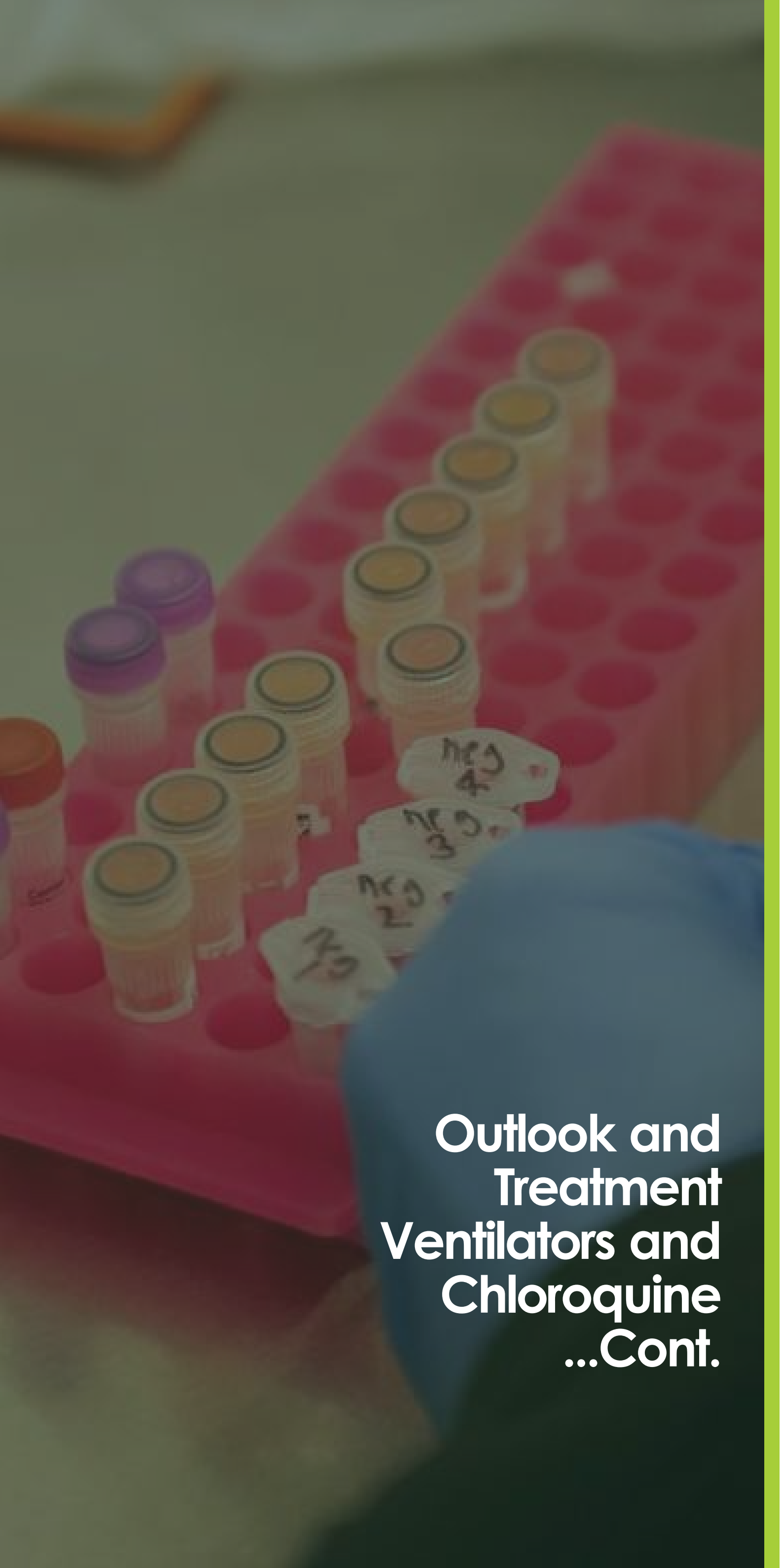
- Extension of moratorium on loans
- Interest rate reduction
- Creation of a N50 billion fund
- Credit support for healthcare sector
- Regulatory forbearance
- Strengthening of the loan-to-deposit rate policy.

Outlook and Treatment Ventilators and Chloroquine ...Cont.

Also, after the roll out of the six policy measures, the CBN announced a further N1.0tn intervention fund to support critical sectors of the economy, especially as more cases of COVID-19 were recorded within the country.
The consequence of the government policy would be to adjust 2020 economic growth projections down from the last GDP rate of +2.55% for Q4 2019. A bright outlook for Q2 2020 would see real GDP growth of about +2.1% or 17 basis points below the full year 2019 growth of +2.27%. A less optimistic outlook for GDP growth would put Q2 2020 growth at +1.9%. A lot would depend largely on how badly the Coronavirus spreads in Q2 2020 and on the palliative methods that are discovered.

Nigeria's fiscal and monetary authorities must brace up for a tough and dirty fight to keep the economy stable. A Coronavirus-inspired global economic meltdown will hurt Nigeria's economy badly (international oil prices are already below the 2020 budget's benchmark oil price of US$57 per barrel), while global economic outlook does not look like reversing any time soon. A review of the Nation's budget in line with present realities and an adjustment of the benchmark would provide a firmer basis upon which further progress can occur

In our view, the outlook for the economy is hinged mainly on the



Outlook and Treatment Ventilators and Chloroquine ...Cont.

Regardless, proper foresight and management should provide a buffer with which to maintain economic health and provide a speedy recovery as soon as conditions permit. With this in view, the true test of Nigeria's heterodox fiscal and monetary management in 2020 appears prepped for a real match.

FIDELITY
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We are available to answer all your questions and help you start a simple savings plan today.

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